



# Annual Report 2006

**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

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|  |    |
|--|----|
| 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

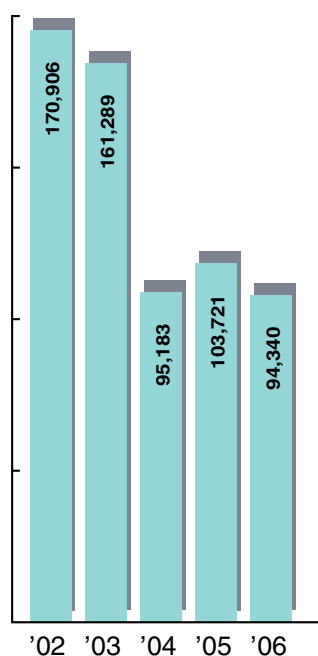
(Years Ended March 31, 2006 and 2005)

|  | Millions of Yen |           | Thousands of<br>U.S.dollars |
|--|-----------------|-----------|-----------------------------|
|  | 2006            | 2005      | 2006                        |
| For the year:  |                 |           |                             |
| Net sales .....  | ¥ 94,340        | ¥ 103,721 | \$ 803,099                  |
| Operating income (loss) .....                                  | (3,912)         | 1,263     | (33,302)                    |
| Income (loss) before income taxes and minority interests ..... | (1,072)         | 1,014     | (9,126)                     |
| Net income (loss) .....  | (1,485)         | 268       | (12,642)                    |
| As of year-end:  |                 |           |                             |
| Total assets .....   | 140,492         | 132,956   | 1,195,982                   |
| Total shareholders' equity .....                               | 72,704          | 70,943    | 618,915                     |
| Per share data:  |                 |           |                             |
|  | Yen             |           | U.S.dollars                 |
| Net income (loss) .....  | ¥ (17.69)       | ¥ 2.57    | \$ (0.15)                   |
| Diluted net income .....                                       | -               | -         | -                           |
| Total shareholders' equity .....                               | 868.03          | 843.34    | 7.39                        |
| 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 ¥117.47 to \$ 1, the exchange rate prevailing as of March 31, 2006.

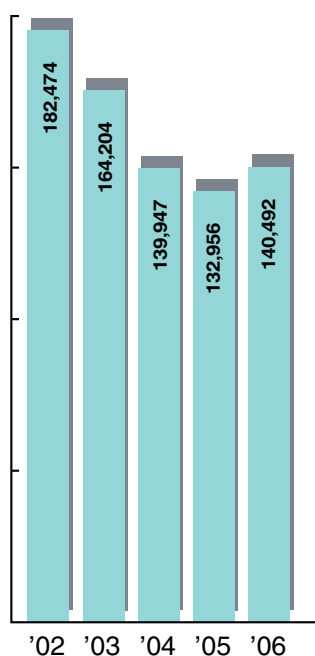
### NET SALES

(In millions of Yen)



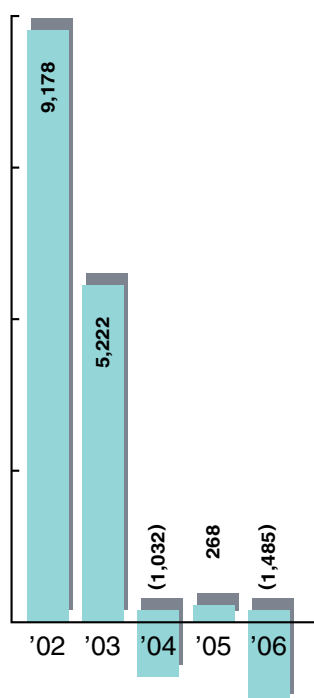
### TOTAL ASSETS

(In millions of Yen)



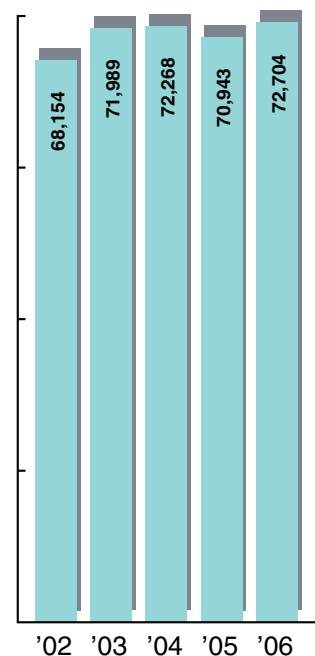
### NET INCOME (LOSS)

(In millions of Yen)



### SHAREHOLDERS' EQUITY

(In millions of Yen)



# A MESSAGE FROM THE PRESIDENT

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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 handwritten signature in black ink, appearing to read 'H. Tejima', with a stylized flourish extending from the end.

**Hajime Tejima**  
President and CEO

# STATUS OF BUSINESS ACTIVITIES

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## 1. Overview of Business Performance

### (1) Business Performances

The Japanese economy during this consolidated fiscal year was basically on steady recovery trend reflecting improvement of corporate earnings which resulted in gradual increase in capital investment on one hand and marked increase in individual consumption supported by betterment of employment and income environment on the other hand.

Under the foregoing environments, the Company Group has positively promoted its overseas' business, the consulting and supporting business for the industrial waste treatment plants projects in its plans for operation, and its business of providing solution for public infrastructure that does not rely only on the government public investment. As a result of these business policies, the current consolidated fiscal year's total amount of orders received was 135,838 million yen, an increase of 46,820 million yen (up 52.6%) over the previous consolidated fiscal year. The total revenue, however, was no greater than 94,340 million yen, a decrease of 9,381 million yen (down 9.0%) from the previous consolidated fiscal year. Accordingly, the operating profit/losses, to our great regret, turned to show 3,912 million yen loss from the previous term largely affected by marked intensification of price competition in the market even though every possible effort to curtail expenses and lower costs was made companywide. Also, while earnings from sale of fixed assets amounting to 3,180 million yen was posted as an extraordinary income, the Company appropriated 1,641 million yen, which was transferred from the reserve fund for losses from construction orders received, as an extraordinary loss in that the Company incurred quite an amount of expenses to cope with deteriorating condition of public safety owing to the terrorism prevailing in and around the delivery area of the biomass power plants in southern part of Thailand, in addition to other large amount of expenses required for material and components pertinent to the construction works. As a corollary, the Company was compelled to post net loss of 1,485 million yen for the current term.

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

#### 1) Machinery Division

As regards the Machinery Division, Nippon Thermoener Co., Ltd. positively developed an integrated operation – manufacturing, selling and maintaining of hot-water boilers and once-through boilers all by its own – to satisfy customers' needs thoroughly and directly, thus help the Division maintain sound and solid sales structure. The Division promoted its business activities focusing on the gas turbine cogeneration plants and wood biomass power plants as an effective utilization of renewable energy, and the waste heat thermal cycling plants utilizing waste. As a result, the total amount of orders received came to 56,256 million yen, marking an increase of 6,604 million (up 13.3%) over the previous consolidated fiscal year. Total sales, on the other hand, was no greater than 46,589 million yen, a decrease of 2,318 million yen (down 4.7%) from the previous consolidated fiscal year since orders were received intensively in greater part at the end of the fiscal year, resulting in operating loss of 1,647 million yen.

#### 2) Environmental Control Plants Division

The Environmental Control Plants Division received an order for the first time as a Japanese Municipal Solid Waste (MSW) incineration plant manufacturer from Europe for Energy from Waste (EfW) plant to be shipped to England, in addition to orders for MSW incineration plants for domestic use. In the field of water treatment, the Division, among other orders, received an initial order for cir-

# STATUS OF BUSINESS ACTIVITIES

culating fluidized bed sewage sludge incinerators (which would become the No.1 sewage sludge incinerator in Japan) and other plants including water treatment plants and advanced sand filtration sewage treatment plants as well. The total amount of orders received thus came to 70,617 million yen, an increase of 39,978 million yen (up 130.5%) over the previous consolidated fiscal year, whereas the total amount of sales was no greater than 38,791 million yen, a decrease of 7,289 million yen (down 15.8%) from the previous consolidated fiscal year owing to the low level of backlog of orders at the beginning of the period, thus resulting in operating loss of 1,104 million yen.

### 3) Operation and Maintenance Division

Total sales was 9,451 million yen, an increase of 61 million yen (up 0.7%) over the previous consolidated term, while operating income decreased to 834 million yen, or down 29 million yen (down 3.3%) from the previous consolidated term.

### 4) Real Estate Division

Total sales decreased by 31 million yen (down 8.5%) from the previous consolidated fiscal term to 334 million yen, and operating income decreased by 22 million yen (down 11.8%) from the previous fiscal term to 159 million yen.

Five (5) of the affiliates applying the equity method are engaged in the general waste and industrial waste-processing business and the total amount of their sales for the current term was 7,899 million yen, a decrease of 66 million yen (down 0.8%) from the previous consolidated year. The total net income was 643 million yen, a decrease of 1 million yen (down 0.2%) from the previous consolidated year.

## (2) Cash Flow Summary

Cash and cash equivalents at the end of the current consolidated fiscal year decreased by 14,109 million yen from the end of the previous fiscal year, to 27,648 million yen. Further, three (3) overseas firms were newly consolidated in the current consolidated year, bringing a 1,710 million yen increase of cash and cash equivalents.

#### [Cash Flow from Operating Activities]

Cash flow from operating activities decreased by 8,120 million yen from the previous consolidated fiscal year, to minus 14,172 million yen.

This decrease was mainly caused by an increase in inventory assets of 4,281 million yen over the previous consolidated fiscal term, thus tax payment including corporate tax was raised by 2,275 million and net loss before taxes and other adjustments increased by 2,086 million yen.

#### [Cash Flow from Investing Activities]

Cash flow from investing activities increased by 2,216 million yen over the previous consolidated fiscal year to minus 264 million yen. This was mainly because the absolute amount of time deposit increased by 1,782 million over the previous fiscal year and gain from sale of tangible property amounting to 3,152 million was also accounted for, while disbursement for loans receivable was reduced by 855 million yen.

#### [Cash Flow from Financing Activities]

Cash flow from financing activities increased by 5,047 million over the previous consolidated fiscal

year to minus 1,433 million yen.

This was mainly because the absolute amount of short-term bank loans was reduced by 4,105 million yen from the previous consolidated fiscal year.

## 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 simply because the results by the Company accounts for an extremely high share of the Company Group's manufacturing output, and that the consolidated affiliates are comprised of operating and maintenance companies, sales companies and other type of companies. Accordingly, an indication of manufacturing results based on consolidated figures is considered insignificant.

| Name of Divisions concerned | Current Consolidated Fiscal Year<br>From April 1, 2005<br>to March 31, 2006<br>(Millions of yen) |        | Previous Consolidated Fiscal Year<br>From April 1, 2004<br>to March 31, 2005<br>(Millions of yen) |        |
|-----------------------------|--|--------|---|--------|
|                             | Machinery  | 17,613 |   | 16,376 |
| Environment Control Plants  | 35,231   |        | 39,181  |        |
| Total                       | 52,844   |        | 55,557  |        |

(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<br>From April 1, 2005<br>to March 31, 2006 |  | Previous Consolidated Fiscal Year<br>From April 1, 2004<br>to March 31, 2005 |  |
|-------------------------------|---|--|--|--|
|                               | Order received<br>(Millions of yen)   | Balance of order received<br>(Millions of yen) | Order received<br>(Millions of yen)  | Balance of order received<br>(Millions of yen) |
| Machinery                     | 56,256  | 36,969   | 49,651   | 27,303   |
| Environment Control Plants    | 70,617  | 58,856   | 30,639   | 27,029   |
| Operation and Maintenance     | 9,450   | -  | 9,390  | 0  |
| Real Estate                   | 240   | -  | 252  | -  |
| Inter-division orders (minus) | (725)   | (2)  | (916)  | (8)  |
| Total                         | 135,838   | 95,823   | 89,017   | 54,324   |

(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<br>From April 1, 2005<br>to March 31, 2006<br>(Millions of yen) |        | Previous Consolidated Fiscal Year<br>From April 1, 2004<br>to March 31, 2005<br>(Millions of yen) |        |
|-------------------------------|--|--------|---|--------|
|                               | Machinery  | 46,589 |   | 48,907 |
| Environment Control Plants    | 38,791   |        | 46,080  |        |
| Operation and Maintenance     | 9,451  |        | 9,390   |        |
| Real Estate                   | 334  |        | 366   |        |
| Inter-division orders (minus) | (825)  |        | (1,022)   |        |
| Total                         | 94,340   |        | 103,721   |        |

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

# STATUS OF BUSINESS ACTIVITIES

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## 3. Future Outlook

The Company and Company Group have worked on diligently to make structural reform of business and strengthen earning power in efforts to accommodate with market changes on the basis of the initial Mid-term Management Plan that completed at the end of fiscal 2005, objectives of which were to (i) “reconstruct the corporate governance to fit in the Company as a knowledge intensive entity”, (ii) “reform the Company itself to be a flexible entity” and (iii) “establish and retain a firm and unwavering position in the market”. As a part of these objectives, the Company and Company Group introduced an Operating Officer Program in an attempt to promote rapid decision-making and clarify the locus of management and operating responsibilities and made complete review over fixed expenses company-wide to ensure right-sizing of production facilities, endeavoring to reinforce the Company’s (and Company Group’s) operating base in order to secure the competitive market position in respect of the specialized business field. And yet, to our regret, intensification of price competition, drastic price-hike of steel materials and other materials and equipment due to them have created extremely difficult business circumstances for the Company to completely achieve these objectives. As a corollary, the total amount of consolidated orders received, consolidated sales and consolidated ordinary profit in the last three (3) years, respectively, were not as much high as anticipated initially. Given that situation, it is considered that the tough and difficult business circumstances may continue for some time to come in the future.

Despite such business circumstances as mentioned in the foregoing, the Company and Company Group have launched the second Mid-term Management Plan effective as from the first day of fiscal 2006 with the aim of securing stable and favorable credit balance, reforming the corporate structure of the Company and Company Group to ensure long-term development of business and attain earnings strength. This Mid-term Management Plan is designed for the Company and Company Group to;

- (1) further promote business under “Group Management and Operations Approach” by making the most of core business competence TAKUMA Group has ever attained so as to seek full optimization of operations companywide and secure consolidated profits to the maximum extent possible and
- (2) vigorously promote “Choice and Concentration Approach” for management resources.

Based on these key strategies, the Company and Company Group intend to;

[1] abide strictly by “Compliance”, enhance risk management capability and reinforce internal control in attempting to conduct steady and efficient operations for environment-related equipment (=promotion of “Compliance” and CSR Operations and Management);

[2] make complete review over corporate resources constituting business basis – i.e., man, goods, money, technology – and make the most of such resources so as to maintain basic corporate competence and further develop business (= enhancement of corporate competence); and

[3] strengthen cost competitive power and ensure VFM (“Value for Money”) to the maximum extent possible in order to secure highly competitive position in the market with corporate capability to cope with changes in business environment, and establish and implement “Optimal Business Strategies” focusing on promoting of public demand and expansion of offshore business and solution-delivery business.

Based on these three (3) key strategies, the Company and Company Group will strive to implement the foregoing policies in specific and efficient manner.

#### **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.

##### **\* 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.

##### **\* Country Risks**

With persistent development of offshore business, there are possibilities that Company Group's business be affected not merely by economic climate or exchange fluctuations of countries or areas concerned but also by such force majeure as may include terrorism, war, natural disaster or epidemics.

##### **\* 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.

##### **\* 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.

##### **\* Litigation**

On June 28, 2006, the Company was adjudicated by the Fair Trade Commission to have violated the Antimonopoly Law in connection with bidding for construction work of waste incinerators in the previous fiscal year. Pertinent to the case, currently, four (4) lawsuits are pending against local government by citizens, of which one is related to the construction work of waste incinerators in Fukuoka as ordered by Fukuoka City. On April 25, 2006, a judicial order was delivered to five (5) of the Company Group including the Company to compensate to the City a sum of 2,088 million yen, for which the five companies have all together lodged an appeal to a higher court. Further, on June 12, 2006, the Company was indicted by the Osaka District Public Prosecutors Office on charges of violating the Antimonopoly Law in connection with bidding for construction work of human-waste treatment plants and consequently, the local government concerned delivered the Company an order for nominative suspension of business. Depending on the development of these cases, there are possibilities that the business performance of the Company and Company Group be affected in all sorts of manner.

##### **\* Other Factors**

As long as the Company Group's business continues to be performed, there are possibilities that their business be affected by the government restrictions or in respect of the supply system of suppliers, securing of human resources at home and abroad and/or loss of valuable assets. Considering the given conditions, there also is probability that the Company Group's business performance and financial situation be affected by any of such factors.

# STATUS OF BUSINESS ACTIVITIES

## 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.)                                   | Terminated as of December 2005                        |
| 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)                   | Terminated as of March 2006                           |
| 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 & Bobbling Fluidized Bed Boiler  | May 1994       | Kvaerner Power AB (Sweden)                                   | 12 years  |
| 8  | Takuma Co., Ltd. | Methane de-Nox Process  | June 1994      | Gas Technology Institute (U.S.A.)                            | 15 years  |
| 9  | Takuma Co., Ltd. | Thermal Waste Recycling Process                                   | April 1995     | Siemens AG (Germany)   | Terminated as of December 2005                        |
| 10 | Takuma Co., Ltd. | Material Recycling & Separating System                            | June 1996      | Result Technology AG (Switzerland)                           | 10 years, thereafter automatically renewed every year |
| 11 | Takuma Co., Ltd. | Flue Gas Cleaning System with Active Coke                         | July 1996      | Austrian Energy & Environment GmbH (Austria)                 | Terminated as of December 2005                        |
| 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  | Dürr Environmental, Inc. (U.S.A.)                            | 5 years, thereafter automatically renewed every year  |
| 18 | Takuma Co., Ltd. | Cyclone Burner  | May 2000       | Gas Technology Institute (U.S.A.)                            | 10 years  |

(Note) 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) Licensing 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)             | Terminated as of March 2006                           |
| 3 | Takuma Co., Ltd. | Absorption Chiller Heater                  | August 1992    | Kyungdong Boiler Co., Ltd. (Korea)            | 13 years, thereafter automatically renewed every year |
| 4 | Takuma Co., Ltd. | Vacotin Heater                             | July 1995      | Kyungdong Boiler Co., Ltd. (Korea)            | 10 years, thereafter automatically renewed every year |
| 5 | Takuma Co., Ltd. | Laval Nozzle                               | November 2005  | Nihon Spindle Manufacturing Co., Ltd. (Japan) | 10 years, thereafter automatically renewed every year |

(Note) 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 area with efforts of mutual cooperation of Designing, Planning, Development departments and every company of the Group, respectively, while conducting joint research with outside research institutes and universities as well. Especially, in the area of Environmental and Energy Technology which constitute the Company Group's core technology, the Company and the Group have dedicated their expertise, knowledge and experience to the development of new technologies that we all hope contribute to the environmental preservation and creation of resource recycling-oriented community.

The Company's Energy & Environmental Technology Division includes the Technology Planning & Administration Department, Tokyo Technology and Engineering Department, Technology Research and Development Department, Combustion and Core Technology Development Department and Environment & Energy Research Center, all of which are striving to strengthen our core technology and accelerate development of new technologies.

The cost for the foregoing research and development was 1,224 million yen.

The following are our major research and development activities;

### 1. Industrial Machinery

- 1) We developed a unique technology utilizing impulse wave, application of which led us eventually to develop bug filter burners.
- 2) We are currently in the process of developing highly-efficient wood biomass gasification processing technology.
- 3) We are continuously engaged in research on optimization of combustion and fluxion of various types of thermo fluid applying the thermo fluid simulation technology.

The cost for the foregoing research and development was 419 million yen.

### 2. Environmental Control Plant

- 1) We are currently in the process of conducting demonstration tests on a gasification system using sewage sludge.
- 2) We are currently in the process of conducting demonstration tests on a high-temperature filter to process and dispose of waste incineration effluent gas.
- 3) We are now in the process of developing drainage denitrification processing technology making use of special kind of bacteria.
- 4) We are in the process of developing ultrahigh temperature sewage processing technology.
- 5) Recently we started production on a commercial basis of a unique type of measuring kits "DIO-QUICKER" (trade name) utilizing simplified dioxin measuring technology developed by us. This measuring kit was officially announced as the one incorporating such measuring methodology as designated by the State Minister for Environment.
- 6) We are currently in the process of conducting demonstration tests on energy recovery technology that was developed utilizing lees of Shochu (distilled spirit) under alkali hydride methane fermentation.

The cost for the foregoing research and development was 805 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 increased by 7,536 million yen (up 5.7%) over the end of the previous consolidated fiscal year, to 140,492 million yen. Current assets increased by 260 million yen (up 0.3%) over the end of the previous consolidated fiscal year, to 92,843 million yen. Property, plant and equipment ("fixed assets") increased by 7,276 million yen (up 18.0%) over the end of the previous consolidated fiscal year, to 47,649 million yen.

The primary factors for the current asset increase were that even though cash and time deposits decreased by 13,342 million yen (down 30.0%) from the end of the previous consolidated fiscal year, to 31,189 million yen, the amount of notes and accounts receivable increased by 8,892 million yen (up 25.5%) over the end of the previous consolidated fiscal year, to 43,661 million yen, and besides, the amount of goods in process and inventory assets increased by 3,016 million yen (up 39.0%) over the end of the previous consolidated fiscal year, to 10,752 million yen.

The primary factors for the fixed asset increase were that while capital investments in unconsolidated subsidiaries and affiliated companies by 1,113 million yen (down 15.6%) from the end of the previous consolidated fiscal year, to 6,003 million yen for the reason that unconsolidated subsidiaries were made to become consolidated subsidiaries in the last consolidated fiscal year, investment securities increased by 8,226 million yen (up 44.9%) over the end of the previous consolidated fiscal year, to 26,674 million yen by reason of laundering assessed value intune with upgrades in stock prices, and besides, investments in unconsolidated subsidiaries and affiliated companies increased proportionately.

The total amount of liabilities at the end of the current consolidated fiscal year increased by 5,968 million yen (up 10.3%) over the end of the previous consolidated fiscal year, to 64,141 million yen; the current liabilities increased by 3,703 million yen (up 7.3%) from the end of the previous consolidated fiscal year, to 54,096 million yen and the noncurrent liabilities increased by 2,265 million yen (up 29.1%) over the end of the previous consolidated fiscal year, to 10,045 million yen.

The primary factors of the current liabilities increase were that accrued income taxes decreased by 429 million yen (down 44.9%) from the end of the previous consolidated fiscal year, to 527 million yen and that the allowance for loss on sales constructs decreased by 356 million yen (down 13.2%) from the end of the previous consolidated fiscal year by reason of reversal of such loss in the allowance and other accounting adjustment, to 2,334 million yen, while the advance received increased by 3,724 million yen (up 140.4%) over the end of the previous consolidated fiscal year, to 6,376 million yen, and besides, the amount of notes payable and trade account receivable increased by 361 million yen (up 1.0%) over the end of the previous consolidated fiscal year, to 36,428 million yen.

The primary factors of the noncurrent liabilities increase were that the allowance for employees' retirement benefits decreased by 488 million yen (down 7.7%) from the end of the previous consolidated fiscal year by reason of changes in TAKUMA's retirement benefit system, to 5,817 million yen, while the deferred tax liabilities increased by 2,932 million yen (up 823.9%) over the end of the previous consolidated fiscal year, to 3,288 million yen due to the latent profits caused by the hike in the market value of holding stocks.

The shareholders' equity at the end of the current consolidated fiscal year increased by 1,761 million yen (up 2.5%) over the end of the previous consolidated fiscal year, to 72,704 million yen. This was

attributable to a decrease of earned surplus by 2,549 million yen (down 5.8%) from the end of the previous consolidated fiscal year, to 41,320 million yen, while profit on revaluation of marketable securities increased by 4,358 million yen (up 115.9%) over the end of the previous consolidated fiscal year in tune with the hike in the market value of holding stocks, to 8,119 million yen.

As a corollary, the capital adequacy ratio came down to 51.7% from 53.3% as of the end of the previous consolidated fiscal year. The net equity per share turned up to 868.03 yen from 843.34 yen as of the end of the previous consolidated fiscal year.

## **(2) Business Performances**

During the current consolidated fiscal year, as to the Machinery Division, as initially reported, Nippon Thermoener Co., Ltd. positively developed an integrated operation – manufacturing, selling and maintaining of hot-water boilers and once-through boilers all by its own – to satisfy customers' needs thoroughly and directly as well. The Division promoted its business activities vigorously focusing on wood biomass power plants as an effective utilization of renewable energy, and the waste heat thermal cycling plants utilizing waste. The Environmental Control Plants Division, as already reported likewise, received an order for the first time as a Japanese Municipal Solid Waste (MSW) incineration plant manufacturer from Europe for Energy from Waste (EfW) plant to be shipped to England, in addition to orders for MSW incineration plants for domestic use. As a result, the total amount of orders received increased by 46,820 million yen (up 52.6%) over the previous consolidated fiscal year, to 135,838 million yen. Notwithstanding the increase in the amount of orders received, the total sales decreased by 9,381 million yen (down 9.0%) from the previous consolidated fiscal year, to 94,340 million yen in that receiving of orders was concentrated in greater part at the end of the fiscal year.

Gross profit was 14,812 million yen and selling, general and administrative expenses totaled 18,724 million yen. Accordingly, the net operating loss was 3,912 million yen.

The net amount after deducting the other expenses from the other income was 2,840 million yen to be appropriated as an extraordinary income. This was ascribed to posting 3,180 million yen as earnings from sale of fixed assets including gain from sale of land and other estate.

As the result of foregoing, the loss before income taxes and minority interests was 1,072 million yen, and the net loss of the current term after corporate income taxes and other corporate taxes adjustments and deducting the minority shareholders' interest was 1,484 million yen.

The net profit per share of the current term was 17.69 yen and the capital-profit adequacy ratio was 2.1%.

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-

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.

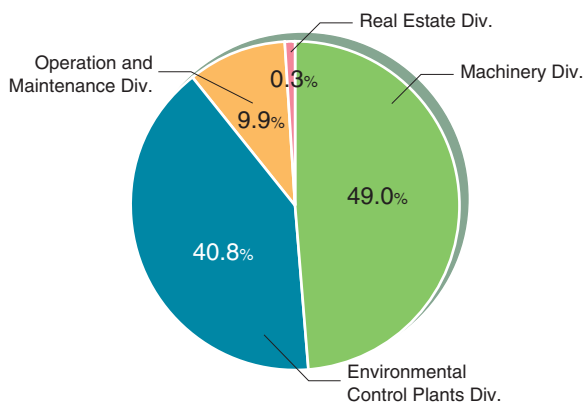
Takuma also develops a variety of general-purpose machinery, including the Vacotine vacuum hot water heater, the Takumax once-through boiler, and an absorption refrigerator. Besides being friendly to the environment, these products are compact and energy-efficient.

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.

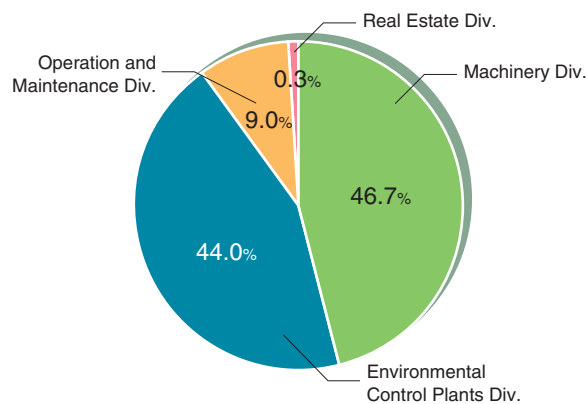
Moreover, Takuma is prominent in the field of water treatment plants, developing sewage treatment plants, waste water treatment plants, raw sewage treatment plants, and water purification plants. We take different approaches in

## Sales Breakdown by Division

● Year Ended March 31, 2006  
(On Consolidated Basis)

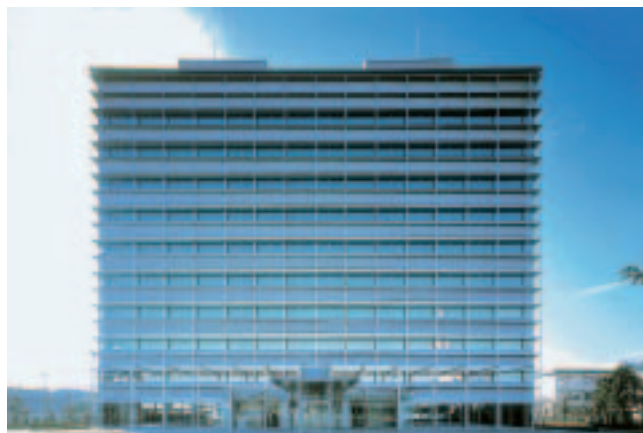


● Year Ended March 31, 2005  
(On Consolidated Basis)



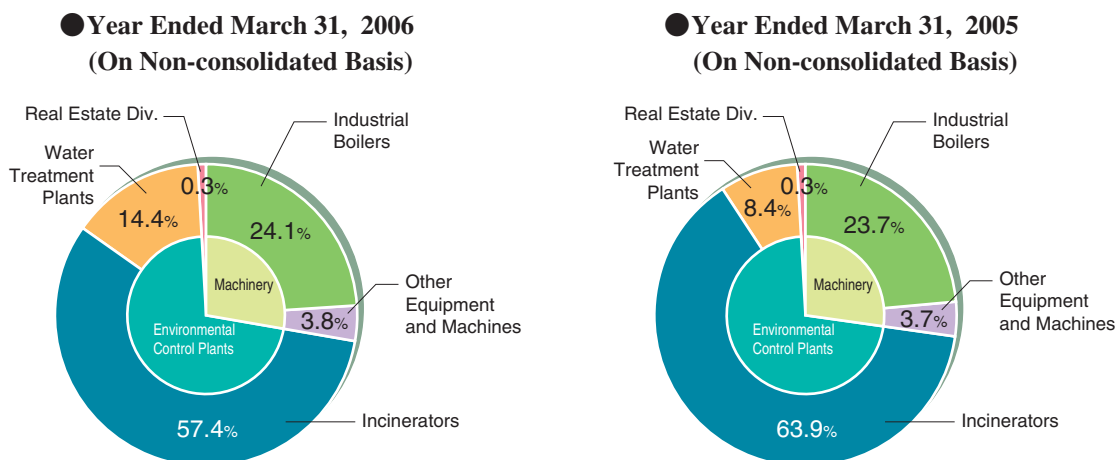
designing these facilities, and we address concerns such as the effective utilization of polluted water and the use of state-of-the-art technologies for developing new materials and antibacterial plastics.

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.



Takuma Building (completed in December 1995)

## Sales Breakdown by Product and Service



# 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

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## 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

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## 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, 2006 and 2005

| ASSETS  | Millions of Yen |                  | Thousands of<br>U.S.dollars<br>(Note 1) |
|---|-----------------|------------------|---|
|   | 2006            | 2005             | 2006                                    |
| Current assets:   |                 |                  |   |
| Cash and time deposits (Notes 4 and 7) .....                  | ¥ 31,189        | ¥ 44,531         | \$ 265,506                              |
| Marketable securities (Notes 4 and 5) .....                   | 31              | 45               | 264                                     |
| Notes and accounts receivable:                                |                 |                  |   |
| Trade .....   | 42,360          | 33,369           | 360,603                                 |
| Unconsolidated subsidiaries<br>and affiliated companies ..... | 839             | 1,787            | 7,142                                   |
| Other .....   | 564             | 396              | 4,801                                   |
| Less: Allowance for doubtful accounts .....                   | (102)           | (783)            | (868)                                   |
|   | 43,661          | 34,769           | 371,678                                 |
| Inventories .....   | 10,752          | 7,736            | 91,530                                  |
| Deferred tax assets (Note 14).....                            | 4,803           | 4,255            | 40,887                                  |
| Advanced money.....   | 1,341           | 755              | 11,416                                  |
| Other .....   | 1,066           | 492              | 9,074                                   |
| <b>Total current assets</b> .....                             | <b>92,843</b>   | <b>92,583</b>    | <b>790,355</b>                          |
| Investments and other assets:                                 |                 |                  |   |
| Investment securities (Note 5) .....                          | 26,674          | 18,408           | 227,071                                 |
| Investments in:   |                 |                  |   |
| Unconsolidated subsidiaries<br>and affiliated companies ..... | 6,003           | 7,116            | 51,102                                  |
| Other .....   | 2,262           | 2,349            | 19,256                                  |
| Less: Allowance for doubtful accounts .....                   | (631)           | (437)            | (5,371)                                 |
|   | 7,634           | 9,028            | 64,987                                  |
| Deferred tax assets (Note 14).....                            | 1,295           | 1,140            | 11,024                                  |
| Other .....   | 2,982           | 2,563            | 25,385                                  |
|   | 38,585          | 31,139           | 328,467                                 |
| Property, plant and equipment:                                |                 |                  |   |
| Land (Notes 7 and 8).....                                     | 3,394           | 3,307            | 28,893                                  |
| Buildings and structures (Note 7) .....                       | 10,219          | 10,130           | 86,992                                  |
| Machinery and equipment .....                                 | 10,065          | 10,035           | 85,681                                  |
| Construction in progress .....                                | -               | 2                | -                                       |
|   | 23,678          | 23,474           | 201,566                                 |
| Less: Accumulated depreciation .....                          | (14,614)        | (14,240)         | (124,406)                               |
|   | 9,064           | 9,234            | 77,160                                  |
|   | <b>¥140,492</b> | <b>¥ 132,956</b> | <b>\$ 1,195,982</b>                     |

See accompanying notes.

| LIABILITIES AND SHAREHOLDERS' EQUITY   | Millions of Yen  |                  | Thousands of<br>U.S.dollars<br>(Note 1) |
|--|------------------|------------------|---|
|  | 2006             | 2005             | 2006                                    |
| Current liabilities:   |                  |                  |   |
| Short-term bank loans (Notes 7 and 9) .....  | ¥ 2,701          | ¥ 2,911          | \$ 22,993                               |
| Current portion of long-term debt (Notes 7 and 9) .....                                      | 214              | 143              | 1,822                                   |
| Notes and accounts payable:  |                  |                  |   |
| Trade .....  | 36,428           | 36,066           | 310,105                                 |
| Unconsolidated subsidiaries<br>and affiliated companies .....                                | 804              | 478              | 6,844                                   |
| Other .....  | 1,058            | 930              | 9,007                                   |
|  | <b>38,290</b>    | <b>37,474</b>    | <b>325,956</b>                          |
| Accrued income taxes (Note 14) .....   | 527              | 956              | 4,486                                   |
| Consumption tax payable .....  | 170              | 187              | 1,447                                   |
| Accrued expenses .....   | 2,734            | 2,918            | 23,274                                  |
| Allowance for losses on sales contracts .....  | 2,334            | 2,690            | 19,869                                  |
| Advances received .....  | 6,376            | 2,652            | 54,278                                  |
| Other .....  | 750              | 462              | 6,385                                   |
| <b>Total current liabilities</b> .....   | <b>54,096</b>    | <b>50,393</b>    | <b>460,510</b>                          |
| Long-term debt (Notes 7 and 9) .....   | 123              | 314              | 1,047                                   |
| Allowance for employees' retirement benefits (Note 10) .....                                 | 5,817            | 6,305            | 49,519                                  |
| Allowance for directors', executive officers' and corporate auditors' retirement benefits .. | 534              | 526              | 4,546                                   |
| Deferred tax liabilities (Note 14).....  | 3,288            | 356              | 27,990                                  |
| Deferred tax liability for revaluation reserve for land (Notes 8 and 14) ..                  | 279              | 279              | 2,375                                   |
| Other .....  | 4                | -                | 34                                      |
| <b>Total liabilities</b> .....   | <b>64,141</b>    | <b>58,173</b>    | <b>546,021</b>                          |
| Minority interests in consolidated subsidiaries .....  | 3,647            | 3,840            | 31,046                                  |
| Contingent liabilities (Notes 6, 11 and 17)  |                  |                  |   |
| Shareholders' equity:  |                  |                  |   |
| Common stock   |                  |                  |   |
| Authorized: 321,840,000 shares   |                  |                  |   |
| Issued: 87,799,248 shares .....  | 13,367           | 13,367           | 113,791                                 |
| Capital surplus (Note 12) .....  | 12,409           | 12,407           | 105,635                                 |
| Retained earnings (Note 12) .....  | 41,320           | 43,869           | 351,749                                 |
| Revaluation reserve for land (Note 8) .....  | 270              | 160              | 2,298                                   |
| Net unrealized holding gain on available-for-sale securities .....                           | 8,119            | 3,761            | 69,116                                  |
| Foreign currency translation adjustments .....   | 54               | (25)             | 460                                     |
| Less: Treasury stock .....   | (2,835)          | (2,596)          | (24,134)                                |
| <b>Total shareholders' equity</b> .....  | <b>72,704</b>    | <b>70,943</b>    | <b>618,915</b>                          |
|  | <b>¥ 140,492</b> | <b>¥ 132,956</b> | <b>\$ 1,195,982</b>                     |

# Consolidated Statements of Operations

Takuma Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2006 and 2005

|  | Millions of Yen |           | Thousands of<br>U.S.dollars<br>(Note 1) |
|--|-----------------|-----------|---|
|  | 2006            | 2005      | 2006                                    |
| <b>Net sales (Note 15)</b> .....   | ¥ 94,340        | ¥ 103,721 | \$ 803,099                              |
| <b>Cost of sales (Notes 13 and 15)</b> .....   | 79,528          | 84,585    | 677,007                                 |
| Gross profit .....   | 14,812          | 19,136    | 126,092                                 |
| <b>Selling, general and administrative expenses (Notes 13 and 15)</b> .....                | 18,724          | 17,873    | 159,394                                 |
| Operating income (loss) (Note 15) .....  | (3,912)         | 1,263     | (33,302)                                |
| <b>Other income (expenses):</b>  |                 |           |   |
| Interest and dividend income .....   | 427             | 295       | 3,635                                   |
| Interest expense .....   | (33)            | (56)      | (281)                                   |
| Foreign currency exchange gain .....   | 131             | 60        | 1,115                                   |
| Gain on sales of investment securities .....   | 265             | 1,855     | 2,256                                   |
| Write-down of investments in unconsolidated subsidiaries<br>and affiliated companies ..... | (174)           | (11)      | (1,481)                                 |
| Gain on disposal of property, plant and equipment .....                                    | 3,180           | 53        | 27,071                                  |
| Technical assistance fee .....   | 270             | 263       | 2,298                                   |
| Equity in earnings of affiliated companies .....   | 350             | 432       | 2,979                                   |
| Gain on change in equity of consolidated subsidiaries .....                                | 176             | -         | 1,498                                   |
| Provision for doubtful accounts .....  | (269)           | (259)     | (2,290)                                 |
| Provision for losses on sales contracts .....  | (1,641)         | (2,580)   | (13,969)                                |
| Write-down of inventories .....  | -               | (220)     | -                                       |
| Additional retirement payments .....   | -               | (135)     | -                                       |
| Other, net .....   | 158             | 54        | 1,345                                   |
|  | 2,840           | (249)     | 24,176                                  |
| <b>Income (loss) before income taxes and minority interests</b> .....                      | (1,072)         | 1,014     | (9,126)                                 |
| <b>Income taxes (Note 14):</b>   |                 |           |   |
| Current .....  | 1,108           | 1,315     | 9,432                                   |
| Deferred .....   | (678)           | (935)     | (5,771)                                 |
|  | 430             | 380       | 3,661                                   |
| <b>Minority interests in earnings (losses)<br/>of consolidated subsidiaries</b> .....      | (17)            | 366       | (145)                                   |
| <b>Net income (loss)</b> .....   | ¥ (1,485)       | ¥ 268     | \$ (12,642)                             |
|  |                 | Yen       | U.S.dollars<br>(Note 1)                 |
| <b>Per share:</b>  |                 |           |   |
| Net income (loss) .....  | ¥ (17.69)       | ¥ 2.57    | \$ (0.15)                               |
| 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, 2006 and 2005

|   | 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, 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)      |
| Net loss .....  | -                       | -            | -               | (1,485)           | -                            | -  | -  | -              |
| Sales of treasury stock .....   | -                       | -            | 2               | -                 | -                            | -  | -  | -              |
| Revaluation reserve for land .....  | -                       | -            | -               | -                 | 110                          | -  | -  | -              |
| Net unrealized holding gain on available-for-sale securities .....                        | -                       | -            | -               | -                 | -                            | 4,358  | -  | -              |
| Foreign currency translation adjustments .....  | -                       | -            | -               | -                 | -                            | -  | 79                                       | -              |
| Increase in treasury stock .....  | -                       | -            | -               | -                 | -                            | -  | -  | (239)          |
| Decrease due to increase in number of consolidated subsidiaries .....                     | -                       | -            | -               | (202)             | -                            | -  | -  | -              |
| Cash dividends (¥10.00 per share) .....   | -                       | -            | -               | (831)             | -                            | -  | -  | -              |
| Bonuses to directors and corporate auditors .....   | -                       | -            | -               | (31)              | -                            | -  | -  | -              |
| Balance as of March 31, 2006 .....  | 87,799,248              | ¥ 13,367     | ¥ 12,409        | ¥ 41,320          | ¥ 270                        | ¥ 8,119  | ¥ 54                                     | ¥ (2,835)      |

|   | Thousands of U.S.dollars (Note 1) |            |            |          |           |          |             |         |
|---|-----------------------------------|------------|------------|----------|-----------|----------|-------------|---------|
| Balance as of March 31, 2005 .....                                    | \$ 113,791                        | \$ 105,618 | \$ 373,449 | \$ 1,362 | \$ 32,017 | \$ (213) | \$ (22,099) |         |
| Net loss .....  | -                                 | -          | (12,642)   | -        | -         | -        | -           |         |
| Sales of treasury stock .....   | -                                 | 17         | -          | -        | -         | -        | -           |         |
| Revaluation reserve for land .....                                    | -                                 | -          | -          | 936      | -         | -        | -           |         |
| Net unrealized holding gain on available-for-sale securities .....    | -                                 | -          | -          | -        | 37,099    | -        | -           |         |
| Foreign currency translation adjustments .....                        | -                                 | -          | -          | -        | -         | 673      | -           |         |
| Increase in treasury stock .....                                      | -                                 | -          | -          | -        | -         | -        | -           | (2,035) |
| Decrease due to increase in number of consolidated subsidiaries ..... | -                                 | -          | (1,720)    | -        | -         | -        | -           |         |
| Cash dividends (\$0.09 per share) .....                               | -                                 | -          | (7,074)    | -        | -         | -        | -           |         |
| Bonuses to directors and corporate auditors .....                     | -                                 | -          | (264)      | -        | -         | -        | -           |         |
| Balance as of March 31, 2006 .....                                    | \$ 113,791                        | \$ 105,635 | \$ 351,749 | \$ 2,298 | \$ 69,116 | \$ 460   | \$ (24,134) |         |

See accompanying notes.

# Consolidated Statements of Cash Flows

Takuma Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

|   | Millions of Yen |                 | Thousands of<br>U.S.dollars<br>(Note 1) |
|---|-----------------|-----------------|---|
|   | 2006            | 2005            | 2006                                    |
| <b>Cash flows from operating activities:</b>  |                 |                 |   |
| Income (loss) before income taxes and minority interests .....  | ¥ (1,072)       | ¥ 1,014         | \$ (9,126)                              |
| Adjustments to reconcile income (loss) before income taxes and minority interests to net cash used in operating activities: |                 |                 |   |
| Depreciation .....  | 1,100           | 990             | 9,364                                   |
| Amortization of consolidation difference .....  | 414             | 229             | 3,524                                   |
| Write-down of investments in unconsolidated subsidiaries and affiliated companies ..  | 174             | 11              | 1,481                                   |
| Gain on disposal of property, plant and equipment .....   | (3,180)         | (53)            | (27,071)                                |
| Gain on sales of investment securities .....  | (265)           | (1,855)         | (2,256)                                 |
| Additional retirement payments .....  | -               | 135             | -                                       |
| Increase (decrease) in allowance for doubtful accounts .....  | (274)           | 167             | (2,332)                                 |
| Increase (decrease) in allowance for losses on sales contracts .....  | (356)           | 2,035           | (3,030)                                 |
| Decrease in pension benefit obligation .....  | (479)           | (498)           | (4,078)                                 |
| Interest and dividend income .....  | (427)           | (295)           | (3,635)                                 |
| Interest expense .....  | 33              | 56              | 281                                     |
| Equity in earnings of affiliated companies.....   | (350)           | (432)           | (2,979)                                 |
| Gain on change in equity of consolidated subsidiaries .....   | (176)           | -               | (1,498)                                 |
| Net increase in notes and accounts receivable and advance received.....   | (4,473)         | (8,236)         | (38,078)                                |
| Decrease (increase) in inventories .....  | (3,016)         | 1,265           | (25,675)                                |
| Decrease (increase) in consumption tax receivable .....   | (357)           | 1,360           | (3,039)                                 |
| Increase in other current assets .....  | (237)           | (93)            | (2,017)                                 |
| Net increase (decrease) in notes and accounts payable and advance money .....   | 77              | (2,446)         | 655                                     |
| Increase (decrease) in consumption tax payable .....  | (19)            | 111             | (162)                                   |
| Decrease in other current liabilities .....   | (250)           | (188)           | (2,128)                                 |
| Payment of bonuses to directors and corporate auditors.....   | (45)            | (56)            | (383)                                   |
| Other .....   | 371             | 24              | 3,158                                   |
| Subtotal .....  | (12,807)        | (6,755)         | (109,024)                               |
| Interest and dividend received .....  | 495             | 345             | 4,214                                   |
| Interest paid .....   | (33)            | (55)            | (281)                                   |
| Income taxes paid .....   | (1,727)         | 548             | (14,702)                                |
| Additional retirement payments .....  | -               | (135)           | -                                       |
| Other .....   | (100)           | -               | (851)                                   |
| Net cash used in operating activities .....   | (14,172)        | (6,052)         | (120,644)                               |
| <b>Cash flows from investing activities:</b>  |                 |                 |   |
| Net decrease (increase) in time deposits .....  | (751)           | 1,031           | (6,393)                                 |
| Purchase of property, plant and equipment .....   | (629)           | (482)           | (5,355)                                 |
| Sales of property, plant and equipment .....  | 3,292           | 140             | 28,024                                  |
| Purchase of intangible fixed assets .....   | (108)           | (159)           | (919)                                   |
| Purchase of investment securities .....   | (1,431)         | (3,081)         | (12,182)                                |
| Sales of investment securities .....  | 820             | 3,992           | 6,981                                   |
| Investments in unconsolidated subsidiaries and affiliated companies .....   | (783)           | (1,959)         | (6,666)                                 |
| Disbursement for loans receivable .....   | (1,624)         | (2,479)         | (13,825)                                |
| Collection of loans receivable .....  | 861             | 411             | 7,330                                   |
| Other .....   | 89              | 106             | 758                                     |
| Net cash used in investing activities .....   | (264)           | (2,480)         | (2,247)                                 |
| <b>Cash flows from financing activities:</b>  |                 |                 |   |
| Net decrease in short-term bank loans .....   | (210)           | (4,315)         | (1,788)                                 |
| Proceeds from long-term debt .....  | 255             | 125             | 2,171                                   |
| Payment of long-term debt .....   | (376)           | (249)           | (3,201)                                 |
| Purchase of treasury stock .....  | (252)           | (1,166)         | (2,145)                                 |
| Sales of treasury stock .....   | 25              | -               | 213                                     |
| Payment of cash dividends to the Company's shareholders .....   | (831)           | (842)           | (7,074)                                 |
| Payment of cash dividends to minority interests .....   | (44)            | (32)            | (375)                                   |
| Net cash used in financing activities .....   | (1,433)         | (6,479)         | (12,199)                                |
| Effect of exchange rate changes on cash and cash equivalents .....  | 50              | (58)            | 426                                     |
| Net decrease in cash and cash equivalents .....   | (15,819)        | (15,069)        | (134,664)                               |
| <b>Cash and cash equivalents at beginning of year (Note 4) .....</b>  | <b>41,757</b>   | <b>56,320</b>   | <b>355,469</b>                          |
| Cash and cash equivalents of newly consolidated subsidiary .....  | 1,710           | 506             | 14,557                                  |
| <b>Cash and cash equivalents at end of year (Note 4) .....</b>  | <b>¥ 27,648</b> | <b>¥ 41,757</b> | <b>\$ 235,362</b>                       |

# 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.

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, 2006, which was ¥117.47 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 15 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 translation 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 secu-

curities 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, 2006 and 2005 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, 2006 and 2005 were as follows:

|              | Millions of Yen |          | Thousands of U.S.dollars |
|--------------|-----------------|----------|--------------------------|
|              | 2006            | 2005     | 2006                     |
| Net sales    | ¥ 20,376        | ¥ 30,363 | \$ 173,457               |
| Gross profit | 520             | 4,385    | 4,427                    |

(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).

(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 2006 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

**3. Changes in accounting policies**

Accounting standard for impairment of fixed assets

Effective April 1, 2005, the Companies adopted 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).

There is no effect on net income of adopting of the new standard and guidance.

#### 4. Amounts of cash and cash equivalents

Amounts of cash and cash equivalents as of March 31, 2006 and 2005 were reconciled with cash and time deposits as follows:

|   | Millions of Yen |          | Thousands of U.S.dollars |
|---|-----------------|----------|--------------------------|
|   | 2006            | 2005     | 2006                     |
| Cash and time deposits.....   | ¥ 31,189        | ¥ 44,531 | \$ 265,506               |
| Time deposits with maturities exceeding three months<br>from the date of acquisition..... | (3,571)         | (2,805)  | (30,399)                 |
| Short-term highly liquid investments with maturities<br>not exceeding three months.....   | 30              | 31       | 255                      |
| Total : Cash and cash equivalents.....  | ¥ 27,648        | ¥ 41,757 | \$ 235,362               |

#### 5. Securities

(a) Acquisition costs, book values of available-for-sale securities with available fair values as of March 31, 2006 and 2005 were as follows:

| As of March 31, 2006  | Millions of Yen  |            |            |
|---|------------------|------------|------------|
|   | Acquisition cost | Book value | Difference |
| Securities with book values exceeding<br>acquisition costs: |                  |            |            |
| Equity securities .....                                     | ¥ 9,552          | ¥ 23,191   | ¥ 13,639   |
| Others .....  | 581              | 744        | 163        |
| Subtotal .....  | 10,133           | 23,935     | 13,802     |
| Others:   |                  |            |            |
| Equity securities .....                                     | 200              | 187        | (13)       |
| Debt securities .....                                       | 27               | 27         | -          |
| Others .....  | 281              | 272        | (9)        |
| Subtotal .....  | 508              | 486        | (22)       |
| Total .....   | ¥ 10,641         | ¥ 24,421   | ¥ 13,780   |

| As of March 31, 2005  | Millions of Yen  |            |            |
|---|------------------|------------|------------|
|   | Acquisition cost | Book value | Difference |
| Securities with book values exceeding<br>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, 2006                                     | Thousands of U.S.dollars |            |            |
|--|--------------------------|------------|------------|
|  | Acquisition cost         | Book value | Difference |
| Securities with book values exceeding acquisition costs: |                          |            |            |
| Equity securities .....                                  | \$ 81,314                | \$ 197,421 | \$ 116,107 |
| Others .....   | 4,946                    | 6,333      | 1,387      |
| Subtotal .....   | 86,260                   | 203,754    | 117,494    |
| Others:  |                          |            |            |
| Equity securities .....                                  | 1,703                    | 1,592      | (111)      |
| Debt securities .....                                    | 230                      | 230        | -          |
| Others .....   | 2,392                    | 2,315      | (77)       |
| Subtotal .....   | 4,325                    | 4,137      | (188)      |
| Total .....  | \$ 90,585                | \$ 207,891 | \$ 117,306 |

(b) Book values of available-for-sale securities with no fair values as of March 31, 2006 and 2005 were as follows:

|   | Millions of Yen |         | Thousands of U.S.dollars |
|---|-----------------|---------|--------------------------|
|   | 2006            | 2005    | 2006                     |
| Non-listed equity securities .....                            | ¥ 2,252         | ¥ 2,226 | \$ 19,171                |
| Debt security investment trust which equivalent to cash ..... | 30              | 31      | 255                      |

(c) Available-for-sale securities sold for the years ended March 31, 2006 and 2005 were as follows:

|                          | Millions of Yen |         | Thousands of U.S.dollars |
|--------------------------|-----------------|---------|--------------------------|
|                          | 2006            | 2005    | 2006                     |
| Total sales amount ..... | ¥ 820           | ¥ 3,992 | \$ 6,981                 |
| Gains .....              | 276             | 1,855   | 2,350                    |
| Losses .....             | 11              | 1       | 94                       |

(d) Maturities of available-for-sale securities as of March 31, 2006 and 2005 were as follows:

| As of March 31, 2006  | 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 ..... | ¥ -             | ¥ 27                           | ¥ -                              | ¥ -           |
| Others .....          | -               | -                              | -                                | -             |
| Total .....           | ¥ -             | ¥ 27                           | ¥ -                              | ¥ -           |

| 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, 2006  | 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 ..... | \$ -                     | \$ 230                         | \$ -                             | \$ -          |
| Others .....          | -                        | -                              | -                                | -             |
| Total .....           | \$ -                     | \$ 230                         | \$ -                             | \$ -          |

## 6. 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, 2006 and 2005 were ¥193 million (\$1,643 thousand) and ¥185 million, respectively.

If such finance leases were capitalized including interest as of March 31, 2006 and 2005, they would be recorded in the consolidated balance sheets as follows:

|                               | Millions of Yen  |                          |            |                  |                          |            |
|-------------------------------|------------------|--------------------------|------------|------------------|--------------------------|------------|
|                               | 2006             |                          |            | 2005             |                          |            |
|                               | Acquisition cost | Accumulated depreciation | Book value | Acquisition cost | Accumulated depreciation | Book value |
| Machinery and equipment ..... | ¥ 799            | ¥ 366                    | ¥ 433      | ¥ 871            | ¥ 361                    | ¥ 510      |
| Other assets .....            | 124              | 55                       | 69         | 132              | 45                       | 87         |
| Total.....                    | ¥ 923            | ¥ 421                    | ¥ 502      | ¥ 1,003          | ¥ 406                    | ¥ 597      |

|                               | Thousands of U.S.dollars |                          |            |
|-------------------------------|--------------------------|--------------------------|------------|
|                               | 2006                     |                          |            |
|                               | Acquisition cost         | Accumulated depreciation | Book value |
| Machinery and equipment ..... | \$ 6,802                 | \$ 3,116                 | \$ 3,686   |
| Other assets .....            | 1,055                    | 468                      | 587        |
| Total.....                    | \$ 7,857                 | \$ 3,584                 | \$ 4,273   |

If depreciation expense on such finance leases was incurred for the years ended March 31, 2006 and 2005, the amounts would be ¥193 million (\$1,643 thousand) and ¥185 million, respectively.

The scheduled future payments of such lease obligations, including interest, as of March 31, 2006 and 2005, were as follows:

|                          | Millions of Yen           |       | Thousands of U.S.dollars |
|--------------------------|---------------------------|-------|--------------------------|
|                          | 2006                      | 2005  | 2006                     |
|                          | Due within one year ..... | ¥ 170 | ¥ 170                    |
| Due after one year ..... | 332                       | 427   | 2,826                    |
| Total .....              | ¥ 502                     | ¥ 597 | \$ 4,273                 |

(b) Operating lease

The scheduled future payments of operating lease, including interest, as of March 31, 2006 and 2005, were as follows:

|                           | Millions of Yen |      | Thousands of U.S.dollars |
|---------------------------|-----------------|------|--------------------------|
|                           | 2006            | 2005 | 2006                     |
| Due within one year ..... | ¥ 1             | ¥ 5  | \$ 9                     |
| Due after one year .....  | -               | -    | -                        |
| Total .....               | ¥ 1             | ¥ 5  | \$ 9                     |

**7. 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, 2006 and 2005:

|                                | Millions of Yen |         | Thousands of U.S.dollars |
|--------------------------------|-----------------|---------|--------------------------|
|                                | 2006            | 2005    | 2006                     |
| Land .....                     | ¥ 1,087         | ¥ 1,087 | \$ 9,254                 |
| Buildings and structures ..... | 383             | 408     | 3,260                    |
| Time deposits .....            | 139             | 182     | 1,183                    |
| Total .....                    | ¥ 1,609         | ¥ 1,677 | \$ 13,697                |

**8. 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, 2006, the fair market value of land was below the book value of land after revaluation by ¥87 million (\$741 thousand).

### 9. 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 0.8% and 0.9% per annum as of March 31, 2006 and 2005, respectively.

Long-term debt as of March 31, 2006 and 2005 were as follows:

|   | Millions of Yen |              | Thousands of U.S.dollars |
|---|-----------------|--------------|--------------------------|
|   | 2006            | 2005         | 2006                     |
| Loans from banks and other financial institutions due 2006 to 2008<br>interest at rates of 1.9% to 4.5% per annum in 2006 and 2005: |                 |              |                          |
| Secured .....   | ¥ 327           | ¥ 437        | \$ 2,784                 |
| Unsecured .....   | 10              | 20           | 85                       |
|   | <u>337</u>      | <u>457</u>   | <u>2,869</u>             |
| Less: Current portion.....  | (214)           | (143)        | (1,822)                  |
|   | <u>¥ 123</u>    | <u>¥ 314</u> | <u>\$ 1,047</u>          |

The aggregate annual maturities of long-term debt as of March 31, 2006 were summarized below:

| Years ending March 31,    | Millions of Yen | Thousands of U.S.dollars |
|---------------------------|-----------------|--------------------------|
| 2007 .....                | ¥ 214           | \$ 1,822                 |
| 2008 .....                | 99              | 843                      |
| 2009 .....                | 24              | 204                      |
| 2010 .....                | -               | -                        |
| 2011 .....                | -               | -                        |
| 2012 and thereafter ..... | -               | -                        |

### 10. 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, 2006 and 2005 consist of the following:

|  | Millions of Yen |                | Thousands of U.S.dollars |
|--|-----------------|----------------|--------------------------|
|  | 2006            | 2005           | 2006                     |
| Projected benefit obligation.....                  | ¥ 13,182        | ¥ 13,739       | \$ 112,216               |
| Fair value of plan assets .....                    | (7,729)         | (7,293)        | (65,796)                 |
| Unfunded projected benefit obligation .....        | <u>5,453</u>    | <u>6,446</u>   | <u>46,420</u>            |
| Unrecognized prior service cost .....              | 1,111           | 1,250          | 9,458                    |
| Less: unrecognized actuarial differences .....     | (747)           | (1,391)        | (6,359)                  |
| Allowance for employees' retirement benefits ..... | <u>¥ 5,817</u>  | <u>¥ 6,305</u> | <u>\$ 49,519</u>         |

Included in the consolidated statement of income for the years ended March 31, 2006 and 2005 were severance and retirement benefit expenses comprised of the following:

|  | Millions of Yen |         | Thousands of U.S.dollars |
|--|-----------------|---------|--------------------------|
|  | 2006            | 2005    | 2006                     |
| Service costs – benefits earned during the year..... | ¥ 702           | ¥ 790   | \$ 5,976                 |
| Interest cost on projected benefit obligation .....  | 222             | 243     | 1,890                    |
| Expected return on plan assets .....                 | (63)            | (60)    | (536)                    |
| Amortization of actuarial differences .....          | 208             | 195     | 1,771                    |
| Amortization of prior service cost .....             | (140)           | (50)    | (1,192)                  |
| Others .....   | -               | -       | -                        |
| Employees' retirement benefit expenses .....         | ¥ 929           | ¥ 1,118 | \$ 7,909                 |

The discount rate and the rate of expected return on plan assets used by the Companies for the years ended March 31, 2006 and 2005 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.

#### 11. Contingent liabilities

The Companies were contingently liable under guarantees for bank loans of affiliated companies and other companies as of March 31, 2006 and 2005 amounting to ¥3,032million (\$25,811 thousand) and ¥4,309 million, respectively.

Also, the Companies were contingently liable for notes discounted and endorsed as of March 31, 2006 and 2005 amounting to ¥235 million (\$2,001 thousand) and ¥621 million, respectively.

#### 12. 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 17.

### 13. 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, 2006 and 2005 were ¥1,224 million (\$10,420 thousand) and ¥1,297 million, respectively.

### 14. 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% for the years ended March 31, 2006 and 2005.

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, 2006 because of the loss before income taxes and minority interests for the year.

Components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

|   | Millions of Yen |                | Thousands of U.S.dollars |
|---|-----------------|----------------|--------------------------|
|   | 2006            | 2005           | 2006                     |
| Deferred tax assets:  |                 |                |                          |
| Allowance for employees' retirement benefits .....                  | ¥ 2,313         | ¥ 2,386        | \$ 19,690                |
| Allowance for losses on sales contracts .....                       | 949             | 1,093          | 8,079                    |
| Accrued cost of sales .....   | 607             | 1,052          | 5,167                    |
| Unrealized profits .....  | 1,202           | 747            | 10,232                   |
| Accrued bonuses to employees .....                                  | 741             | 740            | 6,308                    |
| Loss recognized on a percentage-of-completion method .....          | 1,747           | 713            | 14,872                   |
| Operating loss carryforward for tax purposes .....                  | 1,109           | 500            | 9,441                    |
| Other .....   | 1,537           | 1,925          | 13,084                   |
| Total deferred tax assets .....                                     | <u>10,205</u>   | 9,156          | <u>86,873</u>            |
| Valuation allowance .....   | (1,079)         | (806)          | (9,185)                  |
| Net deferred tax assets .....                                       | <u>¥ 9,126</u>  | <u>¥ 8,350</u> | <u>\$ 77,688</u>         |
| Deferred tax liabilities:   |                 |                |                          |
| Net unrealized holding gains on available-for-sale securities ..... | (5,720)         | (2,670)        | (48,693)                 |
| Valuation difference in land of consolidated subsidiary .....       | (160)           | (160)          | (1,362)                  |
| Net unrealized gains on revaluated land .....                       | (279)           | (279)          | (2,375)                  |
| Other .....   | (436)           | (481)          | (3,712)                  |
| Total deferred tax liabilities .....                                | <u>(6,595)</u>  | <u>(3,590)</u> | <u>(56,142)</u>          |
| Net deferred tax assets .....                                       | <u>¥ 2,531</u>  | <u>¥ 4,760</u> | <u>\$ 21,546</u>         |

## 15. Segment information

Business segment information for the years ended March 31, 2006 and 2005 were as follows:

| Millions of Yen  |                    |                                       |                                    |                      |                  |                          |                  |
|--|--------------------|---------------------------------------|------------------------------------|----------------------|------------------|--------------------------|------------------|
| Year ended March 31, 2006  | Machinery division | Environmental control plants division | Operation and maintenance division | Real estate division | Total            | Elimination or corporate | Consolidated     |
| Sales:   |                    |                                       |                                    |                      |                  |                          |                  |
| Outside customers .....  | ¥ 46,320           | ¥ 38,577                              | ¥ 9,368                            | ¥ 75                 | ¥ 94,340         | ¥ -                      | ¥ 94,340         |
| Intersegment .....   | 269                | 214                                   | 83                                 | 259                  | 825              | (825)                    | -                |
| Total .....  | 46,589             | 38,791                                | 9,451                              | 334                  | 95,165           | (825)                    | 94,340           |
| Operating expenses .....   | 48,236             | 39,895                                | 8,617                              | 176                  | 96,924           | 1,328                    | 98,252           |
| Operating income (loss) .....                                      | <u>¥ (1,647)</u>   | <u>¥ (1,104)</u>                      | <u>¥ 834</u>                       | <u>¥ 158</u>         | <u>¥ (1,759)</u> | <u>¥ (2,153)</u>         | <u>¥ (3,912)</u> |
| Identifiable assets, depreciation expense and capital expenditure: |                    |                                       |                                    |                      |                  |                          |                  |
| Assets .....   | ¥ 41,519           | ¥ 40,837                              | ¥ 8,418                            | ¥ 268                | ¥ 91,042         | ¥ 49,450                 | ¥ 140,492        |
| Depreciation .....   | 426                | 663                                   | 13                                 | -                    | 1,102            | (2)                      | 1,100            |
| Capital expenditure .....  | 343                | 574                                   | 16                                 | -                    | 933              | -                        | 933              |

| 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) .....                                      | <u>¥ 76</u>        | <u>¥ 2,391</u>                        | <u>¥ 863</u>                       | <u>¥ 180</u>         | <u>¥ 3,510</u> | <u>¥ (2,247)</u>         | <u>¥ 1,263</u> |
| 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            |

| Thousands of U.S.dollars   |                    |                                       |                                    |                      |                    |                          |                    |
|--|--------------------|---------------------------------------|------------------------------------|----------------------|--------------------|--------------------------|--------------------|
| Year ended March 31, 2006  | Machinery division | Environmental control plants division | Operation and maintenance division | Real estate division | Total              | Elimination or corporate | Consolidated       |
| Sales:   |                    |                                       |                                    |                      |                    |                          |                    |
| Outside customers .....  | \$ 394,313         | \$ 328,399                            | \$ 79,748                          | \$ 639               | \$ 803,099         | \$ -                     | \$ 803,099         |
| Intersegment .....   | 2,290              | 1,822                                 | 707                                | 2,204                | 7,023              | (7,023)                  | -                  |
| Total .....  | 396,603            | 330,221                               | 80,455                             | 2,843                | 810,112            | (7,023)                  | 803,099            |
| Operating expenses .....   | 410,624            | 339,619                               | 73,355                             | 1,498                | 825,096            | 11,305                   | 836,401            |
| Operating income (loss) .....                                      | <u>\$ (14,021)</u> | <u>\$ (9,398)</u>                     | <u>\$ 7,100</u>                    | <u>\$ 1,345</u>      | <u>\$ (14,974)</u> | <u>\$ (18,328)</u>       | <u>\$ (33,302)</u> |
| Identifiable assets, depreciation expense and capital expenditure: |                    |                                       |                                    |                      |                    |                          |                    |
| Assets .....   | \$ 353,443         | \$ 347,638                            | \$ 71,661                          | \$ 2,281             | \$ 775,023         | \$ 420,959               | \$ 1,195,982       |
| Depreciation .....   | 3,626              | 5,644                                 | 111                                | -                    | 9,381              | (17)                     | 9,364              |
| Capital expenditure .....  | 2,920              | 4,886                                 | 136                                | -                    | 7,942              | -                        | 7,942              |

Corporate expenses included in operating expenses and not allocated to segment in 2006 and 2005 were general affairs department expenses of the Company amounting to ¥2,324 million (\$19,784 thousand) and ¥2,473 million, respectively.

Assets under the elimination or corporate in 2006 and 2005 were ¥58,739 million (\$500,034 thousand) and ¥60,863 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.

#### 16. Related party transactions

The Company owns 51 per cent of voting rights of Energy Mate Co., Ltd., and 50 per cent of voting rights of Campo Recycle Plaza Co., Ltd. The Company lends Energy Mate Co., Ltd. the capital, and guarantees for bank loans of Campo Recycle Plaza Co., Ltd.

The transactions amounts were as follows:

|                               | Millions of Yen |         | Thousands of U.S.dollars |
|-------------------------------|-----------------|---------|--------------------------|
|                               | 2006            | 2005    | 2006                     |
| Campo Recycle Plaza Co., Ltd. |                 |         |                          |
| Guarantee of bank loans ..... | ¥ -             | ¥ 1,617 | \$ -                     |
|                               |                 |         |                          |
|                               | Millions of Yen |         | Thousands of U.S.dollars |
|                               | 2006            | 2005    | 2006                     |
| Energy Mate Co., Ltd.         |                 |         |                          |
| Lending of the capital .....  | ¥ 1,030         | ¥ -     | \$ 8,768                 |
| Loans receivable .....        | 1,830           | -       | 15,578                   |

Terms of transactions are determined under general market condition.

#### 17. Subsequent event

On June 29, 2006, the shareholders of the Company approved the following appropriations:

|                      | Millions of Yen | Thousands of U.S.dollars |
|----------------------|-----------------|--------------------------|
| Cash dividends ..... | ¥ 421           | \$ 3,584                 |

The Company was prosecuted for violation of the Antimonopoly Law in Japan with respect to its construction of water treatment plants on June 12, 2006.

It is difficult to reasonably estimate the impact of the accusation, or the negative influence on business performance of next fiscal year and the years to follow are uncertain.

## 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, 2006 and 2005, 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, 2006 and 2005, 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.

Without qualifying our opinion, we draw attention to Note 17 to the consolidated financial statements.

As discussed in Note 17 to the consolidated financial statements as a subsequent event, the company was prosecuted for violation of the Antimonopoly Law in Japan with respect to its construction of water treatment plants on June 12, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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, 2006

# CORPORATE FACTS AND DATA

## GENERAL

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|                |   |
|----------------|---|
| Corporate Name | : TAKUMA CO., LTD.  |
| Head Office    | : 2-2-33 Kinrakuji-cho, Amagasaki, Hyogo 660-0806, 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

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|  |  |
|--|--|
| Hajime Tejima, President and CEO                                     | Shigehiro Shibakawa, Executive Officer |
| Toshiro Nomura, Representative Director and Executive Vice President | 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      |
| Tsutomu Tanaka, Director and Managing Executive Officer              | Wataru Yoshida, Executive Officer      |
| Shizuo Kataoka, Director and Managing Executive Officer              | Yasuaki Kataoka, Executive Officer     |
| Takao Kajiyama, Managing Executive Officer                           | Yasuyuki Moriura, Executive Officer    |
| Norio Endo, Executive Officer  | Jyoji Hashimoto, Executive Officer     |
| Izoh Nakagawa, Executive Officer                                     | Shozo Iwanaga, Auditor                 |
| Sadanori Kikuchi, Director and Executive Officer                     | Isamu Tanaka, Auditor                  |
| Hiroyuki Takahashi, Executive Officer                                | Ryuji Tsuchida, Auditor                |

## PERMITS, LICENSES, AND CERTIFICATIONS

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Head office, branches, and offices :

- Licensed to perform construction work (Special 17, 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 :

- Licensed to manufacture boilers, pressure vessels and cranes (issued by the Japanese Ministry of Health, Labour and Welfare)
- Licensed to manufacture boilers and Class 1 pressure vessels (issued by Nippon Kaiji Kyokai)
- Approved for manufacture of refrigerators (issued by the Office of the Governor of Hyogo Prefecture)
- Qualified for fabrication of thermal power plant equipments based on the law of Ministry of Economy, Trade and Industry

- Qualified for fabrication of vessels based on the Designated Equipment Inspection Regulations of the High Pressure Gas Control law (inspected by KHK Service Co., Ltd.)
- Quality management system certified in compliance with ISO 9001 (November 1997)
- Environmental management system certified in compliance with ISO 14001 (January 1999)

Kyoto Factory :

- Licensed to manufacture boilers and Class 1 pressure vessels (issued by the Japanese Ministry of Health, Labour and Welfare)
- Licensed to manufacture boilers and Class 1 pressure vessels (issued by Nippon Kaiji Kyokai)
- Licensed to manufacture boilers and pressure vessels to import issued by the people's Republic of China
- Quality management system certified in compliance with ISO 9001 (April 1998)
- Environmental management system certified in compliance with ISO 14001 (November 1998)

## TECHNICAL LICENSE AGREEMENTS

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### Licensors:

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**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

**Result Technology AG (Switzerland)**

Material Recycling and Separating System

**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:

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**P.T. Super Andalas Steel (Indonesia)**

N-Type Palm Wastes Fired Water Tube Boiler

**Kyungdong Boiler Co., Ltd. (Korea)**

Absorption Chiller Heater

Vacotin Heater

**Nihon Spindle Manufacturing Co., Ltd. (Japan)**

Laval Nozzle

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**Harima Factory:**

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**Research Center:**

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Japan  
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**Kyoto Factory:**

600-1 Kuzetonoshiro-cho, Minami-ku, Kyoto 601-8205,  
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26-28 Hammersmith Grove Hammersmith, London W67BA,  
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**Nippon Thermoener Co., Ltd.**

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103-0023, Japan  
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**Sun Plant Co., Ltd.**

Itopia Nihonbashi SA Bldg., 1-2-10 Horidome-cho,  
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**Takuma Plant Co., Ltd.**

Takuma Bldg., 2-2-33 Kinrakuji-cho, Amagasaki, Hyogo  
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**Central Conveyor Co., Ltd.**

3-2 Yotsuzuka, Noba, Koda-cho, Nukata-gun, Aichi 444-  
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18-3, Kinugaoka, Mouka, Tochigi 321-4367, Japan

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**Shimonoseki Sanwa Engineering Co., Ltd.**

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**Kankyo Sol-Tech Co., Ltd.**

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**Campo Recycle Plaza Co., Ltd.**

1 Takayanishitani, Sonobe-cho, Nantan, Kyoto 622-0032, Japan

TEL (0771) 68-3636 FAX (0771) 68-3639

**R.B.N. Co., Ltd.**

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