

# STATUS OF BUSINESS ACTIVITIES

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## 1. Overview of Business Performance

### (1) Business Performance

During the year ended March 31, 2008 Japan's economy generally showed signs of recovery due to increased levels of corporate investment in equipment and machinery as well as improved employment conditions stimulated by robust corporate earnings. However, the future of Japan's economy has since become increasingly uncertain due to the economic slowdown in the United States of America brought about by the sub-prime mortgage crisis and soaring crude oil prices in the global marketplace.

Despite the increased emphasis placed on sales activities, orders received by TAKUMA CO., LTD. and its consolidated subsidiaries (the Companies) during the year ended March 31, 2008 amounted to 115.344 billion yen, an 8.8% decrease of 11.128 billion yen compared with the total amount for the year ended March 31, 2007. Sales, however, rose to 105.612 billion yen, a 7.0% increase of 6.864 billion yen compared with the total amount for the year ended March 31, 2007. The order backlog also rose to 133.279 billion yen, a 7.9% increase of 9.732 billion yen compared with the total amount for the year ended March 31, 2007.

Despite successful efforts to reduce fixed costs through increased productivity levels and implementation of more effective cost control measures, the Companies recorded an operating loss of 11.787 billion yen and a current term net loss of 12.826 billion yen for the year ended March 31, 2008, due in large part to additional costs associated with an energy from waste (EfW) plant under construction in the United Kingdom that resulted from boiler manufacturing delays, repairs to defective subcontractor work, and consequential delays to work undertaken by following trades.

### Business Segment Results

#### 1) Domestic Environment and Energy

Orders received rose significantly to 79.985 billion yen, an 86.0% increase of 36.971 billion yen compared with the total amount for the year ended March 31, 2007 and due primarily to orders received for large waste treatment facility construction work. Sales rose slightly to 51.920 billion yen, a 0.1% increase of 27 million yen compared with the total amount for the year ended March 31, 2007. Cost cutting measures materialized, bringing about operating income of 2.466 billion, a large improvement compared with the 1.077 billion yen operating loss recorded for the year ended March 31, 2007.

#### 2) Overseas Environment and Energy

No major orders were received in the year ended March 31, 2008, during which orders received amounted to 832 million yen, a 98.2% decrease of 46.443 billion yen compared with the total amount for the year ended March 31, 2007. Sales rose to 19.241 billion yen, a 52.4% increase of 6.614 billion yen compared with the total amount for the year ended March 31, 2007, due primarily to progress on work associated with EfW plants under construction in Europe. An operating loss of 12.860 billion yen was recorded as a result of increased costs incurred for work associated with EfW plants under construction in Europe.

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## 3) Package Boiler

Despite efforts to increase market share through an approach based on the delivery of total systems as opposed to stand-alone equipment, orders received fell to 20.268 billion yen, a 6.0% decrease of 1.304 billion yen compared with the total amount for the year ended March 31, 2007. Sales also fell to 20.438 billion yen, a 2.8% decrease of 590 million yen compared with the total amount for the year ended March 31, 2007, and an operating loss of 67 million yen was incurred despite cost reduction efforts.

## 4) Other Business Segments

Marketing efforts focused on the sale of impregnation equipment, conveyance systems, and specialized equipment used in the semiconductor industry, with orders received falling slightly to 15.415 billion yen, a 0.8% decrease of 132 million yen compared with the total amount for the year ended March 31, 2007. Sales rose to 14.704 billion yen, a 4.1% increase of 584 million yen compared with the total amount for the year ended March 31, 2007, which resulted in an operating profit of 348 million yen.

## 5) Geographical Segment Results

### Japan

Sales reached 95.963 billion yen as a result of progress on work associated with energy plants under construction that were previously recorded in the order backlog, sales of package boilers, operation and maintenance services in Japan, and progress on work associated with EfW plants under construction in Europe. These contributions, however, were not sufficient to offset increased costs associated with EfW plants under construction in Europe, which ultimately resulted in an operating loss of 8.598 billion yen.

### Asia

Progress on work associated with energy plants under construction and overhaul work on existing plants resulted in sales of 1.120 billion yen and an operating income of 95 million yen.

### Europe

Progress on work associated with EfW plants and biomass power plants under construction resulted in sales of 14.529 billion yen, although these contributions were not sufficient to offset losses arising from certain unprofitable projects, which ultimately resulted in an operating loss of 765 million yen.

## (2) Status of Cash Flow

Cash and cash equivalents at March 31, 2008 amounted to 23.938 billion yen, a decrease of 629 million yen compared with the total amount at March 31, 2007.

### [Cash Flow from Operating Activities]

Cash flow from operating activities at March 31, 2008 amounted to 1.035 billion yen, an increase of 7.615 billion yen compared with the total amount at March 31, 2007. This increase was due mainly to a 6.752 billion yen increase in the allowance for losses on sales contracts and a 9.925 billion yen increase in notes and accounts receivable and advance received, and was offset by a 5.874 billion yen increase in the loss before income taxes and minority interests.

### [Cash Flow from Investing Activities]

Cash flow from investing activities fell to minus 1.479 billion yen, an decrease of 1.426 billion yen compared

with the total amount at March 31, 2008. This decrease was due mainly to a net decrease of 3.385 billion yen in time deposits compared with the total amount at March 31, 2007, and came despite a 1.173 billion yen increase in sales of investment securities and a 426 million yen decrease in disbursement for loans receivable.

[Cash Flow from Financing Activities]

Cash flow from financing activities decreased by 3.395 billion yen to minus 186 million yen compared with the total amount at March 31, 2007. This decrease was due mainly to a net decrease of 3.999 billion yen in short-term bank loans.

## 2. Manufacturing Costs, Orders Received and Sales

### (1) Manufacturing Costs

Manufacturing costs for each business segment are presented in the table below on an unconsolidated basis. As manufacturing activities undertaken by significant subsidiaries are negligible, the Company's manufacturing costs alone are therefore considered to be a fair representation of the consolidated manufacturing costs for each business segment.

#### Manufacturing Costs

TAKUMA CO., LTD.

For the years ended March 31, 2007 and 2008

Business Segment	Millions of yen	
	2007	2008
Domestic Environment and Energy	29,541	32,483
Overseas Environment and Energy	17,897	20,494
Package Boiler	722	395
Other	1,994	2,890
Total	50,156	56,262

(Notes)

1. The above amounts represent overall manufacturing costs.
2. Consumption tax is not included in the above amounts.

### (2) Orders Received

Orders received are presented on a consolidated basis by business segment in the table below.

#### Orders Received

TAKUMA CO., LTD. and Consolidated Subsidiaries

For the years ended March 31, 2007 and 2008

Business Segment	Millions of Yen		Millions of Yen	
	2007		2008	
	Orders Received	Order Backlog	Orders Received	Order Backlog
Domestic Environment and Energy	43,014	48,389	79,985	76,455
Overseas Environment and Energy	47,275	63,614	832	45,206
Package Boiler	21,572	4,105	20,268	3,935
Other	15,547	7,454	15,415	8,164
Inter-Segment Orders	(937)	(16)	(1,156)	(481)
Total	126,472	123,547	115,344	133,279

(Notes)

1. Consumption tax is not included in the above amounts.
2. Elements of production within the Package Boiler business segment are undertaken to ensure sufficient supply levels are maintained in order to meet anticipated future demand. The orders received and order backlog categories contain amounts for which it has already been determined to which customer deliveries will be made.
3. Accounting procedures for sales revenue were revised effective from the year ended at March 31, 2008 to include royalty revenue, which was previously included in the technical assistance fee section of other income (expenses). Accordingly, royalty revenue is not included in the above amounts for the year ended at March 31, 2007.

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## (3) Sales

Sales are presented on a consolidated basis by business segment in the table below.

### Sales

TAKUMA CO., LTD. and Consolidated Subsidiaries  
For the years ended March 31, 2007 and 2008

Business Segment	Millions of yen	
	2007	2008
Domestic Environment and Energy	51,893	51,920
Overseas Environment and Energy	12,627	19,241
Package Boiler	21,028	20,438
Other	14,120	14,704
Inter-Segment Sales	(922)	(691)
Total	98,748	105,612

(Notes)

1. Consumption tax is not included in the above amounts.
2. Accounting procedures for sales revenue were revised effective from the year ended at March 31, 2008 to include royalty revenue, which was previously included in the technical assistance fee section of other income (expenses). Accordingly, royalty revenue is not included in the above amounts for the year ended at March 31, 2007.

## 3. Future Outlook

### (1) Management Policies

In April 2006 the Companies embarked on a three-year mid-term management plan, the aim of which is to promote the organizational transformation of the Companies and increase earning power in order to establish a revenue base that not only remains stable in today's ever-changing business environment, but also leads to further long-term growth.

The mid-term management plan is based on the following two fundamental strategies:

- Promote group management of the Companies as a means to fully utilize core competences, optimize the group as a whole, and maximize consolidated profits.
- Promote selective and concentrated utilization of management resources.

Positioned within this framework are the following three targets:

- Ensure regulatory requirements are upheld, risk management strengthened, corporate governance maintained and environmental management achieved through promotion of compliance and corporate social responsibility management.
- Undertake a comprehensive review of human, material, financial, and technical resources that form the corporate foundations and maximize these management resources to their fullest by further developing the corporate strengths required to achieve business expansion.
- Adapt to the changing business environment by strengthening cost competitiveness and endeavoring to maximize value for money in order to maintain a competitive advantage through the development and implementation of an optimal business strategy that aims to expand private sector, overseas and solutions businesses.

Business expansion in the European market is dependent upon the further development of corporate strengths as well as the development and implementation of an optimal business strategy. Although significant losses associated with work on an EfW plant under construction in the United Kingdom were

recorded in the year ended March 31, 2008, the European Union Landfill Directive 1999/31/EC has led to a major policy change in favor of EfW as an alternative to landfilling, and consequently the underlying conditions of the European EfW market indicate signs of potential for noticeable growth. In order for the Companies to be successful in maintaining consistent levels of profitability in the European market, it is essential to understand local sales and procurement routes and for any project to be undertaken and managed in accordance with local practices. It is on this premise that German subsidiary KAB TAKUMA has been given the responsibility of managing the European EfW and biomass power generation businesses on behalf of the Companies. KAB TAKUMA's management resources, know-how, and organizational structure will be strengthened further to develop a strategic marketing model aimed at maximizing returns on future projects. Additionally, consideration will also be given to providing additional support to KAB TAKUMA where necessary through the formation of alliances with other companies.

The Companies are committed to restoring profitability and achieving long-term growth through the implementation of fundamental policies outlined in the mid-term management plan and by rapidly responding to the ever-changing business environment.

## **(2) Anti-Takeover Measures**

At its board of directors meeting on April 25, 2007, TAKUMA CO., LTD. (the Company) adopted, with immediate effect, a policy against large volume purchases of its shares by any identifiable shareholder group aiming to obtain voting rights of or exceeding 20%. The policy was approved during the annual shareholder meeting on June 28, 2008 by shareholders representing a majority of the voting rights held by those present. The aim of the policy is to allow for the implementation of defined countermeasures against large volume purchases of the Company's shares when its corporate value and shareholder interests are clearly threatened.

The rules established by the Company for large volume purchases of its shares consist of the following:

- Any entity aiming to undertake a large volume purchase of the Company's shares shall provide all required information to the Company's board of directors prior to such purchase.
- Any large volume purchase of the Company's shares shall commence only after the fixed period of evaluation afforded to the Company's board of directors has passed.

In addition to information provided by entities aiming to undertake large volume purchases of the Company's shares, the opinions held by the Company's board of directors and any relevant counterproposals are also considered to be vital tools that may assist shareholders in ascertaining the viability of share acquisition prices offered by entities aiming to undertake large volume purchases of the Company's shares. In accordance with the rules outlined above, the Company's board of directors will therefore request that any entity aiming to undertake a large volume purchase of the Company's shares provide relevant information, upon receipt of which the Company's board of directors will review and evaluate, subsequent to which it will then issue an official opinion. Moreover, should doing so be deemed necessary, the Company's board of directors will undertake negotiations to achieve improvements to proposals submitted by entities aiming to undertake large volume purchases of the Company's shares and present counterproposals to the Company's shareholders.

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In order to protect the Company's shareholder interests and the Company's corporate value, in the event that an entity aiming to undertake a large volume purchase of the Company's shares does not comply with the rules established by the Company, or if an entity complies with the rules but it is determined that a large volume purchase of the Company's shares by such entity would clearly threaten the Company's shareholder interests, the Company may, in accordance with guidance provided by the special committee described below, issue stock purchase warrants with an exercise restriction stating that stock purchase warrants may not be exercised by entities aiming to undertake large volume purchases of the Company's shares. In order to ensure that the rules established by the Company for large volume purchases of its shares are managed properly and that judgment of the Company's board of directors remains rational and fair, a special committee made up of outside experts that is independent from the Company's board of directors has been established. The role of this special committee is to provide the Company's board of directors with advice on the adequacy of information provided by entities aiming to undertake large volume purchases of the Company's shares and the acceptability of invoking countermeasures.

## **4. Business Risks**

Although the Companies continually endeavor to mitigate business risks through organized and systematic measures, the following risks are considered to have the potential of influencing the business performance and financial position of the Companies, as well as investor decisions. References to future risks have been determined as such as of March 31, 2008.

### **\* Economic Trends**

The business performance and financial position of the Companies have the potential to be influenced by such factors as public and private sector infrastructure investment trends, changes in price competition and market structure brought about by an increase in the number of competitors, fluctuations in raw material costs, and stock market conditions.

### **\* Geographical Risks**

Overseas operations are accompanied by the potential to be influenced not only by the economic conditions and currency fluctuations of countries and regions in which the Companies conduct business activities, but also by such uncontrollable events as terrorism, war, natural disasters, and epidemics.

### **\* Safety and Quality**

There is a possibility that the business performance, financial position, and public reputation of the Companies may be influenced by accidents or disasters caused by human error or defective products during manufacturing, installation, operation, and maintenance activities undertaken by the Companies. Additionally, those facilities in particular for which new technologies are introduced run the risk of incurring additional costs that exceed the originally anticipated levels due to the occurrence of unexpected difficulties.

### **\* Intellectual Property Rights**

The business activities of the Companies may be affected by unlawful infringement by others upon or difficulties experienced in protecting, such intellectual property as patents and trademarks it holds or has

acquired, or alternatively, by measures required to avoid the Companies from infringing upon the intellectual property rights of others.

**\* Litigation**

On June 28, 2006 the Japan Fair Trade commission (JFTC) ruled that activities undertaken by the Company in the past associated with the construction of waste incineration plants were in violation of the Japanese Antimonopoly Act. Further to this ruling, the JFTC ordered on March 23, 2007 that the Company make surcharge payments amounting to 4.702 billion yen. The Company objected to the ruling and filed an appeal for its reversal on July 27, 2006. The Company also objected to the surcharge payment order and filed a request for a hearing to be arranged, proceedings for which commenced on May 21, 2007, thus nullifying the binding power of the surcharge payment order. The Company is currently involved in proceedings for eight taxpayer class action suits, the outcomes of which may affect the business performance of the Company in various forms. The details of three of these class action suits are outlined below.

- In the taxpayer class action suit associated with the bidding stage of a tender awarded to Hitachi Zosen Corporation by Fukuoka City for the construction of a waste incineration plant, on April 25, 2006 Fukuoka District Court ordered the Company and four other companies to collectively pay 2.088 billion yen as well as damages for delay. Although an appeal against the decision was filed with Fukuoka High Court, this appeal was later rejected on November 30, 2007, against which a further appeal was filed with the Supreme Court on December 12, 2007.
- In the taxpayer class action suit associated with the bidding stage of a tender awarded to Hitachi Zosen Corporation by Amagasaki City for the construction of a waste incineration plant, on November 16, 2006 Kobe District Court ordered the Company and five other companies to collectively pay 530 million yen as well as damages for delay. An appeal against the decision was filed with Osaka High Court, which overturned the decision on November 30, 2007, in response to which the plaintiffs filed an appeal with the Supreme Court on December 7, 2007.
- In the taxpayer class action suit associated with the bidding stage of a tender awarded to the Company by the Tokyo Metropolitan Government for the construction of a waste incineration plant, on March 20, 2007 the Company was ordered to pay 4.409 billion yen as well as damages for delay, although an appeal against the decision has been filed with Tokyo High Court.

**\* Other Factors**

So long as the Companies remain operational, their business performance and financial position may be influenced by such factors as government restrictions, changes in supply chain arrangements, difficulties associated with securing adequate levels of domestic and overseas personnel, and losses of key personnel.

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## 5. Significant Licensing Agreements

### (1) Technology Transfer from External Parties

	Licensee	Technology	Date of Agreement	Licensor	Length of Agreement
1	TAKUMA CO., LTD.	Liquid Membrane Water Treatment 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.	Methane de-Nox Process	June 1994	Gas Technology Institute (U.S.A.)	15 years
6	TAKUMA CO., LTD.	Material Recycling and Separating System	June 1996	Result Technology AG (Switzerland)	10 years, thereafter automatically renewed every 5 years
7	TAKUMA CO., LTD.	Biological Anaerobic Treatment Process for Solid Waste	October 1996	W. Schmid AG (Switzerland)	13 years
8	TAKUMA CO., LTD.	Water Treatment Technology Using Microorganisms Carrier Stabilizer	March 1997	Hitachi Plant Technologies, Ltd. (Japan)	5 years, thereafter automatically renewed every year
9	TAKUMA CO., LTD.	Regenerative Thermal Oxidizer	February 1998	Dürr Systems, Inc. (U.S.A.)	11 years, thereafter automatically renewed every year
10	TAKUMA CO., LTD.	Cyclonic Burner	May 2000	Gas Technology Institute (U.S.A.)	10 years
11	TAKUMA CO., LTD.	Agitators (pierced flat beam type)	July 2007	Lonkwitz Anlagenbau GmbH & Co., KG (Germany)	10 years, thereafter automatically renewed every year

(Notes)

1. In addition to one-time fees paid to the licensor at the time licensing agreements are made, fees based on a fixed percentage of sales are also paid to the licensor.
2. Upon their expiration, a comprehensive review of licensing agreements covering such aspects as technological value and degree of demand will be undertaken to determine whether the agreements are to be renewed.

### (2) Technology Transfer to External Parties

	Licensor	Technology	Date of Agreement	Licensee	Length of Agreement
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 Navien Co., Ltd. (Korea)	13 years, thereafter automatically renewed every year
3	TAKUMA CO., LTD.	Vacotin Heater	July 1995	Kyungdong Navien 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
5	TAKUMA CO., LTD.	Coal Firing Boiler	June 2007	P.T. Panca Mandiri Essencia (Indonesia)	10 years, thereafter automatically renewed every year

(Notes)

1. In addition to one-time fees received at the time licensing agreements are made, fees based on a fixed percentage of sales made by the licensee are also received.

## 6. Research and Development

Led by the technology centers consolidated within the Engineering Division, and in conjunction with external research organizations and universities, the research and development activities of the Companies are focused on strengthening and transmitting its technical capabilities, improving core technologies and developing new products.

Within the Engineering Division reside the Planning Center, the Technical Center, and the Project Center. The Planning Center contains the Technology Planning Department and Tokyo Technology Planning Department. The Technical Center contains the Technology Development Department, the Mechanical Design and Engineering Department, and the Energy and Environment Research Center. The Project Center contains technical departments related to the various fields in which the Company is active. Together, these organizations aim to strengthen technical capabilities and accelerate the development of new products.

Research and development expenses for the year ended 31 March, 2008 amounted to 767 million yen. Significant research and development activities for each business segment are outlined below.

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

1) A demonstration test was undertaken on a sewage sludge gasification and power generation system with the aim of establishing a high-efficiency biomass power generation system that utilizes mixed combustion of gases produced from gasification of sewage sludge and natural gas. The test was successful in achieving 2,000 hours of continuous operation, thus bringing commercialization of the technology one step closer to realization.

The test was part of a joint research project with New Energy and Industrial Technology Development Organization (NEDO) and Tokyo Gas Co., Ltd.

2) A demonstration test was undertaken on an energy recovery technology that utilizes alkaline pretreatment-hydrogen-methane fermentation of distilled spirit lees with the aim of utilizing biomass resources and reducing the impact on the environment. The test was successful in achieving initially anticipated results and further demonstration tests are continuing with the aim of realizing improved energy recovery rates.

The test was part of a joint research project with the New Energy and Industrial Technology Development Organization (NEDO).

3) Demonstration tests continue with gasification of woody biomass and methanol synthesis. The Company has developed a new proprietary tar decomposition catalyst for use with gasification while at the same time also established a biomass gas purification technology. With regard to methanol synthesis, the company has developed a new proprietary catalyst reactor and methanol synthesis catalyst, both of which are now one step closer to commercialization.

4) A demonstration test was undertaken on water-cooled grate technology for incineration of waste with high calorific values, the results for which are promising and have brought the technology one step closer to being used in practical applications.

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- 5) A demonstration test was undertaken on advanced wastewater treatment technology that utilizes unique bacteria with the aim of developing a wastewater de-nitrification system that is energy efficient, space efficient and reduces the impact on the environment. The results of the test are promising and further research is scheduled with an eye to commercialization.
- 6) A demonstration test was undertaken on a new filtration technology that filters and purifies wastewater simultaneously. The results of the test are promising and have thus brought commercialization of the technology one step closer to realization.  
The test was part of a joint research project with Aichi-Mizutomidori Pu. Corp.
- 7) Demonstration tests were undertaken at multiple sewage treatment plants to develop a low power consumption rotating drum type thickener that achieves highly efficient sewage sludge condensing. The technology has been commercialized and added to the Company's water treatment item.
- 8) A highly advanced sewage treatment technology based on advanced oxidation process is currently being developed with the aim of being able to break down hard-biodegradable material such as environment endocrine disruptors and disinfect viruses.
- 9) Research continues on optimization of combustion and fluidity through the application of thermal fluid simulation technologies. A waste incineration plant operation monitoring and control system using these technologies has been developed.

Research and development expenses attributable to the domestic and overseas environment and energy business segments total 662 million yen.

## **(2) Package Boiler**

The focus of research and development activities for the package boiler business segment is centered on the development of highly efficient through-flow boilers and Vacotin heaters that have a reduced impact on the environment.

Research and development expenses attributable to the package boiler business segment amount to 91 million yen.

## **(3) Other Business Segments**

Research and development expenses attributable to other business segments amount to 14 million yen.

## 7. Analysis of Financial Standing and Business Performance

### (1) Financial Standing

The financial policy of the Companies is to sustain adequate levels of liquidity, while securing funding for business activities and maintaining a financially sound balance sheet.

Total assets as of March 31, 2008 amounted to 112.627 billion yen, a 12.6% decrease of 16.206 billion yen compared with the total a year earlier. Total current assets as of March 31, 2008 amounted to 73.556 billion yen, a 9.7% decrease of 7.898 billion yen compared with the total a year earlier. Investments and other assets as of March 31, 2008 amounted to 28.684 billion yen, a 24.3% decrease of 9.218 billion yen compared with the total a year earlier. Property, plant and equipment as of March 31, 2008 amounted to 10.387 billion yen, a 9.6% increase of 910 million yen compared with the total a year earlier.

The primary factor attributable to the decrease in total current assets is the 18.0% decrease of 7.591 billion yen in notes and accounts receivable to 34.576 billion yen during the year ended March 31, 2008. The primary factor attributable to the decrease in investments and other assets is the 27.3% decrease of 7.342 billion yen in investment securities to 19.518 billion yen during the year ended March 31, 2008, which was caused by fluctuation in stock prices that resulted in lower current values.

Total liabilities as of March 31, 2008 amounted to 66.647 billion yen, a 1.1% increase of 718 million yen compared with the total a year earlier. Total current liabilities as of March 31, 2008 amounted to 56.205 billion yen, a 3.7% increase of 1.987 billion yen compared with the total a year earlier. Total non-current liabilities as of March 31, 2008 amounted to 10.442 billion yen, a 10.8% decrease of 1.269 billion yen compared with the total a year earlier.

The primary factors attributable to the increase in total current liabilities are that, although notes and accounts payable experienced a 20.0% decrease of 7.230 billion yen to 28.852 billion yen, advances received experienced a 58.1% increase of 3.077 billion yen to 8.369 billion yen and the allowance for losses on sales contracts experienced a 937.3% increase of 4.949 billion yen to 5.477 billion yen, a major share of these increases having been associated with overseas projects. The primary factors attributable to the decrease in total non-current liabilities are that, although long-term debt increased 770 million yen to 794 million yen, deferred tax liabilities experienced a 40.7% decrease of 2.224 billion yen to 3.239 billion yen.

Total net assets including minority interests in consolidated subsidiaries as of March 31, 2008 amounted to 45.980 billion yen, a 26.9% decrease of 16.924 billion yen compared with the total a year earlier.

The primary factors attributable to the decrease in total net assets are that retained earnings experienced a 48.3% decrease of 13.412 billion yen to 14.384 billion yen as a result of the net loss recorded for the year ended March 31, 2008 and the net unrealized holding gain on available-for-sale securities, net of taxes, experienced a 43.6% decrease of 3.567 billion yen to 4.621 billion yen. As a result, the equity capital ratio decreased from 46.0% to 37.4% and net assets per share decreased from 712.37 yen to 505.83 yen.

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## **(2) Business Performance**

During the year ended March 31, 2008 the domestic environment and energy business segment received orders for large waste treatment facility construction projects as well as orders for operation and maintenance services associated with existing facilities. Despite efforts to strengthen the foundations on which to expand overseas operations, the overseas environment and energy business segment did not receive any orders for large projects. The package boiler business segment, amidst severe price competition, redoubled its efforts to increase market share through an approach based on the delivery of total systems as opposed to stand-alone equipment. Other business segments focused primarily on the sale of impregnation equipment, conveyance systems, and specialized equipment used in the semiconductor industry.

Total orders received for the year ended March 31, 2008 amounted to 115.344 billion yen, an 8.8% decrease of 11.128 billion yen compared with the total amount for the year ended March 31, 2007.

Due much in part to the contribution of the overseas environment and energy business segment, net sales for the year ended March 31, 2008 amounted to 105.612 billion yen, a 7.0% increase of 6.864 billion yen compared with the total amount for the year ended March 31, 2007. Gross profit amounted to 6.580 billion yen, which when set off with selling, general, and administrative expenses of 18.367 billion yen, resulted in an operating loss of 11.787 billion yen. Although there was a positive difference of 144 million yen between other income and other expenses, the end result was a loss before income taxes and minority interests of 11.643 billion yen, and after taking into consideration current income taxes and deferred income taxes, as well as minority interests in the income (losses) of consolidated subsidiaries, a net loss of 12.826 billion yen.

The net loss per share was 154.02 yen and the equity capital loss rate was 25.3%. Details of business segment sales and operating income are contained within the Status of Business Activities section.