

# STATUS OF BUSINESS ACTIVITIES

## 1. Overview of Business Performance

### (1) Business Performance

During the current consolidated fiscal year, our national economy has remained in a recessionary phase, with consequences including the drop in exports due to the sharp appreciation of the yen, which has put pressure on corporate profits, decreased corporate business investment and led to a severe employment environment.

Under such economic conditions, the business environment surrounding our group is also facing severe circumstances, including being affected by the decline in private-sector capital investment with continuing intensified price-cutting competition due to reduced public investment.

Although we have been proactively developing our business activities despite such circumstances, the total orders received during the current consolidated fiscal year amounted to 98,464 million yen, a 14.6% decrease of 16,880 million yen over the previous consolidated fiscal year, while net sales amounted to 104,931 million yen, a 0.6% decrease of 681 million yen, as compared to that of the previous consolidated fiscal year. In addition, the backlog demand also amounted to 126,812 million yen, a 4.9% decrease of 6,467 million yen over the previous consolidated fiscal year.

As for gains and losses, thanks to the further cost reduction effect achieved through constant cost reduction and strengthened cost management, operating income achieved 713 million yen; however, due to the fact that 11,758 million yen as provision for losses on litigation and 3,429 million yen for compensation for liquidated damage for delay were respectively posted, we reluctantly reached a net loss of 14,551 million yen for the period.

#### ① Results by business segment are indicated as follows:

##### Domestic Environment and Energy

We continually received orders for large-scale projects in terms of waste treatment facility construction work and the amount of orders received for the current consolidated fiscal year was posted at 67,780 million yen, a 15.3% decrease of 12,205 million yen over the previous consolidated fiscal year. Meanwhile, thanks to the progress of construction works we have already received orders; net sales increased by 6,576 million yen, a 12.7% increase over the previous consolidated fiscal year, to an amount totaling 58,496 million yen. As for gains and losses, operating income was posted at 4,363 million yen, which far exceeded the previous result of 2,466 million yen.

##### Overseas Environment and Energy

Significantly affected by the exchange rate fluctuations for backlog demand during the previous consolidated fiscal year, the amount of orders received was posted at 1,811 million yen, a 117.6% increase of 979 million yen, as compared to that of the previous consolidated fiscal year. In addition, the amount of orders received excluding the impact of exchange rate fluctuations amounts to 11,384 million yen thanks to orders received for large-scale projects by our subsidiaries. As for net sales, despite the progress in the shape of a waste power plant construction work in Europe, the entry posted was 14,702 million yen, a drop of 4,539 million yen representing a 23.6% decrease over the previous consolidated

fiscal year. As for gains and losses, 2,157 million yen was posted as an operating loss due to additional construction costs incurred at our overseas subsidiaries.

### Package Boiler

Despite efforts to improve our market share, in terms of our core products of through-flow boilers and hot water heaters through approaches from stand-alone sales to a comprehensive sales method, including a peripheral system and equipment, as well as ensuring renewal demands, including maintenance contracts in the maintenance business, the amount of orders received amounted to 19,817 million yen, a 2.2% decrease of 451 million yen over the previous consolidated fiscal year, while net sales amounted to 19,745 million yen, a 3.4% decrease of 693 million yen over the previous consolidated fiscal year; however, as for gains and losses, thanks to the increased number of highly profitable projects as well as good results achieved through the cost reduction effect, operation income was posted at 129 million yen.

### Other Business Segments

Although we have been promoting activities focusing on impregnation equipment and equipment used in the semiconductor industry, due to the exclusion of certain subsidiaries from the consolidated companies entry, the amount of orders received amounted to 9,458 million yen, a 38.6% decrease of 5,957 million yen over the previous consolidated fiscal year, while net sales amounted to 12,574 million yen, a 14.5% decrease of 2,130 million yen over the previous consolidated fiscal year. Moreover, as for gains and losses, due to the impact of decreased net sales, operating loss was posted at 195 million yen.

## ② Results by geographical segment are indicated as follows:

### Japan

As for domestic operations, thanks to the progress of a backlog of demand in terms of construction work on waste treatment plants and energy plants, sales of through-flow boilers and hot water heaters, and operation management business and overhaul construction work of existing plants, as well as in overseas operations, and the progress of waste power plant construction work in Europe, net sales amounted to 97,001 million yen, a 1.1% increase of 1,038 million yen over the previous consolidated fiscal year. As for gains and losses, operating income amounted to 4,365 million yen, which represented a considerable recovery from the operating loss of 8,598 million yen of the previous consolidated fiscal year.

### Asia

Net sales, including an overhaul of existing plants and others, amounted to 624 million yen, a 44.3% decrease of 496 million yen over the previous consolidated fiscal year, while operating income was posted at 54 million yen.

### Europe

Despite the progress of construction work for waste power plants and biomass power plants, net sales amounted to 7,974 million yen, a 45.1% decrease of 6,555 million yen over the previous consolidated

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fiscal year. As for gains and losses, due to the additional construction costs incurred at overseas subsidiaries, the operating loss was posted at 1,999 million yen.

## (2) Status of Cash Flow

Cash and cash equivalents at the end of the current consolidated fiscal year resulted in 16,255 million yen, a decrease of 7,683 million yen over the previous consolidated fiscal year.

### [Cash Flow from Operating Activities]

Funds by operating activities decreased by 14,804 million yen.

This was due mainly to increased notes and accounts payable and advance received, which resulted in a 10,100 million yen decrease, as well as a decrease allowance for losses on sales contracts of 3,572 million yen alongside the progress of the construction work.

### [Cash Flow from Investment Activities]

An increase in funds from investment activities amounted to 2,677 million yen.

Despite the drop in funds of 1,905 million yen due to the purchase of investments in subsidiaries resulting in change in scope of consolidation, this is thanks mainly to the proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation and sales of investment securities, achieving increase of 1,341 million yen and 2,833 million yen respectively.

### [Cash Flow from Financing Activities]

An increase in funds from financing activities amounted to 5,334 million yen.

This was mainly due to the increased short-term bank loans of 5,531 million yen.

## 2. Manufacturing Costs, Orders Received and Sales

### (1) Manufacturing Costs

Manufacturing costs are indicated on a consolidated basis by business segment as follows:

#### Manufacturing Costs TAKUMA CO., LTD.

Business Segment	2008 (From April 1, 2007 to March 31, 2008)	2009 (From April 1, 2008 to March 31, 2009)
	Amount (million yen)	Amount (million yen)
Domestic Environment and Energy	34,387	38,449
Overseas Environment and Energy	32,363	14,999
Package Boiler	14,194	13,480
Other Business Segments	12,592	10,540
Total	93,536	77,468

(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 indicated on a consolidated basis by business segment as follows:

### Orders Received

TAKUMA CO., LTD. and Consolidated Subsidiaries

Business Segment	2008 (From April 1, 2007 to March 31, 2008)		2009 (From April 1, 2008 to March 31, 2009)	
	Amount of orders received (million yen)	Backlog demand (million yen)	Amount of orders received (million yen)	Backlog demand (million yen)
Domestic Environment and Energy	79,985	76,455	67,780	85,740
Overseas Environment and Energy	832	45,206	1,811	32,315
Package Boiler	20,268	3,935	19,817	4,006
Other Business Segments	15,415	8,164	9,458	5,050
Inter-Segment Orders (decrease)	(1,156)	(481)	(402)	(299)
Total	115,344	133,279	98,464	126,812

(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 include amounts whereby the customer to whom deliveries will be made has already been determined.
3. The orders received within the overseas environment and energy business segment for the FY 2008 include the effect of exchange rate fluctuations toward backlog demand as of the end of FY 2007. The orders received for the FY 2008 excluding this effect amount to 11,384 million yen.

## (3) Sales

Sales are indicated on a consolidated basis by business segment as follows:

### Sales

TAKUMA CO., LTD. and Consolidated Subsidiaries

Business Segment	2008 (From April 1, 2007 to March 31, 2008)	2009 (From April 1, 2008 to March 31, 2009)
	Amount (million yen)	Amount (million yen)
Domestic Environment and Energy	51,920	58,496
Overseas Environment and Energy	19,241	14,702
Package Boiler	20,438	19,745
Other Business Segments	14,704	12,574
Inter-Segment Sales (decrease)	(691)	(586)
Total	105,612	104,931

(Note)

1. Consumption tax is not included in the above amounts.

## 3. Future Outlook

### (1) Management Policies

In the three-year Mid-term Management Plan, which was concluded at the end of fiscal 2008, our group has been striving for group-wide structural improvement and reinforced earning capacity, by establishing the following two points of “promotion of group management” and “selection and concentration” as a basic strategy while also setting out the following three priority subjects: “promotion of compliance & CSR management”, “reinforcement of corporate competence” and “establishment and implementation of best business strategy”. Our efforts have achieved some progress, including the full enforcement of compliance, establishment of a risk management system, reorganization of group companies and operations,

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reinforcement of cost competitiveness and a package boiler business segment moving into the black. However, we have also had to face increasingly severe consequences over the past three years due to factors such as aggravated price competition due to stagnation in the market for government demand, rocketing material and equipment costs, a vast loss disposition from previous projects, including the U.K. project and the drastic economic slowdown due to subprime loan problems.

Targeting an early improvement in business performance, as well as ensuring a stable surplus, since fiscal 2009, our group launched a new Mid-term Management Plan, focusing on the “concentration of management resources on core operations”, and the “implementation of thorough risk and cost management”.

In the new Mid-term Management Plan, launched in fiscal 2009, the following six items are positioned as basic policies and we devote ourselves to promoting the same:

- ① Clarification of the positioning of operations and concentration of management resources on core operations  
Clarifying business segments that should be focused on, we will, in particular, concentrate materials on domestic municipal solid waste treatment plants, which is the core business operation of the group and for which a significant rebound in demand is anticipated after fiscal 2009.
- ② Implementation of thorough risk and cost management in terms of order-received projects  
We aim to ensure reliable profit from orders receipts via the appropriate application of a risk management structure, including a decision-making process concerning order receipts and monitoring, which was established during the previous Mid-term Management Plan.
- ③ Reconstruction of EU operations  
Positioning KAB Takuma GmbH (Germany) — an overseas affiliate — as the core base of our EU operations, we set the next three years as a period for establishing an operating base, aiming to return to profitability at an early stage by developing a structure to reliably ensure profits, centering on the boiler peripheral equipment engineering, our specialty area.
- ④ Implementation of the revision of personnel affairs with the aim of educating as well as revitalizing employees  
We aim to enhance organizational energy, as well as ensuring human resources via the revision of various personnel systems and the utilization of more senior personnel.
- ⑤ Reinforcement of the financial grounding  
We aim to enhance our own funds by generating profit from core operations, holding down investments and loans, as well as reducing the constant expenses of the group.
- ⑥ Fully enforcing compliance as well as reinforcement of risk management  
Fully enforcing compliance by providing continued enlightenment and educational activities in order to familiarize employees with corporate ethics, we strive to effectively implement and continue the risk management system.

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Through the implementation of concrete measures based on such basic policies, we aim to ensure consolidated current earnings for fiscal 2011 exceeding 5 billion yen.

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

At the board of directors meeting held on April 25, 2007, Takuma determined with immediate effect to approve the 'policy against bulk purchases of its shares (anti-takeover measures)' by any identifiable shareholder group, aiming to obtain voting rights of or exceeding 20% (hereinafter referred to as 'bulk purchases'). Moreover, this policy was approved with the support of a majority of voting rights of shareholders present at the annual meeting of shareholders held on June 28, 2007. The policy aims to allow certain measures to be taken, as described below, against bulk purchases, which definitely undermines its corporate value as well as the common interests of shareholders.

The board of directors of the Company requires bulk purchasers of its shares to provide information regarding bulk purchases in accordance with the rules for the same established by the Company, namely, 1. Any entity aiming to undertake a bulk purchase of the Company's shares is required to provide all necessary information prior to such purchases, 2. No bulk purchases shall commence until the fixed evaluation period afforded to the Company's board of directors has elapsed, and the latter has declared its opinion as the board of directors of the Company following a review and evaluation of such information. This is done from the perspective of opinions from the board of directors and offering necessary alternative proposals to provide important information for making an appropriate decision, determining the adequacy of consideration for the share acquisition of the Company proposed by such purchaser, as well as information provision from the purchaser when implementing bulk purchases of its shares. In addition, when the need arises from the board of directors of the Company, negotiations in terms of improved proposals by the bulk purchasers, as well as the offer of alternative proposals for its shareholders would be conducted.

Aiming to protect the common interests of the shareholders of the Company as well as its corporate value, in the event that a bulk purchaser does not comply with the rules, or even if a purchaser does so, but the bulk purchases are deemed to significantly undermine the common interests of shareholders, the Company may conduct the gratis distribution of share warrants with an exercise restriction stating that the share warrants may not be exercised by the bulk purchasers of the Company's shares after respecting the views of the special committee mentioned below to the utmost extent.

To ensure the reasonable and fair nature of the determination by the board of directors of the Company via the adequate application of the rules for bulk purchases, a special committee comprising outside experts has been established as an independent organization from the board of directors. This special committee provides the board of directors of the Company with advice concerning whether necessary information provided by the bulk purchaser is sufficient or not, as well as making recommendations for the rights and wrongs of taking countermeasures against such purchaser regarding the bulk purchases.

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## 4. Business Risks

Although the Takuma group takes measures against business risks on a systematic basis, potential risks that may impact on the operating results as well as the financial condition of our group are indicated as below, and considered to be those with the potential to affect the assessment of investors.

In addition, future events contained in these items are envisioned by our group as of the end of the current consolidated fiscal year.

### \* Risk in Economic Trends

The operating results and financial condition of our group might be exposed to risks, including trends for public and private-sector capital investments, price competition and structural change of the market due to the increase of newcomers, change in prices such as for raw materials and stock market conditions.

### \* Geographical Risks

In accordance with overseas business operations, we may be exposed to risks of force majeure such as terrorism, war, natural disasters and infectious diseases having occurred in various regions, as well as economic situations in various countries and exchange rate fluctuations.

### \* Risk in Safety and Quality

Operating results, financial conditions and society's valuation of our group can be affected due to accidents and disasters caused by human error and/or product defects in the course of business operations including the manufacture of products, installation, operation management and other subsequent operations. In addition, particularly in plants introducing new technologies, the financial situation may be affected by the increase of costs more than originally expected due to the occurrence of unexpected failure.

### \* Risk in Intellectual Property Rights

Our group business operations may be affected for the reason that intellectual properties, such as patents and trademarks, possessed and/or obtained by our group, cannot be protected or may be violated illegally, or conversely, in the case of our group trying to avoid the violation of the intellectual property rights of others.

### \* Litigation

On June 27, 2006, the Company was ruled by the Japan Fair Trade Commission (JFTC) to be in violation of the antitrust laws regarding our construction of waste incineration plants performed in the past fiscal year. In response to the trial decision, the JFTC issued a payment order for the Company to make a surcharge payment amounting to 4,702 million yen on March 23, 2007. Although we launched proceedings to dismiss the decision on July 27, 2006, we received a judgment dismissing the application on September 26, 2008. We have appealed against the decision to the Supreme Court. Moreover, the appeal procedure for the surcharge payment order was commenced on May 21, 2007, thus the surcharge payment order that we received has become invalid; however, in preparation for the final judgment, an anticipated loss of 4,702 million yen that may occur as a result of the adjudication was posted as a provision for loss on litigation in the current consolidated fiscal year.

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Moreover, with this in mind, the Company is currently involved in proceedings for taxpayer class action suits, some of which are described below:

- ① Regarding the taxpayer class action suit in terms of the bidding stage of the construction of a waste incineration plant by Fukuoka Municipal Government, whereby the contract was awarded to Hitachi Zosen Corporation, on April 25, 2006, the Fukuoka District Court delivered judgment, ordering the collective payment of 2,088 million yen together with its delay damages on five companies including Takuma. Although the Company had appealed against the decision to the Fukuoka High Court, it was dismissed on November 30, 2007. In response, on December 12, 2007, the Company had appealed to the Supreme Court; however, proceedings were dismissed on April 23, 2009.
- ② Regarding the taxpayer class action suit in terms of the bidding stage of the construction of a waste incineration plant by Amagasaki Municipal Government, whereby the contract was awarded to Hitachi Zosen Corporation, on November 16, 2006, the Kobe District Court delivered judgment, ordering the collective payment of 530 million yen together with its delay damages on six companies including Takuma. As a result of appealing against the decision to the Osaka High Court, on November 30, 2007, the Company won the case. In addition, the plaintiff had appealed to the Supreme Court on December 7, 2007; however, on April 28, 2009, the case was sent back to the Osaka High Court.
- ③ Regarding the taxpayer class action suit in terms of the bidding stage of the construction of a waste incineration plant by Tokyo Metropolitan Government, on March 20, 2007, the Company received a decision, ordering the payment of 4,409 million yen together with its delay damages. In response to the decision, the Company had appealed to the Tokyo High Court, on May 12, 2009; however, the Tokyo High Court delivered judgment, ordering the payment of 4,409 million yen together with its delay damages. The Company appealed against this decision to a higher court. In addition, in preparation for the final judgment of this case, an anticipated loss of 7,055 million yen that may occur as a result of the adjudication was posted as provision for loss on litigation in the current consolidated fiscal year.
- ④ Regarding the bidding for the construction of a waste incineration plant and recycle plaza by Kohoku Koiki Civil Service Center, whereby the contract was awarded to Mitsubishi Heavy Industries, Ltd., Kohoku Koiki Civil Service Center filed a suit against five companies including Takuma with the Otsu District Court for damages and on September 25, 2008, the Otsu District Court delivered judgment, ordering the five companies, including Takuma, to make a collective payment of 409 million yen together with its delay damages.  
In response, the Company had appealed to the Osaka High Court; however, on June 18, 2009, it was dismissed. As for further responses, we will make a decision including whether to make a final appeal after review.

Depending on how these cases unfold, the financial condition and operating results of the Company may be affected in various forms.

**\* Other Factors**

As far as the Company and its group implement business activities, we may be subject to impacts by

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the control of governments, supply system of suppliers, securing of personnel both domestically and overseas and the loss of important personnel. Under certain circumstances, such matters may have various impacts on the operating results and financial situation of our group.

## 5. Significant Licensing Agreement

### (1) In-licensing Agreements

	Licensee	Technology	Date of Agreement	Licensor	Validity of Contract
1	TAKUMA CO., LTD.	Liquid Membrane Water Treating Process	September 1976	Exxon Mobil Research and Engineering Co. (U.S.A.)	The contract was terminated in September 2008
2	TAKUMA CO., LTD.	Continuous Bed Filtration of Liquids	April 1979	Nordic Water Products AB (Sweden)	30 years, thereafter renewed for another 3 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 (Note 2)
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	Durr 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. Consideration of the above agreements is mainly paid in the form of a lump-sum payment, which is paid to the licensor at the time of agreement, as well as a fixed percentage by sales volume.
2. The agreement is scheduled for renewal in June, 2009.

### (2) Licensing Agreements

	Licensor	Technology	Date of Agreement	Licensee	Validity of Contract
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.	Auxiliary Agent for Filter-Type Dust Collector	July 1993	Mitsui Mining & Smelting Co., Ltd. (Japan)	10 years, thereafter automatically renewed every year
4	TAKUMA CO., LTD.	Vacotin Heater	July 1995	Kyungdong Navien Co., Ltd. (Korea)	10 years, thereafter automatically renewed every year
5	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
6	Bioener ApS (Denmark)	Straw Firing Power Boiler	November 2005	Dragon Power Co., Ltd. (China)	5 years, thereafter automatically renewed
7	TAKUMA CO., LTD.	Coal Firing Boiler	June 2007	P.T. Panca Mandiri Essencia (Indonesia)	10 years, thereafter automatically renewed every year

(Note)

Consideration of the above agreements is mainly paid in the form of a lump-sum payment, which is paid to the licensor at the time of agreement, as well as a fixed percentage by sales volume.

### **(3) Merger Agreement with Consolidated Subsidiary**

At the board of directors meeting held on December 25, 2008, Takuma decided to enter into a merger agreement with its consolidated subsidiary, Takuma Plant Co., Ltd., setting April 1, 2009 as the date of entry into force.

A summary of the merger is described as follows:

① The purpose of the merger

As a construction subsidiary of the Company, Takuma Plant Co., Ltd. had been engaging in the supervision of construction work for waste treatment and boiler plants mainly constructed by the Company by allocating a number of qualified personnel to supervise construction. On this occasion, however, as part of the promotion of the group management, which is our basic strategy, the Company decided to buy out Takuma Plant Co., Ltd., aiming to ensure the effective utilization of in-house human resources, while also increasing both business efficiency and cost reduction, and preparing for the recovery in demand in the waste treatment plant market by ensuring the deployment of qualified personnel, such as supervisors, in the supervision of construction work through this merger.

② Merger method

A merger establishing the Company as the surviving company, with Takuma Plant Co., Ltd. dissolved

③ Date of merger

April 1, 2009

④ Share distribution for merger

The distribution of shares would be 3.4 common shares of Takuma Co., Ltd. for each Takuma Plant Co., Ltd. share. However, as for the shares of Takuma Plant Co., Ltd. held by the Company, no share distribution due to the merger would be conducted.

The Company allocates its own shares to cover the share distribution for the merger.

⑤ Calculation basis of share distribution for merger by absorption

Upon calculation of the merger ratio, the Company and Takuma Plant Co., Ltd. proposed Nagisa & co. as an independent third party organization to calculate the merger ratio, in order to ensure fairness and validity. Nagisa & co. adopted the market share price formula, which is the most theoretical method in the sense that the ratio can be concluded by the market mechanism as the shares of the Company are listing shares. Moreover, Nagisa & co. adopted a DCF (discounted cash flow) formula for Takuma Plant shares due to the fact that Takuma Plant shares are unlisted shares; therefore, no share price is created in the market.

Based on the calculated results of the merger ratio conducted by Nagisa & co., the ratio indicated in the above ④ was finally determined as appropriate and agreement was reached between the parties following further discussions.

⑥ Assumed assets and liabilities

The Company takes over the assets, liabilities of Takuma Plant Co., Ltd. as well as all rights and obligations associated with these affairs as of the effective date of this merger.

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⑦ Summary of the surviving company after merger

Capital: 13,367 million yen

Business Description: The design, construction and superintendence of a wide variety of boilers, plant machinery, pollution prevention plants, environmental equipment plants, heating and cooling equipment and feedwater/drainage sanitation equipment and facilities, as well as the design, construction and superintendence of civil, architectural and other works

## (4) Share Transfer of a Consolidated Subsidiary

At the board of directors meeting held on November 10, 2008, Takuma decided to enter into an agreement with IHI Corporation for the transfer of shares, held by the Company, of its consolidated subsidiary, Central Conveyor Co., Ltd. and on December 1, 2008, the share transfer was completed.

A summary of the share transfer is indicated as follows:

① The reason for the share transfer

Positioning the following three business segments — environment and energy, package boiler and overseas operations as core business operations, our group promotes the “selection and concentration” of our limited management resources in order to strengthen these business operations. Central Conveyor Co., Ltd. is one of our subsidiaries, engaged in the manufacture of conveyor equipment and the design and construction of distribution systems; however, the synergy effect with our core business operations does not work effectively, therefore, new strategies have been required in order to achieve the further expansion of Central Conveyor Co., Ltd.

This time, the Company positioned distribution system operations as its strategic business and determined that the share transfer of Central Conveyor Co., Ltd. to IHI Corporation would be the best solution for both Takuma and Central Conveyor, which resulted in this share transfer.

② Date of share transfer

December 1, 2008

③ Name and business description of the relevant consolidated subsidiary

Name: Central Conveyor Co., Ltd.

Business Description: The design, manufacture and sale of various distribution equipment as well as general industrial machinery

④ Number of shares transferred and ratio of shareholder's equity

Number of shares transferred: 196,300 shares

Ratio of shareholder's equity after share transfer: 0%

## 6. Research and Development Activities

The research and development activities of our group have been proactively focused on the enhancement and succession of technical capabilities, improvement of core technologies and development of new products, while implementing collaborative research with external research institutes and universities in cooperation with each group company via its technology department integrated into the Engineering Division.

The research and development expenditure during the current consolidated fiscal year amounts to 516 million yen and the major research and development activities by business segment are described as follows:

### (1) Environment and Energy

① As for a system of sewage sludge gasification and power generation, the relevant demonstration tests are complete and we have been promoting sales activities in this area, aiming to win orders during fiscal 2009.

In addition, this research project is a joint research project with the New Energy and Industrial Technology Development Organization of Japan and Tokyo Gas Co., Ltd.

② As for the energy recovery technology featuring the alkali hydrogen-methane fermentation of distilled spirit lees, the relevant demonstration tests have also been implemented and we have successfully made achievements for the initial phase in terms of the utilization of biomass resources and reduction of the environmental load. We continue to implement the demonstration test; aiming to enhance the energy recovery rate and reduce costs toward practical application.

In addition, this research project is a joint research project with the New Energy and Industrial Technology Development Organization of Japan.

③ Promotion of the Demonstration Test on gasification and methanol synthesis from woody biomass is also continued. As for gasification targeting the practical application of a new catalyst for tar decomposition, which is our own unique development, we have also established refinement technologies of produced gas at the same time. Moreover, regarding the methanol synthesis from produced gas, thanks to our unique development of a new catalytic reactor and methanol synthetic catalyst, methanol synthesis at low temperature and pressure has been accomplished and we have been striving toward commercialization as well as sales promotion of the same. This synthetic methanol is available as a substitute for industrial methanol, which is needed when producing biodiesel fuel (a light oil alternative) from waste edible oil.

In addition, this research project is one sponsored by the Ministry of the Environment.

④ The development of a water-cooled stoker for high-calorie waste incineration has been concluded and its demonstration test, featuring the system installed in an industrial waste incinerator, was conducted. The test result showed positive outcomes.

⑤ We have conducted a demonstration test on an advanced wastewater treatment technology using specific microorganisms (Anammox), aiming to develop a wastewater de-nitrification system, which is

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energy- and space-saving with a reduced environmental load and achieving positive outcomes; all of which allows us to foresee the vision of commercialization.

- ⑥ The implementation of an optimization study of combustion and flow using a thermal fluid simulation technology has continued and we utilize its achievements for the operational supervision and control system of waste incineration plants.

The research and development expenditure on the environment and energy business segment amounts to 433 million yen.

## **(2) Package Boiler**

- ① Aiming to reduce CO<sub>2</sub> and NO<sub>x</sub> emissions as well as running costs; we have been striving to improve combustion efficiency for through-flow boilers.
- ② We have been striving to improve efficiency for hybrid hot water systems, namely a combination of vacuum-type hot-water heaters and heat pump water heaters.
- ③ We have been striving to develop a burner for new-type through-flow boilers and vacuum-type hot-water heaters.

The research and development expenditure on the package boiler business segment amounts to 43 million yen.

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

The research and development expenditure on these business segments amounts to 40 million yen.

## **7. Analysis of Financial Position and Operating Results**

### **(1) Financial Position**

Our group sets out the appropriate maintenance of liquidity and securing of financing for business operations, as well as the maintenance of a healthy balance sheet as our financial policies.

Total assets as of the end of the current consolidated fiscal year amounted to 99,142 million yen, a 12.0% decrease of 13,485 million yen over of the end of the previous consolidated fiscal year. Current assets amounted to 64,384 million yen, a 12.5% decrease of 9,172 million yen, while investments and other assets amounted to 21,922 million yen, a 23.6% decrease of 6,762 million yen over the end of the previous consolidated fiscal year respectively. Property, plant and equipment amounted to 12,836 million yen, a 23.6% increase of 2,449 million yen over the end of the previous consolidated fiscal year.

The major factor of the decrease of current assets is due to the fact that cash and time deposits amounted to 16,924 million yen, a 36.0% decrease of 9,510 million yen over the end of the previous consolidated fiscal year.

Total liabilities as of the end of the current consolidated fiscal year amounted to 73,595 million yen, a 10.4% increase of 6,948 million yen over the end of the previous consolidated fiscal year. Current liabilities amounted to 63,023 million yen, a 12.1% increase of 6,818 million yen, while non-current liabilities amounted to 10,572 million yen, a 1.2% increase of 130 million yen over the end of the previous consolidated fiscal year respectively.

The factors behind the increase in current liabilities mainly include the fact that the allowance for losses on litigation was budgeted for, which resulted in an increase of 11,758 million yen with liabilities, while short-term loans payable also amounted to 12,845 million yen, a 67.5% increase of 4,975 million yen over the end of the previous consolidated fiscal year, although advanced received amounted to 3,435 million yen, a 59.0% decrease of 4,934 million yen over the end of the previous consolidated fiscal year, while allowance for losses on sales contracts amounted to 1,644 million yen, a 70.0% decrease of 3,833 million yen over the end of the previous consolidated fiscal year.

The factors behind the increase in non-current liabilities mainly include the increase in long-term debt which amounted to 1,921 million yen, a 141.8% increase of 1,127 million yen over the end of the previous consolidated fiscal year, while negative goodwill amounted to 1,734 million yen, a 985.0% increase of 1,574 million yen over the end of the previous consolidated fiscal year due to the newly consolidated subsidiary, and despite the decrease in deferred tax liabilities which amounted to 976 million yen, a 72.2% decrease of 2,542 million yen over the end of the previous consolidated fiscal year.

Net assets including minority interests, amounted to 25,547 million yen, a 44.4% decrease of 20,433 million yen over the end of the previous consolidated fiscal year. This is due to the net deficit posted for the period, which resulted in retained earnings dropping to a deficit of 375 million yen, a 102.6% decrease of 14,759 million yen over the end of the previous consolidated fiscal year and the difference in net unrealized holding gain on available-for-sale securities, net of taxes, which amounted to 1,485 million yen, a 67.9% decrease of 3,136 million yen over the previous consolidated fiscal year.

Consequently, the equity capital ratio decreased from 37.4% as of the end of the previous consolidated fiscal year to 23.1%, while shareholders' equity per share dropped to 277.10 yen from 505.83 yen as of the end of the previous consolidated fiscal year.

## **(2) Operating Results**

In the domestic environment and energy business segment, our group obtained consecutive order receipts for large-scale projects in terms of waste treatment facility construction work during the current consolidated fiscal year. As for the overseas environment and energy business segment, Company subsidiaries obtained order receipts for large-scale projects. In the package boiler business segment, we strove to improve our market share for through-flow boilers and hot water heaters via approaches ranging from stand-alone sales to a comprehensive sales method, including peripheral systems and equipment, as well as ensuring renewal demand, including maintenance contracts in the maintenance business. As for other business segments, we promoted activities focusing on impregnation equipment and that used in the semiconductor industry. Consequently, the amount of orders received amounted to 98,464 million yen, a 14.6% decrease of 16,880 million yen over the previous consolidated fiscal year and net sales amounted

## STATUS OF BUSINESS ACTIVITIES

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to 104,931 million yen, a 0.6% decrease of 681 million yen over the previous consolidated fiscal year.

Gross profit amounted to 17,908 million yen, while selling, general and administrative (SG&A) expenses amounted to 17,195 million yen and as a result of the reduction of SG&A expenses, operating income amounted to 713 million yen.

The net amount following the deduction of other expenses from other income was posted at 14,627 million yen of losses, due to the fact that 11,758 million yen in provision for losses on litigation, as well as 3,429 million yen of compensation for liquidated damage for delay.

In accordance with aforementioned results, loss before income taxes and minority interests amounted to 13,914 million yen and the net loss for the period, following the deduction of current income taxes, deferred income taxes and minority interests in income of consolidated subsidiaries amounted to 14,551 million yen.

Moreover, the net deficit for the period per share amounted to 175.30 yen and the equity capital ratio resulted in a deficit of 44.8%.



View of shrine adjacent to pond on grounds of TAKUMA Head Office (after snowfall)