

# 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.

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## 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.

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## (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	Previous Consolidated Fiscal Year
	From April 1, 2006 to March 31, 2007	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

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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.

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## 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.

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## (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.