



# Annual Report 2007

**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.

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# FINANCIAL HIGHLIGHTS

## Takuma Co., Ltd. and its Consolidated Subsidiaries

### FINANCIAL HIGHLIGHTS

(Years Ended March 31, 2007 and 2006)

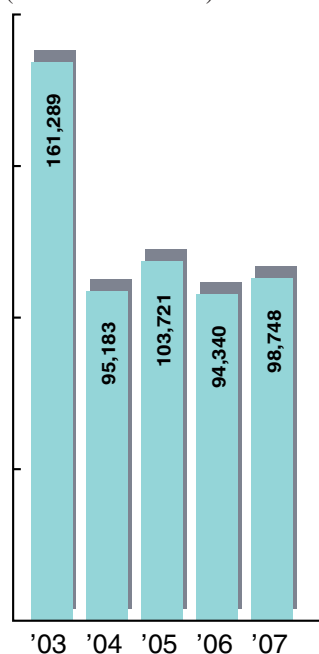
	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
For the year:			
Net sales .....	¥ 98,748	¥ 94,340	\$ 836,493
Operating loss .....	(6,760)	(3,912)	(57,264)
Loss before income taxes and minority interests.....	(5,769)	(1,072)	(48,869)
Net loss .....	(12,713)	(1,485)	(107,692)
As of year-end:			
Total assets .....	128,833	140,492	1,091,343
Total net assets .....	62,904	76,351	532,859
Per share data:			
Net loss .....	¥ (152.40)	¥ (17.69)	\$ (1.29)
Diluted net income .....	-	-	-
Net assets.....	712.37	868.03	6.03
Cash dividends applicable to the year .....	10.00	10.00	0.08

Note:U.S.dollar amounts are shown solely for the convenience of readers and are translated at the rate of ¥118.05 to \$1, the exchange rate prevailing as of March 31, 2007.

Effective from the year ended March 31, 2007, the Takuma Co., Ltd. and its consolidated subsidiaries adopted the new accounting standard, “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005).

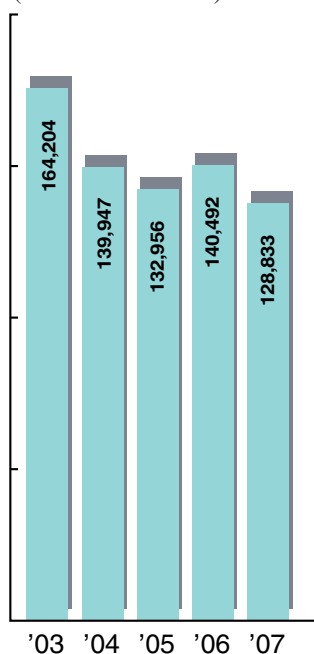
### NET SALES

(In millions of Yen)



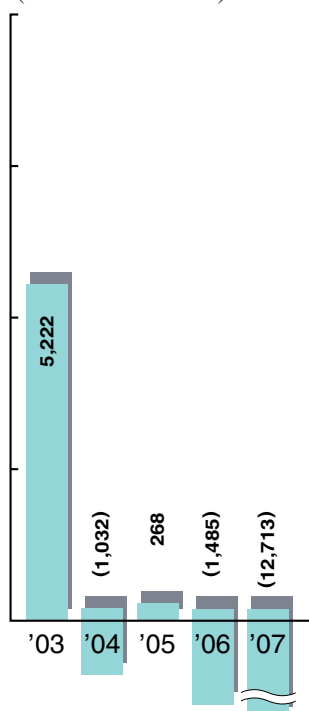
### TOTAL ASSETS

(In millions of Yen)



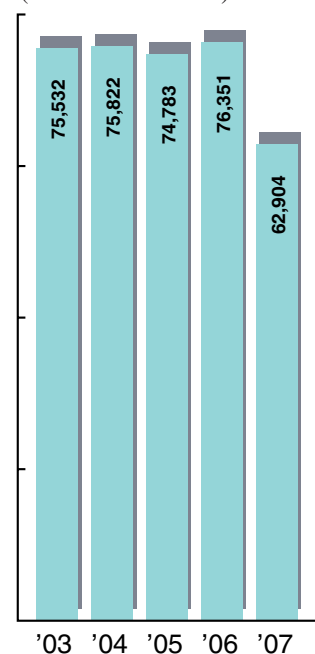
### NET INCOME (LOSS)

(In millions of Yen)



### TOTAL NET ASSETS

(In millions of Yen)



Note:Net Assets are presented to conform to the 2007 presentation. Net Assets comprise the sum of shareholders' equity as previously defined, and minority interests.

# 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

Japan's economy during the current consolidated fiscal year, reflecting continuously smooth improvement of corporate earnings, shifted in an expanding trend supported by factors including an increase in private capital investment and personal consumption shifting steadily in general.

Under these economic circumstances, orders received during the current consolidated fiscal year decreased by ¥9,365 million (down 6.9%) from the previous consolidated fiscal year, to ¥126,472 million despite positive sales activities developed by the Company Group. On the other hand, sales increased by ¥4,408 million (up 4.7%) over the previous consolidated fiscal year, to ¥98,748 million and order backlog also increased by ¥27,724 million (up 28.9%) over the previous consolidated fiscal year, to ¥123,547 million.

Profit and loss figures, to our regret, resulted in operating loss of ¥6,760 million and current loss of ¥5,154 million because of sluggish sales due to slow demand for waste treatment plant construction, the core project for the Company Group, specification changes at some waste treatment plants in Japan, and additional expenses incurred by work period elongation at biomass power plant in the southern part of Thailand despite our Group-wise efforts for efficiency improvement and further cost reduction including fixed expense curtailment. Because of the current loss enlargement, the recovery period for deferred tax assets was reviewed and taxable income for the period was estimated conservatively. Owing to the disposition of the total amount of deferred tax assets as of the end of the previous period, net loss of ¥12,712 million had to be posted for the current period.

Business types of the Company Group used to be classified into the four segments of "Machinery," "Environmental Control Plant," "Operation and Maintenance," and "Real Estate." Beginning with the current consolidated fiscal year, the classification has been changed to the four segments of "Domestic Environment and Energy," "Overseas Environment and Energy," "Package Boiler," and "Others."

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

#### 1) Domestic Environment and Energy Division

Despite orders received in Japan for waste treatment plant long-term management commissioning, waste thermal recycling plant and existing plant operation and management work, etc., orders received decreased by ¥34,731 million (down 44.7%) from the previous consolidated fiscal year, to ¥43,014 million and sales also decreased by ¥3,117 million (down 5.7%) from the previous consolidated fiscal year, to ¥51,893 million, resulting in operating loss of ¥1,077 million.

#### 2) Overseas Environment and Energy Division

In Overseas Environment and Energy business, orders received increased by ¥21,987 million (up 86.9%) over the previous consolidated fiscal year, to ¥47,275 million as a result of orders received in Europe for waste incineration power plants, RDF combustion power plants, and biomass power plants. Sales also increased by ¥6,283 million (up 99.1%) over the previous consolidated fiscal year, to ¥12,627 million because of municipal solid waste incineration plant progress in England etc. But profit and loss figures had to post operating loss of ¥3,216 million because of the effect of the above-mentioned additional expenses, etc. at biomass power plants in the southern part of Thailand.

# STATUS OF BUSINESS ACTIVITIES

## 3) Package Boiler Division

Orders received increased by ¥973 million (up 4.7%) over the previous consolidated fiscal year, to ¥21,572 million and sales also increased by ¥91 million (up 0.4%) over the previous consolidated fiscal year, to ¥21,028 million as a result of efforts for sales promotion, profitability improvement, and further maintenance division strengthening for flexible response to customer needs for through-flow boilers, hot-water heaters, etc. However, profit and loss figures resulted in operating loss of ¥870 million despite efforts for cost curtailment.

## 4) Other divisions

As a result of sales activity development focused on impregnation systems, physical distribution equipment, semiconductor industry equipment, etc., orders received increased by ¥2,829 million (up 22.2%) over the previous consolidated fiscal year, to ¥15,547 million and sales also increased by ¥1,424 million (up 11.2%) over the previous consolidated fiscal year, to ¥14,120 million, resulting in operating profit of ¥355 million.

Five (5) of the affiliates applying the equity method are engaged in the municipal solid waste and industrial waste-processing business and the total amount of their sales for the current period was ¥7,868 million, a decrease of ¥31 million (down 0.4%) from the previous consolidated fiscal year. The total net income was ¥501 million, a decrease of ¥142 million (down 22.1%) from the previous consolidated fiscal year.

## (2) Cash Flows Summary

Cash and cash equivalents at the end of the current consolidated fiscal year decreased by ¥3,080 million from the end of the previous fiscal year, to ¥24,567 million.

### [Cash Flows from Operating Activities]

Cash flows from operating activities increased by ¥7,592 million from the previous consolidated fiscal year, to minus ¥6,580 million.

This is mainly due to factors including an increase of ¥5,921 million because of recovery of accounts receivable, etc. and an increase of ¥4,643 million because of inventories changes despite an increase of ¥4,697 million in the current period net loss before adjustment for taxes, etc. over the previous consolidated fiscal year.

### [Cash Flows from Investing Activities]

Cash flows from investing activities increased by ¥211 million over the previous consolidated fiscal year, to minus ¥53 million.

This is mainly due to factors including a decrease of ¥2,953 million in time deposit net changes, and a decrease of ¥1,142 million in expenses due to purchase of investment securities despite a decrease of ¥3,269 million in earnings from sales of property, plant and equipment from the previous consolidated fiscal year.

### [Cash Flows from Financing Activities]

Cash flows from financing activities increased by ¥4,642 million over the previous consolidated fiscal year, to ¥3,209 million.

This was mainly because the net increase in short-term bank loans were increased by ¥4,794 million

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 From April 1, 2006 to March 31, 2007	Previous Consolidated Fiscal Year From April 1, 2005 to March 31, 2006
	(Millions of yen)	(Millions of yen)
Domestic Environment and Energy	29,541	27,036
Overseas Environment and Energy	17,897	20,548
Package Boiler	722	1,745
Others	1,994	3,516
Total	50,156	52,847

(Notes)

1. The amounts indicated are total manufacturing costs.
2. Consumption tax is not included in the above amounts.
3. Because of the segment change by business types beginning with the current consolidated fiscal year, businesses are classified by the new classification method for both of the previous consolidated fiscal year and the current consolidated fiscal year.

### (2) Status of Order Received

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

Name of Divisions concerned	Current Consolidated Fiscal Year From April 1, 2006 to March 31, 2007		Previous Consolidated Fiscal Year From April 1, 2005 to March 31, 2006	
	Order received (Millions of yen)	Balance of order received (Millions of yen)	Order received (Millions of yen)	Balance of order received (Millions of yen)
Domestic Environment and Energy	43,014	48,389	77,745	57,269
Overseas Environment and Energy	47,275	63,614	25,288	28,966
Package Boiler	21,572	4,105	20,599	3,561
Others	15,547	7,454	12,718	6,027
Inter-division orders	(937)	(16)	(587)	(1)
Total	126,472	123,547	135,763	95,823

(Notes)

1. Consumption tax is not included in the above amounts.
2. For the Package Boiler business, 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. Because of the segment change by business types beginning with the current consolidated fiscal year, businesses are classified by the new classification method for both of the previous consolidated fiscal year and the current consolidated fiscal year.
4. Beginning with the current consolidated fiscal year, accounting procedure relating to real estate lease and management has been changed to include earnings from real estate lease and management, which had been posted as sales so far, in non-operating income. Therefore, the above-mentioned amounts do not include real estate project orders received during the previous consolidated fiscal year.

# STATUS OF BUSINESS ACTIVITIES

## (3) Sales Results

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

Name of Divisions concerned	Current Consolidated Fiscal Year From April 1, 2006 to March 31, 2007	Previous Consolidated Fiscal Year From April 1, 2005 to March 31, 2006
	(Millions of yen)	(Millions of yen)
Domestic Environment and Energy	51,893	55,011
Overseas Environment and Energy	12,627	6,343
Package Boiler	21,028	20,937
Others	14,120	12,696
Inter-division orders	(922)	(723)
Total	98,748	94,265

(Notes)

1. Consumption tax is not included in the above amounts.
2. Because of the segment change by business types beginning with the current consolidated fiscal year, businesses are classified by the new classification method for both of the previous consolidated fiscal year and the current consolidated fiscal year.
3. Beginning with the current consolidated fiscal year, accounting procedure relating to real estate lease and management has been changed to include earnings from real estate lease and management, which had been posted as sales so far, in non-operating income. Therefore, the above-mentioned amounts do not include real estate project sales during the previous consolidated fiscal year.

## 3. Future Outlook

### (1) Management Policies

The Company Group started in April 2006 a Mid-Term Management Plan terminating in 2008 with the recognition that Group-wide structure reform and earning power strengthening should be accelerated more positively to stay in the steady black and to progress into long-term development in whatever business environment.

The Mid-Term Management Plan has the following two items as its key strategies:

- (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.

The Mid-Term Management Plan had set orders received of ¥480,000 million, sales of ¥420,000 million and current profit of ¥10,000 million as its three-year total consolidated figures, but the three-year total current profit of ¥10,000 million is now deemed difficult to attain because of the big red figures seen in the current period settlement of accounts due to public investment curtailment and resulting price competition intensification, big loss on orders received in the past, etc. and also nation-wide nomination suspension resulting in a decrease in orders received, etc.

The keen price competition permeated through the whole industry is expected to continue, but social needs for environment preservation and recycling-oriented society tend to rise in the environment and energy fields both in Japan and abroad, and steady demand continues to exist in the Package Boiler and machinery and equipment fields. Therefore, the target figures on the 2007 and 2008 consolidated basis have been reset as follows for devoted tackling for their attainment aiming at first securing the black and then leading to long-term development by accelerating measures based on the Mid-Term Management Plan key policies and by adapting to drastically changed business environment.

(Consolidated basis)	2007	2008
Orders received	¥120,000 million	¥160,000 million
Sales	¥110,000 million	¥140,000 million
Current profit	¥500 million	¥2,500 million

To attain the target figures, the following three items shall be tackled as key tasks based on the two key strategies of the Mid-Term Management Plan:

[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.

In particular, “Strengthening of Cost Competitive Power and Development of Suggestion-Oriented Business” and “Securing of Earnings through Strengthening of Profit Management” shall be made top-most priority tasks. Suggestion-oriented business providing new added values to strengthen cost competitive power winning price competition and, at the same time, not to fall into excessive price competition shall be developed positively, and complete risk management shall be promoted in all processes from sale to estimation, designing, procurement, work execution, etc.

The Company, to our great regret, was indicted by the Fair Trade Commission for charges of Antimonopoly Law violation in relation to night soil treatment plant construction work bidding and was sued at the Osaka District Court. The Company was sentenced on March 29, 2007 to a fine of ¥70 million. The Company Group has been improving compliance-related regulations and systems including the “Takuma Group Company Ethics Charter” tackling devotedly with their thorough dissemination. Taking the present situation seriously, the whole Company shall tackle with further strengthening the compliance system under the strong determination of the top management.

As for night soil treatment plant construction work projects, the Company has determined the future of the projects non-prospective, and has stopped new order receiving activities since January 2007 from the viewpoint of promoting management resources selection and concentration.

## (2) Takeover Defense Measure

The Company at its Board of Directors meeting of April 25, 2007 decided effective as from the same date on policies to cope with activities, etc. for the purchase of the Company’s share certificates, etc. aiming at making specified shareholder groups’ voting right ratio 20% or more (“Large Purchase Action”) as “Defense Policy against Large Purchase Action of Shares of the Company (Takeover Defense Measure).” The policies were approved with consent of a majority of the voting rights of shareholders present at the annual general meeting of shareholders held on June 28, 2007. The policies aim at allowing exercise of certain countermeasures given below against large purchase action clearly impairing the Company’s corporate value and shareholders’ common interest.

The Company’s Board of Directors, from the viewpoint that information provision and also presentation of alternative proposals meeting opinions and needs of the Company’s Board of Directors by large

# STATUS OF BUSINESS ACTIVITIES

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purchasers shall be important data for adequate determination by the shareholders on the adequacy of the Company's stock acquisition price presented by the large purchasers in the case of large purchase actions, shall request large purchasers to supply information on the large purchase actions, study and evaluate the contents, and release opinions as the Company's Board of Directors in accordance with large-scale purchase rules ((1) prior provision of necessary information by large-scale purchasers to the Company's Board of Directors, (2) start of large-scale purchase activities after a fixed period of evaluation by the Company's Board of Directors) established by the Company. When determining it necessary, the Company's Board of Directors shall negotiate improvement of large purchasers' proposals, and present alternative proposals to the Company's shareholders.

If large purchasers fail to comply with the rules or if large-scale purchase activities are determined extremely impairing to common interest of the Company's shareholders even if the rules are complied with, new share subscription right gratis issue with exercise clauses prohibiting right exercise by large-scale purchasers shall be allowed with maximum respect to opinions of the below-mentioned special committee for the purpose of protecting common interest of the Company's shareholders and the Company's corporate value.

A special committee composed of outside experts and others has been established as an organization independent from the Board of Directors for the purpose of proper management of the large-scale purchase rules and ensuring rational and fair determination of the Company's Board of Directors. The special committee shall, in the case of large purchase actions, give advice to the Company's Board of Directors on whether necessary information provided by large purchasers is sufficient or insufficient and on right or wrong of exercise of countermeasures.

## 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 tech-

nology 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. Based on the decision, the Fair Trade Commission ordered the Company on March 23, 2007 to pay a surcharge of ¥4,702 million. The Company had raised a lawsuit on July 27, 2006 for annulment of the decision. Appeal procedure started on May 21, 2007 on the surcharge payment order, and the surcharge payment order the Company received this time has lost its effect. Seven cases of resident suits, etc. related thereto are now pending. Of which, payment orders were sentenced (1) on April 25, 2006 for ¥2,088 million and pertaining delay damages jointly by 5 companies including the Company in connection with resident suits relating to waste incinerator construction work bidding ordered by Fukuoka City, (2) on November 16, 2006 for ¥530 million and pertaining delay damages jointly by 6 companies including the Company in connection with resident suits relating to waste incinerator construction work bidding ordered by Amagasaki City, and (3) on March 20, 2007 for ¥4,409 million and pertaining delay damages by the Company in connection with resident suits relating to waste incinerator construction work bidding ordered by Tokyo Metropolis. The Company has appealed on all of these decisions. 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.	Liquid Membrane Water Treating Process	September 1976	Exxon Mobile Research & Engineering Co. (U.S.A.)	The Company may terminate to declare so
2	Takuma Co., Ltd.	Continuous Bed Filtration of Liquids	April 1979	Nordic Water Products AB (Sweden)	30 years
3	Takuma Co., Ltd.	Flotation Water Treatment	December 1987	KWI S.A. (Switzerland)	5 years, thereafter automatically renewed every year
4	Takuma Co., Ltd.	Ash Recycle and Activation Process	January 1993	Dr. Gernot Staudinger (Austria)	7 years, thereafter automatically renewed every year
5	Takuma Co., Ltd.	Circulating Fluidized Bed Boiler & Bubbling Fluidized Bed Boiler	May 1994	Kvaerner Power AB (Sweden)	Terminated as of July 2006
6	Takuma Co., Ltd.	Methane de-Nox Process	June 1994	Gas Technology Institute (U.S.A.)	15 years
7	Takuma Co., Ltd.	Material Recycling & Separating System	June 1996	Result Technology AG (Switzerland)	10 years, thereafter automatically renewed every 5 years
8	Takuma Co., Ltd.	Biogas Process System from Organic Waste	September 1996	Schwarting-Uhde GmbH (Germany)	Terminated as of December 2006
9	Takuma Co., Ltd.	Biological Anaerobic Treatment Process for Solid Waste	October 1996	W. Schmid AG (Switzerland)	13 years
10	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
11	Takuma Co., Ltd.	Ultra-filtration Film Method Sewage Treatment Process	August 1997	Mitsui Engineering & Shipbuilding Co., Ltd. (Japan)	10 years
12	Takuma Co., Ltd.	Biomembrat System	October 1997	Wehrle-Werk AG (Germany)	10 years
13	Takuma Co., Ltd.	Regenerative Thermal Oxidizer	February 1998	Dürr Environmental, Inc. (U.S.A.)	11 years, thereafter automatically renewed every year
14	Takuma Co., Ltd.	Cyclonic Burner	May 2000	Gas Technology Institute (U.S.A.)	10 years

(Note) In consideration of the licenses listed above, the Company pays 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.	Absorption Chiller Heater	August 1992	Kyungdong Boiler Co., Ltd. (Korea)	13 years, thereafter automatically renewed every year
3	Takuma Co., Ltd.	Vacotin Heater	July 1995	Kyungdong Boiler Co., Ltd. (Korea)	10 years, thereafter automatically renewed every year
4	Takuma Co., Ltd.	Dust elimination technology in exhaust gas treatment systems using impulse waves	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's research and development activities, in November 2006, integrated technology power strengthening and succession, core technology improvement, new product development, etc. into project divisions, restructured the Company's technology divisions for further strengthening and promotion, and established Engineering Division for technology division integration and wide-range tackling endeavoring for mutual collaboration with respective Group companies while performing joint research with outside research institutes and universities.

The Company's Engineering Division has Technology Planning and Administration Department and Tokyo Technology Planning and Administration Department under Planning Center; Energy and Environment Development Department, Mechanical Design and Engineering Department and Energy and Environmental Research Center under Technical Center; and various technology divisions under Project Center for core technology strengthening and new product development acceleration.

The total research and development expenses during the current consolidated fiscal year are ¥1,127 million. Main research and development activities by business types and segments are as follows:

### (1) Environment and Energy (Domestic)/(Overseas)

- 1) A sewage sludge gasification power generation system is now under demonstration tests to establish a high-efficiency power generation system using biomass obtained with sewage sludge gasified gas and city gas mixed combustion power generation.
- 2) Energy recovery technology based on Shochu (distilled spirit) lees alkali hydride methane fermentation is now under demonstration tests for biomass resources utilization and environment load curtailment.  
1) and 2) are under joint research with Independent Administrative Agency New Energy and Industrial Technology Development Organization.
- 3) Demonstration tests have been started since the latter half of the current period on wood biomass gasification and methanol synthesis.
- 4) A high-temperature filter to process and dispose of waste incineration effluent gas is now under demonstration tests.
- 5) Bug filters and burners employing high-speed spray nozzle technology based on impulse wave using technology have been commercialized.
- 6) To promote development of an energy conserving, space conserving, low environment load drainage denitrification processing system, high-degree drainage treatment technology using special fungi is now under development with demonstration tests scheduled for the next period.
- 7) Super-high rate sewage treatment technology mainly based on advanced oxidation treatment method is now under development to decompose persistent chemical substances (endocrine-disturbing chemicals etc.) and sterilize viruses, etc.
- 8) Research on optimization of combustion and fluxion of thermo fluid applying the thermo fluid simulation technology is being continued.

The cost for the foregoing research and development was ¥990 million.

# STATUS OF BUSINESS ACTIVITIES

## (2) Public Thermal Energy

- 1) To enlarge market share in the compact boiler industry, space conserving, high efficiency multi-tube through-flow boilers have been developed and commercialized.
- 2) Oil-burning and gas-burning new model simplified boilers have been developed and marketed.

The cost for the foregoing research and development was ¥125 million.

## (3) Others

The cost for the foregoing research and development was ¥10 million.

## 7. Financial Status and Business Performance Analysis

### (1) Financial Status

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

Total assets as of the end of the current consolidated fiscal year decreased by ¥11,659 million (down 8.3%) over the end of the previous consolidated fiscal year, to ¥128,833 million. Current assets decreased by ¥11,389 million (down 12.3%) over the end of the previous consolidated fiscal year, to ¥81,454 million. Property, plant and equipment increased by ¥413 million (up 4.5%) over the end of the previous consolidated fiscal year, to ¥9,477 million.

The primary factors of the current asset decrease were that the cash and time deposits decreased by ¥5,288 million (down 17.0%) from the end of the previous consolidated fiscal year, to ¥25,901 million, the notes and trade accounts receivable decreased by ¥2,879 million (down 6.7%) from the end of the previous consolidated fiscal year, to ¥39,481 million, the inventory assets including products in process, etc. decreased by ¥1,627 million (down 15.1%) from the end of the previous consolidated fiscal year, to ¥9,125 million, and the deferred tax assets decreased due to disposition by the Company by ¥3,615 million (down 75.3%) from the end of the previous consolidated fiscal year, to ¥1,188 million.

The primary factors of the investments and other assets decrease were that investments in unconsolidated subsidiaries and affiliated companies decreased by ¥307 million (down 5.1%) from the end of the previous consolidated fiscal year, to ¥5,696 million and the deferred tax assets decreased by ¥347 million (down 26.8%) from the end of the previous consolidated fiscal year, to ¥948 million.

The total amount of liabilities at the end of the current consolidated fiscal year increased by ¥1,788 million (up 2.8%) over the end of the previous consolidated fiscal year, to ¥65,929 million. Current liabilities increased by ¥122 million (up 0.2%) from the end of the previous consolidated fiscal year, to ¥54,218 million and noncurrent liabilities increased by ¥1,666 million (up 16.5%) over the end of the previous consolidated fiscal year, to ¥11,711 million.

The primary factors of the current liabilities increase were that the short-term bank loans increased by ¥4,584 million (up 169.7%) over the end of the previous consolidated fiscal year, to ¥7,285 million, while the notes payable and trade accounts payable decreased by ¥2,208 million (down 5.7%) from the end of the previous consolidated fiscal year, to ¥36,082 million and the allowance for loss on sales contracts decreased due to disposition, etc. by ¥1,806 million (down 77.3%) from the end of the previous consolidated fiscal year, to ¥528 million.

The primary factors of the noncurrent liabilities increase were that the allowance for employees' retirement benefits decreased by ¥400 million (down 6.8%) from the end of the previous consolidated fiscal year, to ¥5,417 million, while the deferred tax liabilities increased by ¥2,175 million (up 66.1%) over the end of the previous consolidated fiscal year, to ¥5,463 million.

Net assets including minority interests in consolidated subsidiaries at the end of the current consolidated fiscal year decreased by ¥13,447 million (down 17.6%) from the end of the previous consolidated fiscal year, to ¥62,904 million. This is due to factors including the decrease in retained earnings by ¥13,524 million (down 32.7%) from the end of the previous consolidated fiscal year, to ¥27,796 million.

As a corollary, the capital adequacy ratio came down to 46.0% from 51.7% as of the end of the previous consolidated fiscal year. The net asset per share turned up to ¥712.37 from ¥868.03 as of the end of the previous consolidated fiscal year.

## **(2) Business Performances**

The Company Group in the current consolidated fiscal year received orders on waste treatment plant long-term management commissioning, waste treatment thermal recycling plant and existing plant operation-management work, etc. in the Environment and Energy (Domestic) business, endeavored for foundation strengthening for overseas project expansion receiving orders for waste incineration power plants, RDF combustion power plants, biomass power plants, etc. in Europe in the Environment and Energy (Overseas) business, further strengthened maintenance divisions for sales promotion, profitability improvement and flexible response to customer needs for through-flow boilers, hot-water heaters, etc. in the Package Boiler business, and performed positive sales activities focused on impregnation systems, physical distribution equipment, semiconductor industry equipment, etc. in other businesses. As a result, sales increased by ¥4,408 million (up 4.7%) over the previous consolidated fiscal year, to ¥98,748 million for reasons including growth of the Environment and Energy (Overseas) business, though orders received decreased by ¥9,365 million (down 6.9%) from the previous consolidated fiscal year, to ¥126,472 million.

Gross profit was ¥11,596 million and selling, general and administrative expenses totaled ¥18,356 million. Accordingly, the net operating loss was ¥6,760 million.

The net amount after deducting the other expenses from the other income was ¥991 million.

As a result, the loss before income taxes and minority interests was ¥5,769 million and ¥12,713 million after deduction of income taxes, resident taxes, and minority interests in losses of consolidated subsidiaries.

The net loss per share of the current period was ¥152.40 and the capital-profit adequacy ratio was minus 19.3%.

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

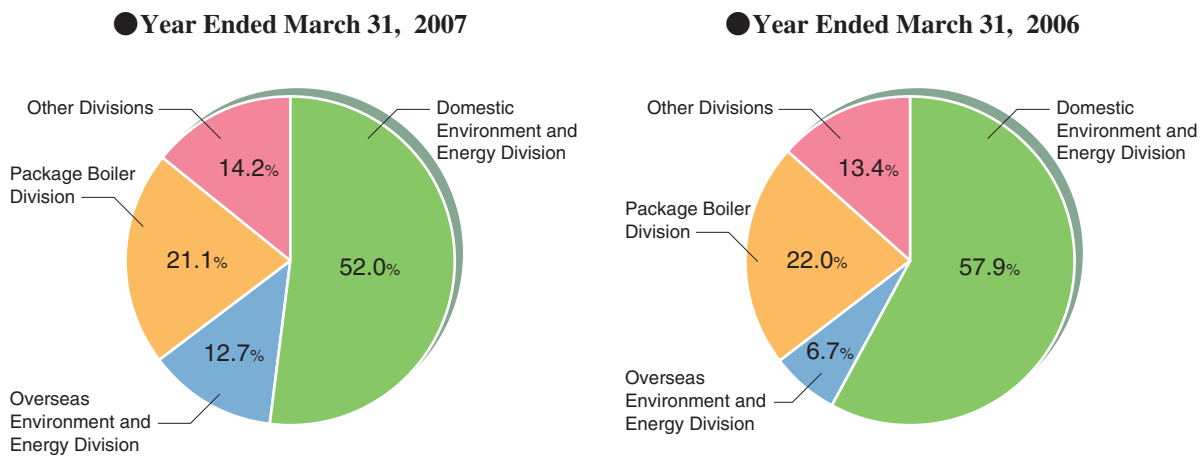
In the field of industrial machinery, we develop and design total energy systems that are beneficial to local communities, such as power generation plants, industrial waste treatment plants, co-generation systems, and impregnation plants.

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

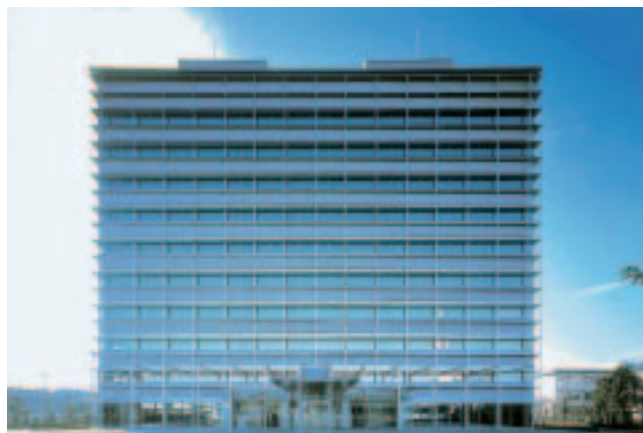
### Sales Breakdown by Division (On Consolidated Basis)



\* Real estate project sales for the period ending in March 2006 are not included in the above composition ratio because of the change in the names of divisions concerned effective from the period ending in March 2007.

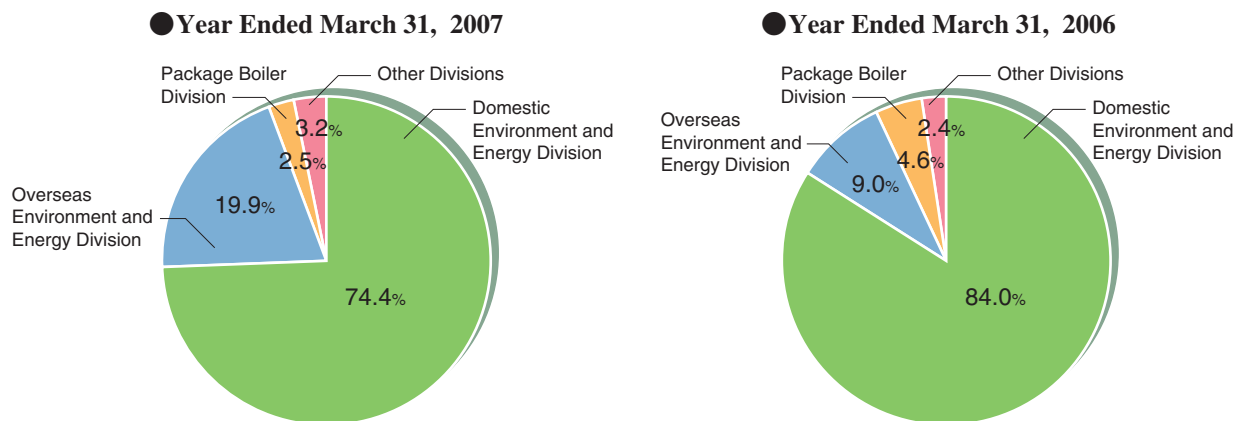
designing these facilities, and we address concerns such as the effective utilization of polluted water and the use of state-of-the-art technologies for developing new materials and antibacterial plastics.

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 Division (On Non-consolidated Basis)



\* Real estate project sales for the period ending in March 2006 are not included in the above composition ratio because of the change in the names of divisions concerned effective from the period ending in March 2007.

## 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.



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## 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.

## 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.



# COMPANY AND PRODUCTS (Public Thermal Energy Division)

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## 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.

In addition, “Hybrid hot-water supply system” combined with CO<sub>2</sub> heat pump contributes to save the running cost.

Other leading products in this field are the EQOS 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.



Vacotin heater



EQOS system generator



Thermoheater

# 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.

## 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.



# FINANCIAL REPORT

## Consolidated Balance Sheets

Takuma Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2007 and 2006

ASSETS	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2007	2006	2007
<b>Current assets:</b>			
Cash and time deposits (Notes 4 and 7) .....	¥ 25,901	¥ 31,189	\$ 219,407
Marketable securities (Notes 4 and 5) .....	33	31	279
Notes and accounts receivable:			
Trade .....	39,481	42,360	334,443
Unconsolidated subsidiaries and affiliated companies .....	2,146	839	18,179
Other (Note 7) .....	569	564	4,820
Less: Allowance for doubtful accounts .....	(29)	(102)	(246)
	42,167	43,661	357,196
Inventories .....	9,125	10,752	77,298
Deferred tax assets (Note 14) .....	1,188	4,803	10,064
Advanced money.....	1,671	1,341	14,155
Other .....	1,369	1,066	11,597
<b>Total current assets</b> .....	<b>81,454</b>	<b>92,843</b>	<b>689,996</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 5 and 7) .....	26,860	26,674	227,531
Investments in:			
Unconsolidated subsidiaries and affiliated companies (Note 7) .....	5,696	6,003	48,251
Other (Note 10) .....	2,359	2,262	19,983
Less: Allowance for doubtful accounts .....	(671)	(631)	(5,684)
	7,384	7,634	62,550
Deferred tax assets (Note 14).....	948	1,295	8,030
Other .....	2,710	2,982	22,956
	37,902	38,585	321,067
<b>Property, plant and equipment:</b>			
Land (Notes 7 and 8).....	4,095	3,394	34,689
Buildings and structures (Note 7) .....	10,182	10,219	86,252
Machinery and equipment .....	9,993	10,065	84,650
Construction in progress .....	227	-	1,923
	24,497	23,678	207,514
Less: Accumulated depreciation .....	(15,020)	(14,614)	(127,234)
	9,477	9,064	80,280
	<b>¥128,833</b>	<b>¥ 140,492</b>	<b>\$ 1,091,343</b>

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2007	2006	2007
Current liabilities:			
Short-term bank loans (Notes 7 and 9) .....	¥ 7,285	¥ 2,701	\$ 61,711
Current portion of long-term debt (Notes 7 and 9) .....	99	214	839
Notes and accounts payable:			
Trade .....	34,126	36,428	289,081
Unconsolidated subsidiaries and affiliated companies .....	852	804	7,217
Other .....	1,104	1,058	9,352
	<b>36,082</b>	38,290	<b>305,650</b>
Accrued income taxes (Note 14) .....	472	527	3,998
Consumption tax payable .....	533	170	4,515
Accrued expenses .....	3,038	2,734	25,735
Allowance for losses on sales contracts .....	528	2,334	4,473
Advances received .....	5,292	6,376	44,828
Deferred tax liabilities (Note 14) .....	1	-	8
Other .....	888	750	7,523
<b>Total current liabilities</b> .....	<b>54,218</b>	54,096	<b>459,280</b>
Long-term debt (Notes 7 and 9) .....	24	123	203
Allowance for employees' retirement benefits (Note 10) .....	5,417	5,817	45,887
Allowance for directors', executive officers', and corporate auditors' retirement benefits..	526	534	4,456
Deferred tax liabilities (Note 14) .....	5,463	3,288	46,277
Deferred tax liability for revaluation reserve for land (Notes 8 and 14) ...	279	279	2,364
Other .....	2	4	17
<b>Total liabilities</b> .....	<b>65,929</b>	64,141	<b>558,484</b>
Contingent liabilities (Notes 6, 11 and 17)			
Net assets (Note 12):			
Common stock			
Authorized: 321,840,000 shares			
Issued: 87,799,248 shares .....	13,367	13,367	113,232
Capital surplus.....	12,408	12,409	105,108
Retained earnings .....	27,796	41,320	235,460
Less: Treasury stock, at cost .....	(3,177)	(2,835)	(26,912)
Net unrealized holding gain on available-for-sale securities, net of taxes....	8,188	8,119	69,360
Unrealized gain on hedging derivatives, net of taxes.....	3	-	25
Revaluation reserve for land, net of taxes (Note 8) .....	270	270	2,287
Foreign currency translation adjustments .....	468	54	3,964
Minority interests in consolidated subsidiaries.....	3,581	3,647	30,335
<b>Total net assets</b> .....	<b>62,904</b>	76,351	<b>532,859</b>
	<b>¥ 128,833</b>	¥ 140,492	<b>\$ 1,091,343</b>

# Consolidated Statements of Operations

Takuma Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2007	2006	2007
<b>Net sales (Note 15)</b> .....	¥ 98,748	¥ 94,340	\$ 836,493
<b>Cost of sales (Notes 13 and 15)</b> .....	87,152	79,528	738,263
Gross profit .....	11,596	14,812	98,230
<b>Selling, general and administrative expenses (Notes 13 and 15)</b> .....	18,356	18,724	155,494
Operating loss (Note 15) .....	(6,760)	(3,912)	(57,264)
<b>Other income (expenses):</b>			
Interest and dividend income .....	544	427	4,608
Interest expense .....	(42)	(33)	(356)
Foreign currency exchange gain .....	212	131	1,796
Gain on sales of investment securities .....	10	265	85
Write-down of investments in unconsolidated subsidiaries and affiliated companies .....	(96)	(174)	(813)
Gain on disposal of property, plant and equipment .....	(71)	3,180	(601)
Technical assistance fee .....	550	270	4,659
Equity in earnings of affiliated companies .....	213	350	1,804
Gain on change in equity of consolidated subsidiaries .....	-	176	-
Provision for doubtful accounts .....	4	(269)	34
Provision for losses on sales contracts .....	-	(1,641)	-
Additional retirement payments (Note 10) .....	(75)	-	(635)
Loss on violation of the antimonopoly law .....	(70)	-	(593)
Other, net .....	(188)	158	(1,593)
	991	2,840	8,395
<b>Loss before income taxes and minority interests</b> .....	(5,769)	(1,072)	(48,869)
<b>Income taxes (Note 14):</b>			
Current .....	877	1,108	7,429
Deferred .....	6,116	(678)	51,809
	6,993	430	59,238
<b>Minority interests in losses of consolidated subsidiaries</b> .....	(49)	(17)	(415)
<b>Net loss</b> .....	¥ (12,713)	¥ (1,485)	\$ (107,692)
		Yen	U.S.dollars (Note 1)
<b>Per share:</b>			
Net loss .....	¥ (152.40)	¥ (17.69)	\$ (1.29)
Diluted net income .....	-	-	-
Cash dividends applicable to the year .....	10.00	10.00	0.08

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

Takuma Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2007 and 2006

	Millions of Yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on available-for-sale securities, net of taxes	Unrealized gain on hedging derivatives, net of taxes	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets	
Balance as of March 31, 2005.....	¥ 13,367	¥ 12,407	¥ 43,869	¥ (2,596)	¥ 3,761	¥ -	¥ 160	¥ (25)	¥ 3,840	¥ 74,783	
Cash dividends (¥10.00 per share) ..	-	-	(831)	-	-	-	-	-	-	(831)	
Net loss .....	-	-	(1,485)	-	-	-	-	-	-	(1,485)	
Purchase of treasury stock .....	-	-	-	(239)	-	-	-	-	-	(239)	
Sales of treasury stock.....	-	2	-	-	-	-	-	-	-	2	
Net changes during the year .....	-	-	(233)	-	4,358	-	110	79	(193)	4,121	
Balance as of March 31, 2006.....	¥ 13,367	¥ 12,409	¥ 41,320	¥ (2,835)	¥ 8,119	¥ -	¥ 270	¥ 54	¥ 3,647	¥ 76,351	
Cash dividends (¥10.00 per share) ..	-	-	(809)	-	-	-	-	-	-	(809)	
Net loss .....	-	-	(12,713)	-	-	-	-	-	-	(12,713)	
Purchase of treasury stock .....	-	-	-	(365)	-	-	-	-	-	(365)	
Sales of treasury stock.....	-	(1)	(2)	23	-	-	-	-	-	20	
Net changes during the year .....	-	-	-	-	69	3	-	414	(66)	420	
Balance as of March 31, 2007.....	¥ 13,367	¥ 12,408	¥ 27,796	¥ (3,177)	¥ 8,188	¥ 3	¥ 270	¥ 468	¥ 3,581	¥ 62,904	

	Thousands of U.S.dollars (Note 1)										
Balance as of March 31, 2006 .....	\$ 113,232	\$ 105,116	\$ 350,021	\$ (24,015)	\$ 68,776	\$ -	\$ 2,287	\$ 457	\$ 30,894	\$ 646,768	
Cash dividends (\$0.08 per share) .....	-	-	(6,853)	-	-	-	-	-	-	(6,853)	
Net loss .....	-	-	(107,692)	-	-	-	-	-	-	(107,692)	
Purchase of treasury stock.....	-	-	-	(3,092)	-	-	-	-	-	(3,092)	
Sales of treasury stock.....	-	(8)	(16)	195	-	-	-	-	-	171	
Net changes during the year .....	-	-	-	-	584	25	-	3,507	(559)	3,557	
Balance as of March 31, 2007.....	\$ 113,232	\$ 105,108	\$ 235,460	\$ (26,912)	\$ 69,360	\$ 25	\$ 2,287	\$ 3,964	\$ 30,335	\$ 532,859	

See accompanying notes.

# Consolidated Statements of Cash Flows

Takuma Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2007	2006	2007
<b>Cash flows from operating activities:</b>			
Loss before income taxes and minority interests .....	¥ (5,769)	¥ (1,072)	\$ (48,869)
Adjustments to reconcile loss before income taxes and minority interests to net cash used in operating activities:			
Depreciation .....	1,023	1,100	8,666
Amortization of consolidation difference .....	-	414	-
Amortization of goodwill .....	339	-	2,872
Write-down of investments in unconsolidated subsidiaries and affiliated companies ..	96	174	813
Loss (gain) on disposal of property, plant and equipment .....	71	(3,180)	601
Gain on sales of investment securities .....	(10)	(265)	(85)
Additional retirement payments .....	75	-	635
Decrease in allowance for doubtful accounts .....	(33)	(274)	(279)
Decrease in allowance for losses on sales contracts .....	(1,806)	(356)	(15,299)
Decrease in pension benefit obligation .....	(408)	(479)	(3,456)
Interest and dividend income .....	(544)	(427)	(4,608)
Interest expense .....	42	33	356
Equity in earnings of affiliated companies .....	(213)	(350)	(1,804)
Gain on change in equity of consolidated subsidiaries .....	-	(176)	-
Net decrease (increase) in notes and accounts receivable and advance received .....	1,448	(4,473)	12,266
Decrease (increase) in inventories .....	1,627	(3,016)	13,782
Decrease (increase) in consumption tax receivable .....	282	(357)	2,389
Increase in other current assets .....	(341)	(237)	(2,889)
Net increase (decrease) in notes and accounts payable and advance money .....	(2,581)	77	(21,864)
Increase (decrease) in consumption tax payable .....	364	(19)	3,083
Increase (decrease) in other current liabilities .....	250	(250)	2,118
Payment of bonuses to directors and corporate auditors .....	-	(45)	-
Loss on violation of the antimonopoly law .....	70	-	593
Other .....	304	371	2,575
Subtotal .....	(5,714)	(12,807)	(48,404)
Interest and dividend received .....	631	495	5,345
Interest paid .....	(37)	(33)	(313)
Income taxes paid .....	(1,385)	(1,727)	(11,732)
Additional retirement payments .....	(75)	-	(635)
Other .....	-	(100)	-
Net cash used in operating activities .....	(6,580)	(14,172)	(55,739)
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in time deposits .....	2,202	(751)	18,653
Purchase of property, plant and equipment .....	(1,253)	(629)	(10,614)
Sales of property, plant and equipment .....	23	3,292	195
Purchase of intangible fixed assets .....	(244)	(108)	(2,067)
Purchase of investment securities .....	(289)	(1,431)	(2,448)
Sales of investment securities .....	77	820	652
Investments in unconsolidated subsidiaries and affiliated companies .....	(145)	(783)	(1,228)
Disbursement for loans receivable .....	(1,699)	(1,624)	(14,392)
Collection of loans receivable .....	1,272	861	10,775
Other .....	3	89	25
Net cash used in investing activities .....	(53)	(264)	(449)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term bank loans .....	4,584	(210)	38,831
Proceeds from long-term debt .....	-	255	-
Payment of long-term debt .....	(214)	(376)	(1,813)
Purchase of treasury stock .....	(366)	(252)	(3,100)
Sales of treasury stock .....	43	25	364
Payment of cash dividends to the Company's shareholders .....	(809)	(831)	(6,853)
Payment of cash dividends to minority interests .....	(29)	(44)	(246)
Net cash provided by (used in) financing activities .....	3,209	(1,433)	27,183
Effect of exchange rate changes on cash and cash equivalents .....	343	50	2,906
Net decrease in cash and cash equivalents .....	(3,081)	(15,819)	(26,099)
<b>Cash and cash equivalents at beginning of year (Note 4) .....</b>	<b>27,648</b>	<b>41,757</b>	<b>234,206</b>
Cash and cash equivalents of newly consolidated subsidiary .....	-	1,710	-
<b>Cash and cash equivalents at end of year (Note 4) .....</b>	<b>¥ 24,567</b>	<b>¥ 27,648</b>	<b>\$ 208,107</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 changes in net assets for 2006) from the consolidated financial statements of Takuma Co., Ltd. (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, 2007, which was ¥118.05 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 net assets 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 net assets.

#### (c) Cash and cash equivalents

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

#### (d) Securities

Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market value are stated at fair market value, and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. 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 Companies 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, 2007 and 2006 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet dates.

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 mil-

lion 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, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S.dollars
Net sales	¥ 24,874	¥ 20,376	\$ 210,707
Gross profit (loss)	(518)	520	(4,388)

(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 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.

(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 2007 presentation. Also, as described in Note 3, the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Also, in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statement of changes in net assets for 2006 as well as for 2007. These changes had no impact on previously reported results of operations.

### 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.

#### Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities, and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to previous presentation. The net assets section includes unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in the liabilities section and between the non-current liabilities and the shareholders' equity sections.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥59,320 million (\$502,499 thousand) would have been presented.

#### Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

#### Change in the accounting policy concerning the rental income from real estate

The rental income from real estate was accounted for amount of sales previously. Effective from the fiscal year ended March 31, 2007, however, the Companies changed its accounting policy so that such income should be included in the other income and that the cost incurred for such income that was included in the cost of sales should be included in the other expenses.

The reason for this change is that our real estate business has become no profit-oriented business anymore because a part of our fixed assets concerned was sold out in the fiscal year ended March 31, 2006 and because of other smaller matters.

Due to this change, the sales amount, cost of sales and gross profit on sales have decreased by ¥61 million (\$517 thousand), ¥30 million (\$254 thousand) and ¥31 million (\$263 thousand) respectively, and other income has increased by ¥31 million (\$263 thousand) respectively, from those comparable figures accounted in accordance with the conventional accounting policy. But this change does not affect the loss before income taxes and minority interests. The effect on business segment information of this change is disclosed in Note 15.

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

Amounts of cash and cash equivalents as of March 31, 2007 and 2006 were reconciled with cash and time deposits as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Cash and time deposits.....	¥ 25,901	¥ 31,189	\$ 219,407
Time deposits with maturities exceeding three months from the date of acquisition.....	(1,364)	(3,571)	(11,554)
Short-term highly liquid investments with maturities not exceeding three months.....	30	30	254
Total : Cash and cash equivalents.....	¥ 24,567	¥ 27,648	\$ 208,107

#### 5. Securities

(a) Acquisition costs, book values of available-for-sale securities with available fair values as of March 31, 2007 and 2006 were as follows:

As of March 31, 2007	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities .....	¥ 9,193	¥ 23,048	¥ 13,855
Debt securities .....	26	27	1
Others .....	712	845	133
Subtotal .....	9,931	23,920	13,989
Securities with book values not exceeding			
Equity securities .....	698	601	(97)
Others .....	151	142	(9)
Subtotal .....	849	743	(106)
Total .....	¥ 10,780	¥ 24,663	¥ 13,883

As of March 31, 2006	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities .....	¥ 9,552	¥ 23,191	¥ 13,639
Others .....	581	744	163
Subtotal .....	10,133	23,935	13,802
Securities with book values not exceeding			
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, 2007	Thousands of U.S.dollars		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities .....	\$ 77,874	\$ 195,239	\$ 117,365
Debt securities .....	220	229	9
Others .....	6,032	7,158	1,126
Subtotal .....	84,126	202,626	118,500
Securities with book values not exceeding			
Equity securities .....	5,913	5,091	(822)
Others .....	1,279	1,203	(76)
Subtotal .....	7,192	6,294	(898)
Total .....	\$ 91,318	\$ 208,920	\$ 117,602

(b) Book values of available-for-sale securities with no fair values as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Non-listed equity securities .....	¥ 2,200	¥ 2,252	\$ 18,636
Debt security investment trust which equivalent to cash .....	30	30	254

(c) Available-for-sale securities sold for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Total sales amount .....	¥ 77	¥ 820	\$ 652
Gains .....	16	276	136
Losses .....	6	11	51

(d) Maturities of available-for-sale securities as of March 31, 2007 and 2006 were as follows:

	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
<u>As of March 31, 2007</u>				
Debt securities .....	¥ -	¥ 27	¥ -	¥ -
Others .....	-	-	-	-
Total .....	¥ -	¥ 27	¥ -	¥ -
	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
<u>As of March 31, 2006</u>				
Debt securities .....	¥ -	¥ 27	¥ -	¥ -
Others .....	-	-	-	-
Total .....	¥ -	¥ 27	¥ -	¥ -
	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
<u>As of March 31, 2007</u>				
Debt securities .....	\$ -	\$ 229	\$ -	\$ -
Others .....	-	-	-	-
Total .....	\$ -	\$ 229	\$ -	\$ -

## 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, 2007 and 2006 were ¥188 million (\$1,593 thousand) and ¥193 million, respectively.

If such finance leases were capitalized including interest as of March 31, 2007 and 2006, they would be recorded in the consolidated balance sheets as follows:

	Millions of Yen					
	2007			2006		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment .....	¥ 808	¥ 402	¥ 406	¥ 799	¥ 366	¥ 433
Other assets .....	112	69	43	124	55	69
Total.....	¥ 920	¥ 471	¥ 449	¥ 923	¥ 421	¥ 502

	Thousands of U.S.dollars		
	2007		
	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment .....	\$ 6,844	\$ 3,405	\$ 3,439
Other assets .....	949	585	364
Total.....	\$ 7,793	\$ 3,990	\$ 3,803

If depreciation expense on such finance leases was incurred for the years ended March 31, 2007 and 2006, the amounts would be ¥188 million (\$1,593 thousand) and ¥193 million, respectively.

The scheduled future payments of such lease obligations, including interest, as of March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
	Due within one year .....	¥ 166	¥ 170
Due after one year .....	283	332	2,397
Total .....	¥ 449	¥ 502	\$ 3,803

### (b) Operating lease

The scheduled future payments of operating lease, including interest, as of March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
	Due within one year .....	¥ -	¥ 1
Due after one year .....	-	-	-
Total .....	¥ -	¥ 1	\$ -

## 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, 2007 and 2006:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Land .....	¥ 1,087	¥ 1,087	\$ 9,208
Buildings and structures .....	342	383	2,897
Long-term loans receivable .....	160	-	1,355
Securities .....	69	-	585
Time deposits .....	60	139	508
Others .....	2	-	17
Total .....	¥ 1,720	¥ 1,609	\$ 14,570

## 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” and “Revaluation reserve for land” in Net assets 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, 2007, the fair market value of land was below the book value of land after revaluation by ¥80 million (\$678 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 1.1% and 0.8% per annum as of March 31, 2007 and 2006, respectively.

Long-term debt as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Loans from banks and other financial institutions due 2008 interest at rates of 2.2% to 4.5% per annum in 2007 and 2006:			
Secured .....	¥ 122	¥ 327	\$ 1,033
Unsecured .....	1	10	9
	123	337	1,042
Less: Current portion.....	(99)	(214)	(839)
	¥ 24	¥ 123	\$ 203

The aggregate annual maturities of long-term debt as of March 31, 2007 were summarized below:

Years ending March 31,	Millions of Yen	Thousands of U.S.dollars
2008 .....	¥ 99	\$ 839
2009 .....	24	203
2010 .....	-	-
2011 .....	-	-
2012 .....	-	-
2013 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, 2007 and 2006 consist of the following:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Projected benefit obligation.....	¥ 12,867	¥ 13,182	\$ 108,996
Fair value of plan assets .....	(8,108)	(7,729)	(68,683)
Unfunded projected benefit obligation .....	4,759	5,453	40,313
Unrecognized prior service cost .....	970	1,111	8,217
Less: unrecognized actuarial differences .....	(332)	(747)	(2,812)
Prepaid pension expenses .....	20	-	169
Allowance for employees' retirement benefits .....	¥ 5,417	¥ 5,817	\$ 45,887

Included in the consolidated statements of operations for the years ended March 31, 2007 and 2006 were severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Service costs – benefits earned during the year.....	¥ 704	¥ 702	\$ 5,964
Interest cost on projected benefit obligation .....	209	222	1,770
Expected return on plan assets .....	(259)	(63)	(2,194)
Amortization of actuarial differences .....	125	208	1,059
Amortization of prior service cost .....	(140)	(140)	(1,186)
Additional retirement payments and others .....	75	-	635
Employees' retirement benefit expenses .....	¥ 714	¥ 929	\$ 6,048

The discount rates used by the Companies are mainly 2.0% for the years ended December 31, 2007 and 2006, respectively. The rates of expected return on plan assets used by the Companies are mainly 4.0% for the year ended December 31, 2007 and mainly 1.0% for the year ended December 31, 2006, 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, 2007 and 2006 amounting to ¥2,319 million (\$19,644 thousand) and ¥3,032 million, respectively.

Also, the Companies were contingently liable for notes discounted as of March 31, 2007 and 2006 amounting to ¥482 million (\$4,083 thousand) and ¥235 million, respectively.

On August 13, 1999 the Japan Fair Trade Commission (JFTC) issued a cease and desist order to the Company and four other companies for activities related to the construction of waste incineration plants that were determined by the JFTC to be in violation of the Japanese Antimonopoly Act.

Although the Company objected to the cease and desist order and motioned for its withdrawal during subsequent JFTC hearings, the JFTC ruled on June 27, 2006 that the order stood. The Company objected to this ruling and filed an appeal for its reversal with the Tokyo High Court on July 27, 2006, a decision on which is currently pending.

Further to the above ruling and in accordance with Section 48-2 (1) of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (before amendment), the JFTC ordered surcharge payments be made by the Company and four other companies on March 23, 2007, with the amount attributable to the Company amounting to ¥4,703 million (\$39,839 thousand).

The Company objected to the surcharge payment order and filed a request with the JFTC on April 17, 2007 for a hearing to be arranged. Pursuant to Section 49-3 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (before amendment), the surcharge payment order has lost its binding power because the arrangements commenced.

On March 20, 2007 the Company was ordered by the Tokyo District Court to pay damages of ¥4,410 million (\$37,357 thousand) to the Tokyo Metropolitan Government in a lawsuit filed by the residents of Tokyo on July 14, 2000 in which the company was accused of violating the Japanese Antimonopoly Act during the bidding stage of a tender awarded to the company in 1994 by the Tokyo Metropolitan Government to build a waste incineration plant.

Additional damages will also be applied to the above payment at a rate of 5% per annum for the period dating back to July 14, 1994 and continuing until payment is received.

The Company objected to the ruling and filed an appeal for its reversal on April 4, 2007, a decision on which is currently pending.

## 12. Net assets

As described in Note 3, net assets section includes shareholders' equity, accumulated gains (losses) from valuation and translation adjustments, and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

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, 2007 and 2006 were ¥1,127 million (\$9,547 thousand) and ¥1,224 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, 2007 and 2006.

The information of the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement is not provided for the years ended March 31, 2007 and 2006 because of the loss before income taxes and minority interests for the years.

Components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S.dollars	
	2007	2006	2007	
Deferred tax assets:				
Allowance for employees' retirement benefits .....	¥ 2,158	¥ 2,313	\$ 18,280	
Allowance for losses on sales contracts .....	202	949	1,711	
Accrued cost of sales .....	1,011	607	8,564	
Unrealized profits .....	1,199	1,202	10,157	
Accrued bonuses to employees .....	750	741	6,353	
Loss recognized on a percentage-of-completion method .....	-	1,747	-	
Operating loss carryforward for tax purposes .....	6,393	1,109	54,155	
Other .....	1,459	1,537	12,359	
Total deferred tax assets .....	13,172	10,205	111,579	
Valuation allowance .....	(10,225)	(1,079)	(86,616)	
Net deferred tax assets .....	¥ 2,947	¥ 9,126	\$ 24,963	
Deferred tax liabilities:				
Net unrealized holding gains on available-for-sale securities .....	(5,679)	(5,720)	(48,106)	
Valuation difference in land of consolidated subsidiary .....	(160)	(160)	(1,355)	
Net unrealized gains on revaluated land .....	(279)	(279)	(2,364)	
Other .....	(436)	(436)	(3,693)	
Total deferred tax liabilities .....	(6,554)	(6,595)	(55,518)	
Net deferred tax assets .....	¥ (3,607)	¥ 2,531	\$ (30,555)	

### 15. Segment information

#### (a) Business segment information

Business segment information for the years ended March 31, 2007 and 2006 were as follows:

Year ended March 31, 2007	Millions of Yen						
	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Other	Total	Elimination and Corporate	Consolidated
Sales:							
Outside customers .....	¥ 51,851	¥ 12,531	¥ 20,325	¥ 14,041	¥ 98,748	¥ -	¥ 98,748
Intersegment .....	43	96	704	80	923	(923)	-
Total .....	51,894	12,627	21,029	14,121	99,671	(923)	98,748
Operating expenses .....	52,971	15,844	21,900	13,765	104,480	1,028	105,508
Operating income (loss) .....	¥ (1,077)	¥ (3,217)	¥ (871)	¥ 356	¥ (4,809)	¥ (1,951)	¥ (6,760)
Identifiable assets, depreciation expense and capital expenditure:							
Assets .....	¥ 47,159	¥ 10,185	¥ 18,197	¥ 11,648	¥ 87,189	¥ 41,644	¥ 128,833
Depreciation .....	740	169	378	78	1,365	(3)	1,362
Capital expenditure .....	325	141	1,031	23	1,520	-	1,520

Millions of Yen

Year ended March 31, 2006	Machinery	Environmental Control plants	Operation and Maintenance	Real Estate	Total	Elimination and 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) .....	¥ (1,647)	¥ (1,104)	¥ 834	¥ 158	¥ (1,759)	¥ (2,153)	¥ (3,912)
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

Thousands of U.S.dollars

Year ended March 31, 2007	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Other	Total	Elimination and Corporate	Consolidated
Sales:							
Outside customers .....	\$ 439,229	\$ 106,150	\$ 172,173	\$ 118,941	\$ 836,493	\$ -	\$ 836,493
Intersegment .....	364	813	5,964	678	7,819	(7,819)	-
Total .....	439,593	106,963	178,137	119,619	844,312	(7,819)	836,493
Operating expenses .....	448,717	134,214	185,515	116,603	885,049	8,708	893,757
Operating income (loss) .....	\$ (9,124)	\$ (27,251)	\$ (7,378)	\$ 3,016	\$ (40,737)	\$ (16,527)	\$ (57,264)
Identifiable assets, depreciation expense and capital expenditure:							
Assets .....	\$ 399,483	\$ 86,277	\$ 154,147	\$ 98,670	\$ 738,577	\$ 352,766	\$ 1,091,343
Depreciation .....	6,268	1,432	3,202	661	11,563	(25)	11,538
Capital expenditure .....	2,753	1,194	8,734	195	12,876	-	12,876

Corporate expenses included in operating expenses and not allocated to segment in 2007 and 2006 were general affairs department expenses of the Company amounting to ¥2,167 million (\$18,357 thousand) and ¥2,324 million, respectively.

Assets under the elimination and corporate in 2007 and 2006 were ¥51,809 million (\$438,873 thousand) and ¥58,739 million, respectively, 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.

Change in segmentation of business segment and changes in accounting policy

Although the Companies formerly classified its business into the four segments of Machinery, Environmental Control Plants, Operation and Maintenance, and Real Estate, the Companies classified its business into the four segments of Domestic Environment and Energy, Overseas Environment and Energy, Package Boiler, and Other from the year ended March 31, 2007.

In consideration of the expansion of overseas business operations, the Companies reviewed the segmentation of business segment in order to more properly report the business segment information.

As stated in Note3, the rental income from real estate was accounted for amount of sales previously. Effective from the fiscal year ended March 31, 2007, however, the Companies changed its accounting policy so that such income should be included in the other income and that the cost incurred for such income that was included in the cost of sales should be included in the other expenses.

Classification of the previous fiscal year's segment information using the new accounting policy and the new segmentation of business segment would be as follows:

Millions of Yen

Year ended March 31, 2006	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Other	Total	Elimination and Corporate	Consolidated
<b>Sales:</b>							
Outside customers .....	¥ 54,965	¥ 6,254	¥ 20,375	¥ 12,671	¥ 94,265	¥ -	¥ 94,265
Intersegment .....	46	90	562	25	723	(723)	-
Total .....	55,011	6,344	20,937	12,696	94,988	(723)	94,265
Operating expenses .....	55,629	7,020	21,215	12,917	96,781	1,438	98,219
Operating loss .....	¥ (618)	¥ (676)	¥ (278)	¥ (221)	¥ (1,793)	¥ (2,161)	¥ (3,954)
<b>Identifiable assets, depreciation expense and capital expenditure:</b>							
Assets .....	¥ 51,863	¥ 11,235	¥ 16,910	¥ 11,098	¥ 91,106	¥ 49,386	¥ 140,492
Depreciation .....	759	176	65	87	1,087	(2)	1,085
Capital expenditure .....	707	50	101	75	933	-	933

(b) Overseas sales

Overseas sales for the years ended March 31, 2007 was as follows :

Year ended March 31, 2007	Millions of Yen			
	Asia	Europe	Other areas	Total
Overseas sales .....	¥ 7,366	¥ 6,414	¥ 4	¥ 13,784
Net sales .....				98,748
Ratio of overseas sales to net sales .....	7.5%	6.5%	0.0%	14.0%

Year ended March 31, 2007	Thousands of U.S.dollars			
	Asia	Europe	Other areas	Total
Overseas sales .....	\$ 62,397	\$ 54,333	\$ 34	\$ 116,764
Net sales .....				836,493

Information for overseas sales for the years ended March 31, 2006 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. The Company lends Energy Mate Co., Ltd. the capital.

The transactions amounts were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Lending of the capital .....	¥ 319	¥ 1,030	\$ 2,702
Loans receivable .....	1,511	1,830	12,800

Terms of transactions are determined under general market condition.

**17. Subsequent event**

On June 28, 2007, the shareholders of the Company approved the following appropriations:

	Millions of Yen	Thousands of U.S.dollars
Cash dividends .....	¥ 419	\$ 3,549

## 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 consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, changes in net assets 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 consolidated subsidiaries as of March 31, 2007 and 2006, 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 the following:

- (1) As discussed in Note 3 to the consolidated financial statements, effective April 1, 2006, the Companies changed the accounting policy concerning the rental income from real estate.
- (2) As discussed in Note 15 to the consolidated financial statements, effective April 1, 2006, the Companies changed the segmentation of business segment.
- (3) As discussed in Note 11 to the consolidated financial statements, the Company objected to the cease and desist order issued by Japan Fair Trade Commission to be in violation of the Japanese Antimonopoly Act, and filed an appeal for its reversal with Tokyo High Court, a decision on which is currently pending.
- (4) As discussed in Note 11 to the consolidated financial statements, the Company objected to the ruling ordered by Tokyo District Court to pay damages to Tokyo Metropolitan Government due to violation of the Japanese Antimonopoly Act, and filed an appeal for its reversal, a decision on which is currently pending.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007

# 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, Director and Managing Executive Officer	Yuson Wakimoto, Executive Officer
Tsutomu Tanaka, Director and Managing Executive Officer	Yasuaki Kataoka, Executive Officer
Shizuo Kataoka, Director and Managing Executive Officer	Yasuyuki Moriura, Executive Officer
Takao Kajiyama, Managing Executive Officer	Jyoji Hashimoto, Executive Officer
Norio Endo, Executive Officer	Shozo Iwanaga, Auditor
Izoh Nakagawa, Executive Officer	Isamu Tanaka, Auditor
Sadanori Kikuchi, Director and Executive Officer	Ryuji Tsuchida, Auditor
Hiroyuki Takahashi, Executive Officer	

## 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.)
- Qualified for Non-governmental product certification standard for welds of electrical facilities (Thermal Power)
- Quality management system certified in compliance with ISO 9001 (November 1997)
- Environmental management system certified in compliance with ISO 14001 (January 1999)

## 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

**Gas Technology Institute (U.S.A.)**

Methane de-NOx Process

Cyclonic Burner

**Result Technology AG (Switzerland)**

Material Recycling and Separating System

**W.Schmid AG (Switzerland)**

Biological Anaerobic Treatment Plants for Solid Waste

**Wehrle-Werk AG (Germany)**

Biomembrat System

**Dürr Systems, 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 Navien Co., Ltd. (Korea)**

Absorption Chiller Heater

Vacotin Heater

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

Laval Nozzle

**P.T. Pana Mandiri Essencia (Indonesia)**

Coal Firing Boiler

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26-28 Hammersmith Grove Hammersmith, London W67BA, United Kingdom  
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**Nippon Thermoener Co., Ltd.**

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**Takuma Technos Co., Ltd.**

10th. Chuo Bldg., 1-5-6 Nihonbashi, Chuo-ku, Tokyo 103-0023, Japan  
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