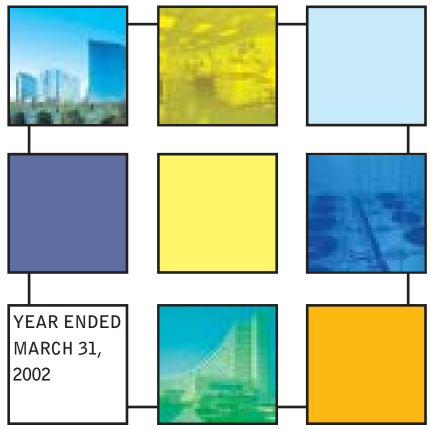
Takasago Thermal Engineering Co., Ltd.



ANNUAL REPORT 2002

PROFILE

Founded in 1923, Takasago Thermal Engineering Co., Ltd. is Japan's largest company specializing in Heating, Ventilation and Air Conditioning (HVAC). The company's mission is to make people's lives more pleasant and contribute to society as a whole by creating comfortable environments. Building upon a solid theoretical foundation in thermal dynamics, fluid dynamics and electronics, Takasago uses its own leading-edge technology to design and install systems that meet the requirements of a wide variety of buildings.

Takasago is continuing its R&D efforts in a broad range of fields to respond to global environmental problems and other diverse needs of society.

1. HVAC for Comfortable Environments

Takasago provides optimum air environments in a huge array of modern structures. These include office buildings, where "intelligent" functions are becoming increasingly common, crowded stations and airports, and hotels where the element of comfort is paramount. In addition, the company provides systems for schools, hospitals and other facilities essential to society, art galleries and museums housing cultural exhibits, as well as vast complexes and skyscrapers that combine many of these functions. Takasago's technical skill extends also to the environmental control of large indoor spaces such as domed baseball stadiums, concert halls and theaters.

2. HVAC for Work Spaces

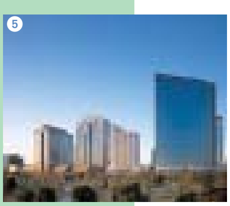
Takasago is playing a major role in preserving healthy working environments and raising efficiency at the factories of many of Japan's best known manufacturers in such industries as automobiles and electrical appliances, in addition to precision equipment such as watches and cameras, and printing.

3. HVAC for Manufacturing Processes

Process HVAC systems such as clean rooms and clean-dry rooms are essential to the high-precision processing technology at the core of information and communications equipment such as PCs, mobile phones and LCDs, as well as the pharmaceuticals, biotechnology and food products essential to healthy living. Over the years, Takasago has responded to changing customer needs by developing ultra-precise constant-temperature, constant-humidity technology; ultra-clean technology for the removal of dust, chemical contaminants and static electricity; and ultra-dry technology for preserving an extremely low dew point. By combining these techniques with its high-precision control expertise, Takasago contributes to raising productivity in manufacturing processes.

4. HVAC Renovations

When a building is renovated and its facilities updated, installing HVAC equipment is inevitably one of the most important tasks. Typically, these systems need to be replaced after 15 or 20 years, a much shorter period than the average building lifetime of 30 to 50 years. To respond to changes in a building's use during its lifetime—and to continual demands for higher-performance systems—Takasago draws upon its vast experience in renovation and upgrading to propose HVAC solutions that meet the requirements of the age and add value to the building itself.



5. DHC (District Heating-and-Cooling) Systems

DHC systems are an effective means of both saving energy and purifying exhaust gas emissions in redevelopment projects. In addition, they help utilize limited energy resources and space more efficiently and provide reliable service in the event of an emergency. Offering the optimum combination of energy usage—electricity, gas and unused energy—the importance of DHC systems in countering global warming is set to increase from hereon. DHC systems are also important in terms of showcasing Takasago's expertise in heating technology accumulated through years of experience.

CONTENTS

Masaru Ishii PRESIDENT

OVERVIEW OF THE FISCAL YEAR ENDED MARCH 31, 2002

Japan's economy saw a further deepening of recession in fiscal 2001, ended March 31, 2002. The worldwide economic slowdown and slumping IT-related industries have led to falling exports and declining capital expenditures in Japan. These in turn have caused rising unemployment and declining incomes, which continue to dampen consumer sentiment.

The Japanese construction industry, which relates directly to our operations, continued to face a difficult operating environment. A falling number of public-works projects and intensifying competition for private-sector projects has put downward pressure on prices.

Amid this operating environment, Takasago and its group companies made a concerted effort to expand marketing activities, giving priority to profitability as well as emphasizing customers' needs. At the same time, we worked aggressively to reduce costs and curb selling, general and administrative expenses across operations. Actions included improving our engineering and construction processes, raising the efficiency of site administration and rationalizing the procurement of materials to lower costs. As a result, orders received decreased 10.9% year on year to ¥187,017 million, and net sales fell 19.2% to ¥196,436 million. Net income, however, amounted to ¥1,698 million, a 6.6% increase from the previous fiscal year. The dividend remained unchanged at ¥17.00 per share.

ONGOING MEDIUM-TERM BUSINESS PLAN

Last year, Takasago formulated a three-year medium-term business plan running from April 1, 2001 to March 31, 2004. Nevertheless, our results in the first year of this plan were not completely satisfactory. It would seem that we will also have difficulty meeting our targets for the year ending March 31, 2003: orders received of ¥205,000 million, net sales of ¥205,000 million, operating income of ¥2,500 million, and net income of ¥1,300 million. As we approach the final year of this business plan, we are determined to push ahead with customer-directed marketing activities and reduce costs further to hit our targets. I request your ongoing, valued support in all these endeavors.

石 井 勝

Masaru Ishii

FINANCIAL HIGHLIGHTS

	Millions of yen					Thousands of U.S. dollars
	2002	2001	2000	1999	1998	2002
For the year:						
Orders received	¥187,017	¥209,816	¥206,818	¥212,561	¥246,918	$1,403,505
Net sales	196,436	243,213	196,168	230,998	271,670	1,474,191
Operating income	3,685	5,650	4,628	5,809	9,213	27,654
Net income	1,698	1,593	1,922	2,872	4,343	12,743
Backlog of orders	147,155	156,575	189,972	179,322	197,759	1,104,353
At year end:						
Total assets	¥221,223	¥250,999	¥238,276	¥231,914	¥254,456	$1,660,210
Shareholders' equity	80,074	81,029	80,875	79,468	78,400	600,931
	Yen					U.S. dollars
Per share:						
Net income	¥19.80	¥18.57	¥22.41	¥33.49	¥50.63	$0.15
Cash dividends applicable to the year	17.00	17.00	17.00	17.00	17.00	0.13

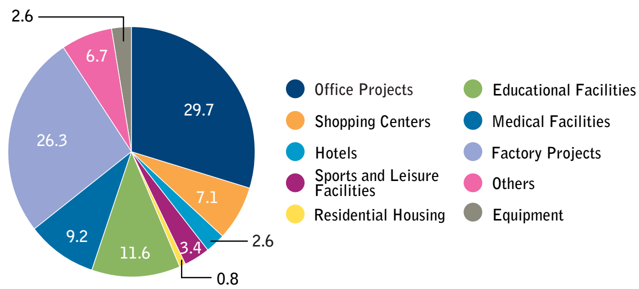
Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥133.25=US$1.

"General-purpose HVAC systems" includes all Construction items except Factory Projects. "Industrial HVAC systems" means Factory Projects that include clean rooms.

ORDERS RECEIVED BY PROJECT • Orders received in the fiscal year ended March 31, 2002 decreased year on year by 10.9% to ¥187,017 million. While orders for public-works projects rose, those for large-scale urban redevelopment and other projects met with slow demand. Orders for construction of IT-related clean rooms and renovation projects both fell. As a result, orders for general-purpose HVAC systems edged down 2.0% to ¥132,987 million, and orders for industrial HVAC systems dropped by 29.3% to ¥49,264 million. Orders for equipment, however, rose year on year by 9.0% to ¥4,766 million. Overall, general-purpose HVAC systems accounted for 71.1% of orders, industrial HVAC systems for 26.3% and equipment for 2.6%.

	Millions of yen		
	2002	2001	2000
Construction			
Office Projects	**¥ 55,608**	¥ 62,403	¥ 65,108
Shopping Centers	**13,340**	15,921	15,201
Hotels	**4,828**	5,307	3,588
Sports and Leisure Facilities	**6,406**	7,822	8,672
Residential Housing	**1,454**	2,087	2,779
Educational Facilities	**21,760**	17,276	18,523
Medical Facilities	**17,163**	12,842	23,912
Factory Projects	**49,264**	69,699	44,538
Others	**12,428**	12,088	18,857
Equipment	**4,766**	4,371	5,640
TOTAL	**¥187,017**	¥209,816	¥206,818

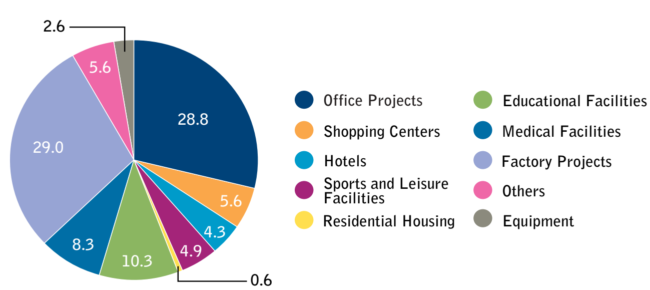
2002 Orders Received by Project (%)



NET SALES BY PROJECT • Net sales declined 19.2% to ¥196,436 million. By sector, net sales of general-purpose HVAC systems declined 17.8% to ¥134,378 million, and industrial HVAC systems by 24.1% to ¥56,882 million. Meanwhile, net sales of equipment increased 6.3% to ¥5,176 million. General-purpose HVAC systems accounted for 68.4% of net sales, industrial HVAC systems for 29.0% and equipment for 2.6%.

	Millions of yen		
	2002	2001	2000
Construction			
Office Projects	**¥ 56,638**	¥ 68,074	¥ 63,012
Shopping Centers	**10,924**	19,498	15,627
Hotels	**8,523**	7,532	10,941
Sports and Leisure Facilities	**9,705**	9,946	15,015
Residential Housing	**1,122**	2,887	1,269
Educational Facilities	**20,271**	20,313	16,916
Medical Facilities	**16,212**	20,001	21,834
Factory Projects	**56,882**	74,966	28,421
Others	**10,983**	15,126	17,535
Equipment	**5,176**	4,870	5,598
TOTAL	**¥196,436**	¥243,213	¥196,168

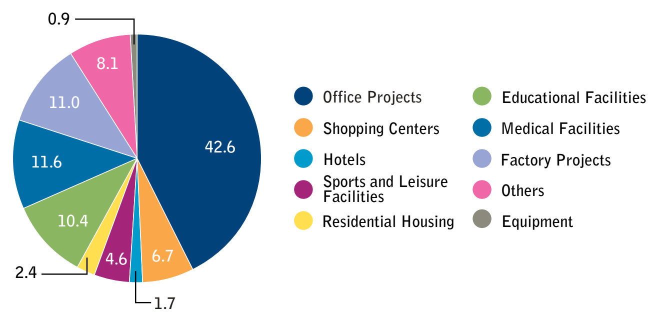
2002 Net Sales by Project (%)



BACKLOG OF ORDERS BY PROJECT • The backlog of orders at the end of the fiscal year stood at ¥147,155 million, representing a year-on-year decrease of 6.0%. The backlog of orders for general-purpose HVAC systems fell 1.1% to ¥129,697 million, and industrial HVAC systems by 32.0% to ¥16,201 million. Equipment also decreased, by 24.6%, to ¥1,257 million. General-purpose HVAC systems accounted for 88.1% of the backlog of orders, industrial HVAC systems for 11.0% and equipment for 0.9%.

	Millions of yen		
	2002	2001	2000
Construction			
Office Projects	**¥ 62,759**	¥ 63,789	¥ 68,233
Shopping Centers	**9,876**	7,461	11,038
Hotels	**2,482**	6,177	8,402
Sports and Leisure Facilities	**6,797**	10,096	12,220
Residential Housing	**3,507**	3,175	5,202
Educational Facilities	**15,369**	13,879	16,916
Medical Facilities	**17,105**	16,154	23,313
Factory Projects	**16,201**	23,820	29,087
Others	**11,802**	10,357	13,395
Equipment	**1,257**	1,667	2,166
TOTAL	**¥147,155**	¥156,575	¥189,972

2002 Backlog of Orders by Project (%)



OVERSEAS BUSINESS • Takasago's Singapore, Hong Kong and Taiwan branches have established a strong track record in the supply of clean rooms for high-tech factories and HVAC systems for hotels and other high-rise buildings, shopping centers and other such large-scale establishments.

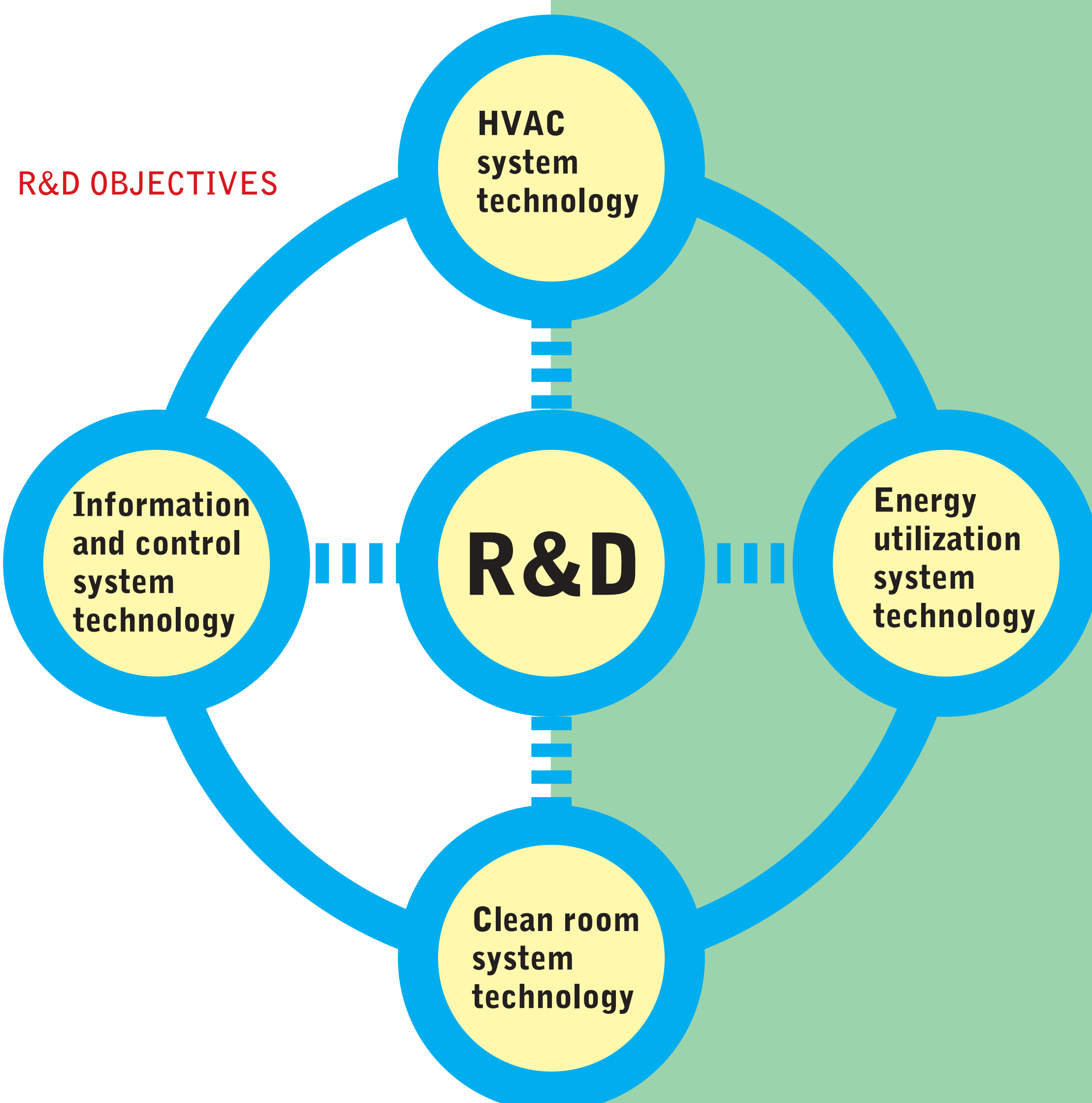
In China, we have set up representative offices in Shenzhen, Suzhou and Shanghai, focal points for the business activities of many Japanese, European and U.S. companies. We are participating in several regional development projects sponsored by the Chinese government. We have also set up local companies in Malaysia, Thailand and the Philippines as part of our strategy to establish an overseas network in Southeast Asia and elsewhere.

Takasago considers that a full-fledged recovery from the current IT recession will take some time. We anticipate new investments in construction by IT-related companies in the latter half of the year ending March 31, 2003. We estimate that our results for this fiscal year will be about the same as last year or slightly higher.

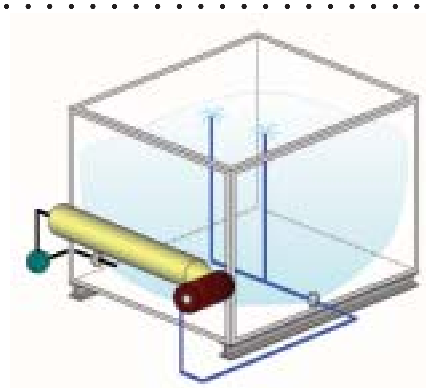
Nevertheless, foreign and Japanese companies are actively investing in China. Takasago will strengthen its marketing activities in China, centering on its representative office in Shenzhen.

HVAC technology, the core business of Takasago, has become an indispensable element in creating enhanced building and urban environments, and a key aspect in the design of manufacturing facilities. Creating the optimum environment through HVAC systems involves far more than simply adjusting air temperature and humidity; it calls for the complete control of a wide range of factors such as air flow, distribution, pressure and cleanliness to meet exacting requirements. Takasago develops distinctive HVAC technologies with the aim of providing the most comfortable environment possible for its customers.

R&D OBJECTIVES



Super Ice System MII



Takasago started to sell its ice thermal storage system, Super Ice System™, in 1988. Since then we have steadily won our customers' trust. To date, we have installed more than 10,000 refrigeration tons[*1].

We have developed a new system, Super Ice System MII. Instead of the former discharge pipe, the new system employs a "supercooled activity discharge device" which uses ultrasound to manufacture ice. This ice thermal storage system enables more stable heat storage and a much smaller discharge unit. Also, a circulating pump enables the sherbet ice to be moved wherever desired.

The new system is ideal for buildings being remodeled as we have eliminated the former layout and shape constraints required for the ice thermal storage tank. The customer can use a conventional water thermal storage tank, a double under-floor slab space or an unused water tank for the ice thermal storage tank. Naturally, the new system is also ideal for new buildings.

*1: A refrigeration ton is the amount of heat required to convert 1 ton of water (0°C) into ice in a twenty-four hour period = 3,516W

DC-TFFU: Fan Filter Unit for Clean Rooms

Takasago's Fan Filter Unit TFFU is an important device for maintaining a high degree of cleanliness in a clean room. The TFFU consists of a fan and filters, and is fitted to the air conditioning conduit of the internal circulatory system of the clean room. The DC-TFFU device uses direct-current brushless motors[*2] to control the rotational speed of each fan with great sensitivity, sending only the required amount of air into the room. This enables lower power consumption, better energy conservation, and a reduction in running costs.

DC-TFFU is compatible with mini-line systems and mini-environment systems, considered to represent the next generation of clean rooms. The low associated energy consumption and operational costs make our system ideal for makers of semiconductors and liquid crystal products who require high levels of energy conservation.

SIGMAT-FUDC is a monitoring and control system for DC-TFFU. SIGMAT-FUDC allows up to 12,000 DC-TFFU units to be monitored simultaneously. It can instruct the DC-TFFU units to turn on or off, can alter their speed, can detect irregular operations or malfunctions, and can keep operational records.

*2: Direct-current brushless motors are durable and highly reliable motors which do not generate discharge noise. The speed of the motors can be freely changed in accordance with the speed of electronic +/- switching.

TIOS–AIII: A Chemical Filter for the Removal of Water Soluble Nitrogen Oxides

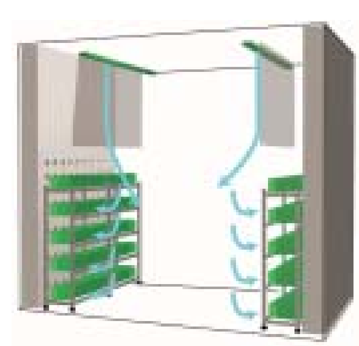
Takasago has developed TIOS-AIII, a product with superior properties related to the removal of water-soluble nitrogen oxides. This product is one of the TIOS-A product line for removing acid gases and has always experienced strong demand.

With the increasing level of sophistication and detail required for the manufacture of semiconductors, chemical contamination has become a serious issue and measures to prevent contamination have become essential. Recently, attention has focused on acidic gases in the ventilation systems of clean rooms. Of these gases, water-soluble nitrogen oxides have the highest concentration. TIOS-AIII is a strategic product developed in direct response to this demand.

TIOS-AIII is fitted to the air conditioning conduit of the internal circulatory system of a clean room. A carbonate impregnated into the surface of the filter neutralizes and absorbs the water-soluble nitrogen oxides in the air. The initial removal efficiency is over 90%. The useful life of the filter—the time taken for the removal efficiency to fall to 80% assuming a concentration of water soluble nitrogen oxides of 5 $\mu g/m^3$ prior to filtering—is 11,200 hours. This represents a tenfold increase over that of the current TIOS-A series.

The filter is manufactured by baking a ceramic honeycomb structure together with the material to impregnate the surface. Consequently, only nonflammable and highly stable materials are used in manufacturing the filter.

TLACS: A New Air Conditioning System for Laboratory Animal Facilities

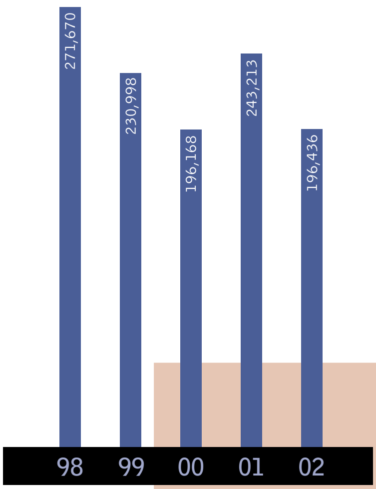


TLACS is a new air conditioning system developed for laboratory animal facilities in research institutes. In Takasago's new system, air flows along vertical walls installed near air outlets in the ceiling, spreading the airflow evenly and gently. Air is exhausted through the vent of a chamber provided at the rear of the animal rack. Consequently, problems of temperature difference, air flow difference and diffusion within the room can be eliminated, enabling precise control of the environment and strict prevention of contamination. Because this system also allows a reduction in the number of times the air should be changed, in a model case we were able to trim running costs by 20%.

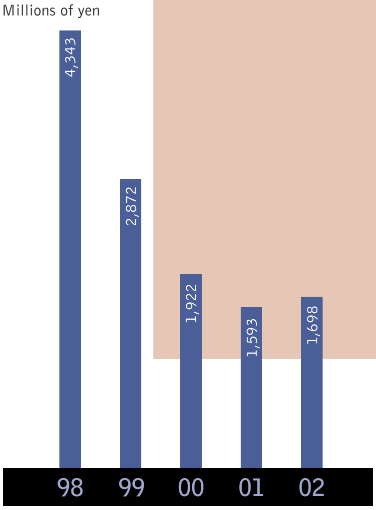
Maintenance is simple, as the lack of any special duct connections makes the animal racks very easy to clean. Any smells or powdery deposits from the animals extracted through the chamber vent can also be easily cleaned away.

Because this air conditioning system is structurally simple and compatible with any type of rack, it can be readily adapted for different animal species, or for future upgrades to the facilities.

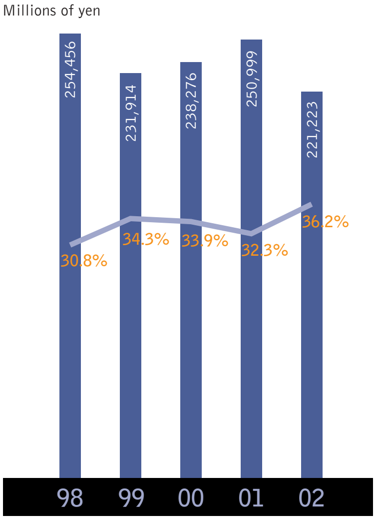
Net sales
Millions of yen



Net income
Millions of yen



Total assets & Equity ratio
Millions of yen



CONSOLIDATED STATEMENTS OF INCOME

• In the fiscal year ended March 31, 2002, consolidated net sales fell somewhat compared to the previous fiscal year. Construction of HVAC systems accounted for 97.4% of Takasago's net sales. Sales of general-purpose HVAC systems for office buildings declined 17.8%, and sales of industrial HVAC systems, primarily clean rooms, fell by 24.1%. As a result, sales at the parent company, which is responsible for HVAC systems, decreased 19.8% year on year. Offsetting these declines somewhat was a 6.3% increase in manufacturing and marketing of equipment at our consolidated subsidiary. As a result of the above, the ratio of consolidated net sales to non-consolidated net sales was 1.03 times.

The gross profit on completed construction contracts increased 0.7 of a percentage point from 8.4% to 9.1%. In addition, selling, general and administrative expenses decreased. However, due to a decline in net sales, operating income fell 34.8%. The ratio of consolidated operating income to non-consolidated operating income was 1.18 times. In other income (expenses), the company booked a gain on an anonymous investment partnership, but recorded an increased write-down of investment securities. However, the absence of last year's amortization of the entire net transition obligation for retirement benefits following introduction of a new accounting standard resulted in an increase in net income for the year of 6.6%. As a result, the ratio of consolidated net income to non-consolidated net income was 1.04 times.

FINANCIAL POSITION

• In assets, notes and accounts receivable-trade decreased ¥20,498 million, or 21.6%. In the previous fiscal year, there was a concentration of completed contracts at the end of the year, which resulted in a significant increase at March 31, 2001. This fact, and a drop in the balance of completed contracts in the year under review, led to the decrease in notes and accounts receivable-trade. The cost of uncompleted contracts increased by ¥3,125 million, or 10.9%, due to an increase in construction projects in progress.

On the other side of the balance sheet, notes and accounts payable-trade were ¥18,749 million, or 18.4% lower, for the same reasons as with notes and accounts receivable-trade. Advances received on uncompleted contracts fell by ¥2,131 million, or 9.4%, in line with a decrease in progress payments received.

CASH FLOWS

• Cash and cash equivalents at the end of the year were ¥51,201 million, down ¥1,322 million from a year ago.

Operating activities used net cash of ¥2,746 million, ¥4,287 million more than in the previous fiscal year. The main uses of cash were an increase in the cost of uncompleted contracts and a decrease in advances received on uncompleted contracts.

Investing activities provided net cash of ¥5,362 million, ¥3,743 million less than in the previous fiscal year. Payments for the purchase of marketable and investment securities to strengthen business ties were outweighed by proceeds from returns on matured time deposits. Returns on matured deposits were less than the previous year, which was the main reason for the decrease in overall cash provided by investing activities.

Net cash used in financing activities amounted to ¥3,902 million, ¥416 million higher than in the previous fiscal year. Cash was mainly used for repayments of borrowings and cash dividends paid. The decrease in net cash used reflected curbs on new long-term debt.

CONSOLIDATED STATEMENTS OF INCOME

Takasago Thermal Engineering Co., Ltd. and A Consolidated Subsidiary
Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Net sales (Note 12)	¥196,436	¥243,213	$1,474,191	$1,825,238
Costs and expenses (Note 12):				
Cost of sales	178,519	222,890	1,339,730	1,672,720
Selling, general and administrative expenses	14,232	14,673	106,807	110,117
	192,751	237,563	1,446,537	1,782,837
Operating income	3,685	5,650	27,654	42,401
Other income (expenses):				
Interest and dividend income	328	665	2,462	4,991
Life insurance received	376	195	2,822	1,463
Interest expense	(311)	(396)	(2,334)	(2,972)
Gain on sale of securities, net	1,188	54	8,916	405
Write down of investment securities	(3,654)	(2,027)	(27,422)	(15,212)
Income from investment partnership	785	200	5,891	1,501
Gain on sale of property and equipment	224	514	1,681	3,857
Gain on securities contribution to employees' retirement benefit trust	—	1,143	—	8,578
Amortization of prior service costs (Note 8)	727	652	5,456	4,893
Amortization of entire net transition obligation (Note 8)	—	(2,344)	—	(17,591)
Other—net	148	(356)	1,110	(2,670)
	(189)	(1,700)	(1,418)	(12,757)
Income before income taxes	3,496	3,950	26,236	29,644
Income taxes (Note 7):				
Current	2,263	3,333	16,983	25,014
Deferred	(465)	(976)	(3,490)	(7,324)
Net income	¥ 1,698	¥ 1,593	$ 12,743	$ 11,954

	Yen		U.S. dollars (Note 1)	
	2002	2001	2002	2001
Amounts per share of common stock:				
Net income	¥19.80	¥18.57	$0.15	$0.14
Cash dividends applicable to the year	17.00	17.00	0.13	0.13

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

Takasago Thermal Engineering Co., Ltd. and A Consolidated Subsidiary
March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)	
ASSETS	2002	2001	2002	2001
Current assets:				
Cash and time deposits (Note 3)	¥ 53,570	¥ 59,240	$ 402,026	$ 444,578
Marketable securities (Note 4)	363	1,100	2,724	8,255
Notes and accounts receivable—trade	74,412	94,911	558,439	712,278
Less allowance for doubtful accounts	(176)	(254)	(1,321)	(1,906)
Cost of uncompleted contracts	31,841	28,716	238,957	215,505
Deferred tax assets	715	382	5,366	2,866
Other current assets	9,721	11,629	72,953	87,272
Total current assets	170,446	195,724	1,279,144	1,468,848
Property, plant and equipment—at cost (Note 6):				
Land	1,894	1,987	14,214	14,912
Buildings and structures	7,674	7,763	57,591	58,259
Machinery	579	547	4,345	4,105
Tools, furniture and fixtures	2,906	2,961	21,809	22,221
	13,053	13,258	97,959	99,497
Less accumulated depreciation	(6,759)	(6,722)	(50,724)	(50,446)
	6,294	6,536	47,235	49,051
Investments and other assets:				
Investment securities (Note 4)	24,709	28,030	185,433	210,356
Investments in unconsolidated subsidiaries and affiliated companies	698	797	5,238	5,981
Guarantee deposits	4,457	5,030	33,448	37,749
Long-term insurance contribution	7,832	8,777	58,777	65,869
Deferred tax assets	5,313	4,456	39,873	33,441
Other	1,617	1,831	12,135	13,741
Less allowance for doubtful accounts	(143)	(182)	(1,073)	(1,366)
	44,483	48,739	333,831	365,771
	¥221,223	¥250,999	$1,660,210	$1,883,670

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Current liabilities:				
Bank loans (Note 6)	¥ 12,259	¥ 13,216	$ 92,000	$ 99,182
Long-term debt due within one year (Note 6)	2,351	2,814	17,644	21,118
Notes and accounts payable—trade	83,028	101,777	623,099	763,805
Advances received on uncompleted contracts	20,456	22,586	153,516	169,501
Income taxes payable (Note 7)	1,834	1,311	13,764	9,839
Allowance for claim expenses	306	370	2,296	2,777
Other current liabilities	8,907	13,666	66,844	102,558
Total current liabilities	129,141	155,740	969,163	1,168,780
Long-term debt due after one year (Note 6)	2,179	3,195	16,353	23,977
Employees' severance and retirement benefits (Note 8)	8,743	9,668	65,614	72,555
Directors' retirement benefits	897	836	6,732	6,274
Other non-current liabilities	189	531	1,417	3,986
Shareholders' equity (Note 9):				
Common stock:				
Authorized — 200,000,000 shares				
Issued — 85,765,768 shares	13,135	13,135	98,574	98,574
Additional paid-in capital	12,854	12,854	96,465	96,465
Retained earnings	55,137	55,089	413,786	413,426
Net unrealized holding losses on securities	(1,044)	(48)	(7,834)	(359)
	80,082	81,030	600,991	608,106
Treasury stock, at cost	(8)	(1)	(60)	(8)
Total shareholders' equity	80,074	81,029	600,931	608,098
	¥221,223	¥250,999	$1,660,210	$1,883,670

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Takasago Thermal Engineering Co., Ltd. and A Consolidated Subsidiary
Years ended March 31, 2002 and 2001

	Number of shares of common stock	Millions of yen				
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31, 2000	85,765,768	¥13,135	¥12,854	¥54,887	¥ —	¥(1)
Increase of affiliated companies on equity method	—	—	—	283	—	—
Net income	—	—	—	1,593	—	—
Adoption of new accounting standard for financial instruments	—	—	—	—	(48)	—
Treasury stock	—	—	—	—	—	0
Cash dividends paid (¥17 per share)	—	—	—	(1,458)	—	—
Bonuses to directors and corporate auditors	—	—	—	(216)	—	—
Balance at March 31, 2001	85,765,768	13,135	12,854	55,089	(48)	(1)
Net income	—	—	—	1,698	—	—
Adjustment of net unrealized holding gains in securities	—	—	—	—	(996)	—
Treasury stock	—	—	—	—	—	(7)
Cash dividends paid (¥17 per share)	—	—	—	(1,458)	—	—
Bonuses to directors and corporate auditors	—	—	—	(192)	—	—
Balance at March 31, 2002	85,765,768	¥13,135	¥12,854	¥55,137	¥(1,044)	¥(8)

	Thousands of U.S. dollars (Note 1)				
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Treasury stock
Balance at March 31, 2000	$98,574	$96,465	$411,910	$ —	$ (8)
Increase of affiliated companies on equity method	—	—	2,124	—	—
Net income	—	—	11,955	—	—
Adoption of new accounting standard for financial instruments	—	—	—	(359)	—
Treasury stock	—	—	—	—	0
Cash dividends paid ($0.13 per share)	—	—	(10,942)	—	—
Bonuses to directors and corporate auditors	—	—	(1,621)	—	—
Balance at March 31, 2001	98,574	96,465	413,426	(359)	(8)
Net income	—	—	12,743	—	—
Adjustment of net unrealized holding gains in securities	—	—	—	(7,475)	—
Treasury stock	—	—	—	—	(52)
Cash dividends paid ($0.13 per share)	—	—	(10,942)	—	—
Bonuses to directors and corporate auditors	—	—	(1,441)	—	—
Balance at March 31, 2002	$98,574	$96,465	$413,786	$(7,834)	$(60)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Takasago Thermal Engineering Co., Ltd. and A Consolidated Subsidiary
Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Cash flows from operating activities:				
Income before income taxes	¥ 3,496	¥ 3,950	$ 26,236	$ 29,644
Adjustments to reconcile net income before taxes to net cash provided by operating activities:				
Depreciation and amortization	654	701	4,908	5,261
Gain on sale of marketable and investment securities	(1,188)	(54)	(8,916)	(405)
Loss on evaluation of marketable and investment securities	3,654	2,093	27,422	15,707
Provision for retirement benefits	(137)	428	(1,028)	3,212
Decrease (Increase) in trade receivables	20,551	(19,124)	154,229	(143,520)
Decrease (Increase) in cost of uncompleted contracts	(3,125)	4,526	(23,452)	33,966
Increase (Decrease) in trade payables	(18,749)	13,386	(140,705)	100,458
Increase (Decrease) in advances received on uncompleted contracts	(2,131)	2,062	(15,992)	15,475
Gain on sale of property and equipment	(224)	(514)	(1,681)	(3,857)
Gain on contributing assets to retirement benefit trust	—	(1,143)	—	(8,578)
Gain on amortization of prior service cost	(727)	(652)	(5,456)	(4,893)
Amortization of entire net transition obligation	—	2,344	—	17,591
Other—net	(3,241)	(1,745)	(24,323)	(13,097)
Subtotal	(1,167)	6,258	(8,758)	46,964
Interest and dividends received	469	648	3,520	4,863
Interest paid	(308)	(387)	(2,311)	(2,904)
Income taxes paid	(1,740)	(4,978)	(13,059)	(37,358)
Net cash provided by (used in) operating activities	(2,746)	1,541	(20,608)	11,565
Cash flows from investing activities:				
Increase in time deposits	(4,622)	(12,245)	(34,687)	(91,895)
Decrease in time deposits	9,841	20,079	73,853	150,687
Purchase of marketable and investment securities	(1,237)	(2,193)	(9,283)	(16,458)
Proceeds from sale of marketable and investment securities	218	2,390	1,636	17,936
Purchase of property, plant and equipment	(412)	(261)	(3,092)	(1,959)
Proceeds from sale of property, plant and equipment	332	807	2,492	6,056
Payments of long-term insurance contribution	(1,210)	(1,432)	(9,081)	(10,747)
Proceeds from long-term insurance contribution	2,155	1,429	16,173	10,724
Other—net	297	530	2,229	3,978
Net cash provided by investing activities	5,362	9,104	40,240	68,322
Cash flows from financing activities:				
Net decrease in bank loans	(957)	(2,011)	(7,182)	(15,092)
Proceeds from long-term debt	1,396	3,114	10,477	23,370
Payments of long-term debt	(2,875)	(3,132)	(21,576)	(23,505)
Cash dividends paid	(1,458)	(1,458)	(10,942)	(10,942)
Other—net	(8)	1	(60)	8
Net cash used in financing activities	(3,902)	(3,486)	(29,283)	(26,161)
Effect of exchange rate change on cash and cash equivalents	(36)	93	(270)	698
Net increase in cash and cash equivalents	(1,322)	7,252	(9,921)	54,424
Cash and cash equivalents at beginning of year	52,523	45,271	394,169	339,745
Cash and cash equivalents at end of year (Note 3)	¥51,201	¥52,523	$384,248	$394,169

See accompanying notes.

1. Basis of presenting consolidated financial statements

Takasago Thermal Engineering Co., Ltd. (the "Company") and its consolidated domestic subsidiary maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan and were filed with the Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements were not customarily prepared in Japan and were not required to be filed with the authorities of regulation.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2002 which was ¥133.25 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidation — The consolidated financial statements include the accounts of the Company and a significant subsidiary, "Nihon Pmac Co., Ltd.", which is controlled by the Company through substantial ownership of more than 50% of the voting rights and existence of certain conditions evidencing control by the Company of the decision-making body of such a company. Under the revised accounting standard for consolidation and equity accounting, investments in affiliated companies (all 20% owned and certain other 15% to 20% owned) are accounted for using the equity method.

All significant inter-company transactions and accounts have been eliminated in consolidation.

The investments in unconsolidated subsidiaries and affiliated companies are stated at cost as they are insignificant in the aggregate.

Marketable securities and investment securities — Prior to April 1, 2000, securities (both quoted and non-quoted) are stated at cost determined by the moving-average method and written down to the market price or an estimated realizable value if the securities have been significantly impaired and the impairment is not considered to be recoverable.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard on accounting for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities")

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for by the equity method are stated at moving-average cost. Available-for-sale securities with fair market values are stated at fair market values. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Realized gains and losses on sale of such securities is computed using the moving-average cost. The Companies had no trading securities.

Debt securities with no fair market values are stated at amortized cost, net of the amount considered not collectible. Other securities with no fair market values are stated principally at the moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by subsidiaries and affiliated companies is not readily available, such securities should be written down to net asset value in the event net asset value has significantly declined. Unrealized losses on these securities are reported in the income statement.

As a result of adopting the new accounting standard for financial instruments, income before income taxes decreased by ¥1,008 million ($7,565 thousand) in the year ended March 31, 2001 compared with what would have been reported under the previous accounting policy. Also, based on the examination of the intent of holding each security upon application of the new accounting standard at April 1, 2000, held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. As a result, at April 1, 2000, securities in current assets decreased by ¥9,981 million ($74,904 thousand) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

Allowance for doubtful accounts — Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful accounts and an amount calculated using the rate of actual collection losses in the past with respect to the remaining receivables.

Allowance for claim expenses — Allowance for claim expenses is provided in amounts sufficient to cover possible claim expenses on completed contracts. The Company adopts the method of providing the allowance based on the estimated amount of payments for future claims which may be filed on contracts completed during the year.

Construction contracts — Construction contracts of the Company are accounted for by the completed-contract method.

Expenditures on uncompleted contracts to be charged to cost of contracts at the time of completion are included in current assets. These expenditures are not offset against advances received on uncompleted contracts, which are instead included in current liabilities. No profits or losses, therefore, are recognized before the completion of the work.

Construction contracts which will be collected in long-term installment payments are accounted for on the installment basis in accordance with the Japanese tax regulations. For the years ended March 31, 2002 and 2001, no such contracts were outstanding.

Property, plant and equipment — Property, plant and equipment are stated at cost. Depreciation is computed using the declining-balance method over their useful lives as prescribed in the Japanese tax regulations.

Certain lease transactions — Finance leases except those for which the ownership of the leased assets are considered to be transferred to the lessee, are not capitalized and accounted for in the same manner as operating leases (non-capitalized finance leases).

Retirement benefits — The Company and its consolidated subsidiary have contributory and non-contributory funded pension plans covering substantially all employees. Eligibility for enrollment in the contributory plan is 5 or more years of service and 23 or more years of age. Eligibility for the non-contributory plan is 3 or more years of service. The amount of retirement benefits is, in general, based on the length of service, basic salary at the time of retirement and cause of retirement. Prior to April 1, 2000, annual contributions, which consist of current period costs and amortization of prior service costs over 8.5 years and 20 years, respectively, were charged to income when paid.

Effective April 1, 2000, the Company and its consolidated subsidiary adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998. Under the new accounting standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiary provided allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the year end. Actuarial gains and losses are recognized as income or expense in equal amounts principally over 10 years commencing from the succeeding period.

The excess of the projected benefit obligation over the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥2,344 million ($17,591 thousand). All of the net transition obligation was recognized as expense in the year ended March 31, 2001.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expense increased by ¥2,433 million ($18,259 thousand), operating income decreased by ¥82 million ($615 thousand) and income before income taxes decreased by ¥2,426 million ($18,206 thousand) compared with what would have been recorded under the previous accounting standard.

The liability for retirement benefits to directors and corporate auditors are fully accrued.

Bonuses to directors and corporate auditors — Bonuses to directors and corporate auditors, which are subject to shareholders' approval at the annual shareholders' meeting under the Commercial Code of Japan, are accounted for as appropriations of retained earnings.

Income taxes — The Company computes the provision for income taxes based on the pretax income included in the consolidated statement of income and recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

Foreign currency translation — Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical exchange rates.

Effective April 1, 2000, the Company and its consolidated subsidiary adopted the revised accounting standard, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999.

Under the revised accounting standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the exchange rates at the balance sheet date. The effect on the income statement of adopting the revised accounting standard was immaterial.

Revenues and expenses resulting from the Company's overseas operations are translated at the rate of exchange prevailing when the relevant transaction was made. Exchange gains and losses are credited or charged to income.

Amounts per share of common stock — In computing net income per share of common stock, the average number of shares outstanding during each fiscal year has been used.

Diluted net income per share is not presented, since the Company has never issued any securities with a diluting effect.

Cash dividends per share represent actual amounts declared as applicable to the respective years.

Reclassifications — Certain prior year amounts have been reclassified to conform to the 2002 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Cash flow statement and cash and cash equivalents — In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Derivatives and hedge accounting —The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, a company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

(1) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
    (a) The difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
    (b) The discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

(2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2002 and 2001 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Cash and time deposits	¥53,570	¥59,240	$402,026	$444,578
Marketable securities	—	1,100	—	8,255
Marketable securities (except for M.M.F.)	—	(199)	—	(1,493)
Marketable securities due within three months	30	—	226	—
Time deposits over three months	(2,399)	(7,618)	(18,004)	(57,171)
Cash and cash equivalents	¥51,201	¥52,523	$384,248	$394,169

4. Market value information for securities

(1) At March 31, 2002 and 2001, acquisition cost, book value and fair value of securities with available fair values were as follows:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Securities with fair value exceeding book value:				
Book value	¥809	¥809	$6,071	$6,071
Fair value	847	857	6,356	6,432
Difference	¥ 38	¥ 48	$ 285	$ 361

(b) Available-for-sale securities

2002	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	¥ 3,139	¥ 4,493	¥ 1,354
Other securities:			
Equity securities	¥17,556	¥14,464	¥(3,092)
Others	944	876	(68)
Total other securities	¥18,500	¥15,340	¥(3,160)

2001	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	¥ 7,572	¥11,313	¥ 3,741
Other securities:			
Equity securities	¥15,080	¥11,254	¥(3,826)
Others	740	740	—
Total other securities	¥15,820	¥11,994	¥(3,826)

2002	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	$ 23,557	$ 33,719	$ 10,162
Other securities:			
Equity securities	$131,752	$108,548	$(23,204)
Others	7,084	6,574	(510)
Total other securities	$138,836	$115,122	$(23,714)

2001	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Book value	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	$ 56,826	$84,901	$ 28,075
Other securities:			
Equity securities	$113,171	$84,458	$(28,713)
Others	5,553	5,553	—
Total other securities	$118,724	$90,011	$(28,713)

(2) At March 31, 2002 and 2001, book value of securities with no available fair values were as follows:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Non-listed foreign bond	¥3,000	¥3,000	$22,514	$22,514
Discount financial bond	19	199	143	1,493
Total	¥3,019	¥3,199	$22,657	$24,007

(b) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Mid-term national bond	¥ 30	¥ —	$ 225	$ —
Money management fund	—	901	—	6,762
Non-listed equity securities	1,377	913	10,334	6,852
Total	¥1,407	¥1,814	$10,559	$13,614

(3) At March 31, 2002 and 2001, maturities of available-for-sale securities with maturity and held-to-maturity debt securities were as follows:

2002	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds:					
Government bonds	¥ —	¥ —	¥ 499	¥ —	¥ 499
Corporate bonds	119	1,210	2,000	—	3,329
Others:	213	130	263	—	606
Total	¥332	¥1,340	¥2,762	¥ —	¥4,434

2001	Millions of yen Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds:					
Government bonds	¥ —	¥ —	¥ 500	¥ —	¥ 500
Corporate bonds	200	1,309	2,000	—	3,509
Others:	—	348	186	—	534
Total	¥200	¥1,657	¥2,686	¥ —	¥4,543

2002	Thousands of U.S. dollars (Note 1) Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds:					
Government bonds	$ —	$ —	$ 3,745	$ —	$ 3,745
Corporate bonds	893	9,081	15,009	—	24,983
Others:	1,598	976	1,974	—	4,548
Total	$2,491	$10,057	$20,728	$ —	$33,276

2001	Thousands of U.S. dollars (Note 1) Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds:					
Government bonds	$ —	$ —	$ 3,752	$ —	$ 3,752
Corporate bonds	1,501	9,824	15,009	—	26,334
Others:	—	2,612	1,396	—	4,008
Total	$1,501	$12,436	$20,157	$ —	$34,094

5. Derivative transactions — the company only

The Company utilizes, commencing from the year ended March 31, 2000, only forward foreign exchange contracts as derivative transactions in order to hedge foreign currency risks arising from time deposits. The derivative transactions are made solely with highly rated financial institutions, therefore, the Company expects credit risk is low.

The contracts relating to foreign currency denominated time deposits were approved by the General Manager of Operations and contracted by the Overseas Operations Department. The results are then reported to the General Manager of Accounting and Finance Department.

6. Bank loans and long-term debt

Bank loans at March 31, 2002 and 2001 were represented by short-term notes, bearing interest principally at 1.375% to 1.750% per annum and at 1.375% to 1.875% per annum, respectively. The Company has had no difficulty in renewing such notes when it considered such renewal advisable.

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Loans principally from banks and insurance companies:				
Secured, with interest rates ranging from 1.6% to 2.9% (2002) and 2.0% to 3.0% (2001)	¥1,218	¥1,500	$ 9,141	$11,257
Unsecured, with interest rates ranging from 1.4% to 2.6% (2002) and 1.7% to 2.3% (2001)	3,312	4,509	24,856	33,838
	4,530	6,009	33,997	45,095
Less amount due within one year	(2,351)	(2,814)	(17,644)	(21,118)
	¥2,179	¥3,195	$16,353	$23,977

As is customary in Japan, security must be given if requested by a lending bank and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debt payable to the bank. The Company has never received any such request.

The annual maturities of long-term debt at March 31, 2002 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2003	¥2,351	$17,644
2004	1,517	11,385
2005	587	4,405
2006	75	563

At March 31, 2002 assets pledged as collateral for long-term debt and guarantees were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Property, plant and equipment (Net of accumulated depreciation)	¥258	$1,936

7. Income taxes

Taxes on income consist of corporation, enterprise and inhabitants' taxes. The aggregate statutory tax rate on income before income taxes was approximately 42.1 % for 2002 and 2001.

The actual effective tax rate in the accompanying statements of income differed from the statutory tax rate primarily as a result of expenses not deductible for tax purposes.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2002 and 2001:

	2002	2001
Statutory tax rate	42.1%	42.1%
Non-taxable dividend income	(4.0)	(2.9)
Non-deductible expenses	10.8	17.3
Per capital inhabitant tax	2.7	2.4
Other	(0.2)	0.8
Effective tax rate	51.4%	59.7%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2002 and 2001 were follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Deferred tax assets:				
Employees' severance and retirement benefits	¥3,189	¥3,489	$23,932	$26,184
Officers' retirement benefits	377	351	2,829	2,634
Enterprise taxes	197	174	1,479	1,306
Write down of investment securities	859	471	6,447	3,535
Net unrealized holding losses on securities	1,331	—	9,989	—
Write down of golf membership	329	274	2,469	2,056
Other	798	560	5,988	4,202
Total deferred tax assets	7,080	5,319	53,133	39,917
Deferred tax liabilities:				
Net unrealized holding gains on securities	(571)	—	(4,285)	—
Gains on security contribution to employees' retirement benefit trust	(481)	(481)	(3,610)	(3,610)
Total deferred liabilities	(1,052)	(481)	(7,895)	(3,610)
Net deferred tax assets	¥6,028	¥4,838	$45,238	$36,307

8. Retirement benefits

As explained in Note 2 (the significant accounting policies), effective April 1, 2000, the Company and its consolidated subsidiary adopted the new accounting standard for employees' severance and retirement benefits, under which allowance and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

Retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Projected benefit obligation	¥29,310	¥26,112	$219,963	$195,963
Unrecognized actuarial differences	(5,348)	(1,894)	(40,135)	(14,214)
Less fair value of pension assets	(15,219)	(14,551)	(114,214)	(109,201)
Allowance for severance and retirement benefits	¥ 8,743	¥ 9,667	$ 65,614	$ 72,548

Included in the consolidated statements of income for the years ended March 31, 2002 and 2001 were employees' severance and retirement benefit expense comprising of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	2002	2001
Service costs – benefits earned during the year	¥1,176	¥1,186	$8,826	$ 8,901
Interest cost on projected benefit obligation	895	864	6,717	6,484
Expected return on plan assets	(422)	(416)	(3,167)	(3,122)
Amortization of entire net transition obligation	—	2,344	—	17,591
Amortization of actuarial differences	189	—	1,418	—
Amortization of prior service costs	(727)	(652)	(5,456)	(4,893)
Severance and retirement benefit expense	¥1,111	¥3,326	$8,338	$24,961

The discount rate on benefits obligation used by the Companies is 3.0% and the rate of expected return on plan assets used principally by the Company and its consolidated subsidiary is 3.0% in the year ended March 31, 2002. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized as income or expense in equal amounts principally over 10 years commencing from the succeeding period.

9. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares is required to be designated as stated capital. The portion which is not transferred to stated capital is determined by resolution of the Board of Directors. Proceeds not transferred to stated capital are credited to additional paid-in capital.

In the year ended March 31, 2002, the Code was revised significantly and stock with stated value was abolished. Under the revised Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the total of the reserve and additional paid-in capital equals 25% of common stock. Before the revision of the Code, bonuses to directors and corporate auditors had to be set aside as a legal reserve until the reserve equals 25% of common stock.

Legal reserve and additional paid-in capital were not available for dividends, but could be used to reduce a deficit by resolution of the shareholders or could be capitalized by resolution of the Board of Directors before the revision of the Code. Due to the revision, the legal reserve and additional paid-in capital became available for unappropriated retained earnings for the portion beyond 25 % of common stock by a resolution of the shareholders' meeting.

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

10. Certain lease transactions

Information on finance leases except those for which ownership of the leased assets is considered to be transferred to the lessee were as follows.

(1) Equivalent amounts of acquisition cost, accumulated depreciation and net book value of the assets under non-capitalized finance leases at March 31, 2002 and 2001 were as follows:

	Millions of yen		
2002	Acquisition cost	Accumulated depreciation	Net book value
Equipment	¥1,063	¥443	¥620

	Millions of yen		
2001	Acquisition cost	Accumulated depreciation	Net book value
Equipment	¥1,577	¥1,166	¥411

	Thousands of U.S. dollars (Note 1)		
2002	Acquisition cost	Accumulated depreciation	Net book value
Equipment	$7,977	$3,325	$4,652

	Thousands of U.S. dollars (Note 1)		
2001	Acquisition cost	Accumulated depreciation	Net book value
Equipment	$11,835	$8,750	$3,085

Depreciation is calculated based on the straight-line method over the contracted lease period assuming no residual values.

(2) The amounts of outstanding future lease payments due at March 31, 2002 and 2001, and lease transactions for the year ended March 31, 2002 and 2001 were as follows:

Future lease payments	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2002	Thousands of U.S. dollars (Note 1) 2001
Within one year	¥204	¥216	$1,531	$1,621
Over one year	418	198	3,137	1,486
Total	¥622	¥414	$4,668	$3,107
Total lease expenses	¥283	¥399	$2,124	$2,994
Depreciation equivalent	¥277	¥383	$2,079	$2,874
Interest equivalent	¥ 3	¥ 4	$ 23	$ 30

11. Contingent liabilities

Contingent liabilities at March 31, 2002 and 2001 were as follows:

	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2002	Thousands of U.S. dollars (Note 1) 2001
For notes discounted with banks	¥201	¥337	$1,508	$2,529
For notes endorsed	10	10	75	75
For guarantees for loans of unconsolidated subsidiaries, employees and others from banks	360	485	2,702	3,640
	¥571	¥832	$4,285	$6,244

12. Segment information

The Company and its consolidated subsidiary are mainly engaged in construction business and sale and production of equipment.

Summaries of net assets, operating income and total assets by industry segment for the years ended March 31, 2002 and 2001 were as follows:

2002	Millions of yen Construction	Equipment	Total	Elimination	Consolidated
Net sales:					
Outside customers	¥191,259	¥5,177	¥196,436	¥ —	¥196,436
Inside group	—	857	857	(857)	—
Total	191,259	6,034	197,293	(857)	196,436
Costs and expenses	188,132	5,563	193,695	(944)	192,751
Operating income	¥ 3,127	¥ 471	¥ 3,598	¥ 87	¥ 3,685
Assets and others:					
Assets	¥215,787	¥6,282	¥222,069	¥(846)	¥221,223
Depreciation	555	99	654	(0)	654
Capital Expenditures	203	206	409	(3)	406

2001	Millions of yen Construction	Equipment	Total	Elimination	Consolidated
Net sales:					
Outside customers	¥238,343	¥4,870	¥243,213	¥ —	¥243,213
Inside group	—	1,130	1,130	(1,130)	—
Total	238,343	6,000	244,343	(1,130)	243,213
Costs and expenses	233,105	5,682	238,787	(1,224)	237,563
Operating income	¥ 5,238	¥ 318	¥ 5,556	¥ 94	¥ 5,650
Assets and others:					
Assets	¥245,697	¥6,141	¥251,838	¥(839)	¥250,999
Depreciation	611	91	702	(1)	701
Capital Expenditures	189	72	261	—	261

2002	Thousands of U.S. dollars (Note 1) Construction	Equipment	Total	Elimination	Consolidated
Net sales:					
Outside customers	$1,435,340	$38,851	$1,474,191	$ —	$1,474,191
Inside group	—	6,432	6,432	(6,432)	—
Total	1,435,340	45,283	1,480,623	(6,432)	1,474,191
Costs and expenses	1,411,872	41,749	1,453,621	(7,084)	1,446,537
Operating income	$ 23,468	$ 3,534	$ 27,002	$ 652	$ 27,654
Assets and others:					
Assets	$1,619,415	$47,144	$1,666,559	$(6,349)	$1,660,210
Depreciation	4,165	743	4,908	(0)	4,908
Capital Expenditures	1,523	1,546	3,069	(22)	3,047

2001	Thousands of U.S. dollars (Note 1) Construction	Equipment	Total	Elimination	Consolidated
Net sales:					
Outside customers	$1,788,690	$36,548	$1,825,238	$ —	$1,825,238
Inside group	—	8,480	8,480	(8,480)	—
Total	1,788,690	45,028	1,833,718	(8,480)	1,825,238
Costs and expenses	1,749,381	42,642	1,792,023	(9,186)	1,782,837
Operating income	$ 39,309	$ 2,386	$ 41,695	$ 706	$ 42,401
Assets and others:					
Assets	$1,843,880	$46,086	$1,889,966	$(6,296)	$1,183,670
Depreciation	4,585	683	5,268	(7)	5,261
Capital Expenditures	1,418	541	1,959	—	1,959

Segment information by location and overseas sales is not shown from a materiality view point.

13. Subsequent event

The following appropriations of retained earnings at March 31, 2002, were approved at the annual meeting of shareholders held on June 27, 2002.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends	¥728	$5,463
Bonuses to directors and corporate auditors	192	1,441

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of
Takasago Thermal Engineering Co., Ltd.

We have audited the accompanying consolidated balance sheets of Takasago Thermal Engineering Co., Ltd. and a subsidiary as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

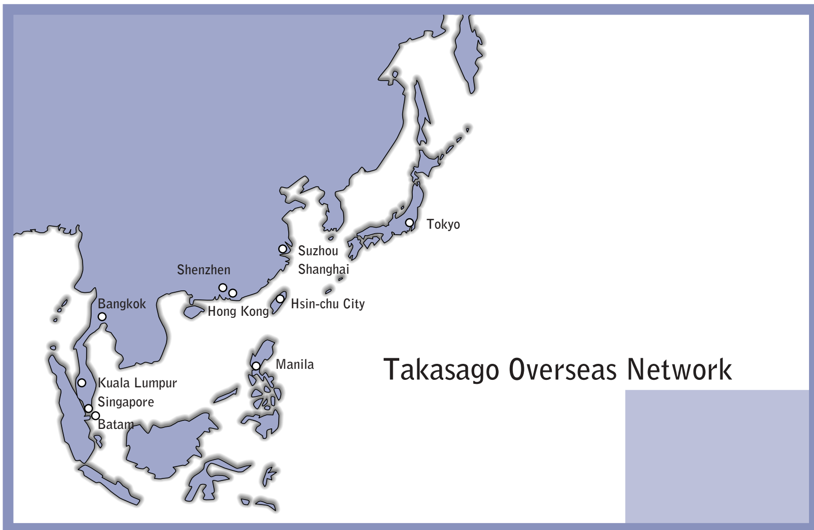
In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Takasago Thermal Engineering Co., Ltd. and a subsidiary as of March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2001, Takasago Thermal Engineering Co., Ltd. and a subsidiary prospectively adopted new Japanese accounting standards for employees' severance and retirement benefits, financial instruments and foreign currency translation.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 27, 2002



(Domestic Offices)

Head Office
4-2-8 Kanda Surugadai,
Chiyoda-ku, Tokyo 101-8321, Japan
Tel: 81-3-3255-8212 Fax: 81-3-3251-0914
R&D Center: Atsugi, Sendai

Tokyo Main Office
4-2-8 Kanda Surugadai,
Chiyoda-ku, Tokyo 101-8321, Japan
Tel: 81-3-3255-8221 Fax: 81-3-3251-6122

Sapporo Branch Office
Nippon Seimei Hokumonkan Bldg.,
5-1-3, Kita-4-Nishi, Chuo-ku,
Sapporo 060-0004, Japan
Tel: 81-11-261-2531 Fax: 81-11-251-2608

Tohoku Branch Office
Kowa Bldg., 2-4-1 Ichiban-cho,
Aoba-ku, Sendai 980-0811, Japan
Tel: 81-22-227-9552 Fax: 81-22-266-0414

Kanto Branch Office
Sumitomo Fudosan Ryogoku Bldg.,
2-10-8 Ryogoku,
Sumida-ku, Tokyo 130-0026, Japan
Tel: 81-3-5600-2201 Fax: 81-3-5600-2277

Yokohama Branch Office
26th Fl., Land Mark Tower,
2-2-1-1 Minatomirai, Nishi-ku,
Yokohama 220-8126, Japan
Tel: 81-45-224-1570 Fax: 81-45-224-1580

Nagoya Branch Office
37th Fl., Central Towers,
1-1-4 Meieki, Nakamura-ku,
Nagoya 450-6037, Japan
Tel: 81-52-582-8400 Fax: 81-52-581-4155

Osaka Branch Office
20th Fl., Applause Tower
19-19 Chayamachi, Kita-ku,
Osaka 530-0013, Japan
Tel: 81-6-6377-2800 Fax: 81-6-6372-5557

Hiroshima Branch Office
Asahi Bldg., 13-7 Moto-machi,
Naka-ku, Hiroshima 730-0011, Japan
Tel: 81-82-221-2871 Fax: 81-82-223-6903

Kyushu Branch Office
Taihaku Center Bldg., 2-19-24 Hakata-Ekimae,
Hakata-ku, Fukuoka 812-0011, Japan
Tel: 81-92-431-8050 Fax: 81-92-441-1473

Overseas Business Division
NK Bldg., 3-6-2 Ogawa-machi,
Chiyoda-ku, Tokyo 101-0052, Japan
Tel: 81-3-3292-0211 Fax: 81-3-3292-0215

(Overseas Branch Offices)

Singapore Branch Office
111 Somerset Rd., #09-01 Singapore
Power Bldg., Singapore 238164
Tel: 65-6737-3312 Fax: 65-6733-7442

Hong Kong Branch Office
37/Fl., Citicorp Centre, 18 Whitfield Rd.,
Causeway Bay, Hong Kong
Tel: 852-2520-2403 Fax: 852-2861-0795

Taiwan Branch Office
20F-6, Empire Commercial Bldg.,
No. 295, Sec. 2, Kuang-Fu Rd.,
Hsin-chu City, Taiwan
Tel: 886-3-5714512 Fax: 886-3-5714507

Batam Representative Office
Kompleks Salaiman Jalan,
Sultan Abdulla Rahman Blk B No. 12
Nagoya Batam 29432 Indonesia
Tel: 62-778-424281 Fax: 62-778-424325

Shenzhen Representative Office
5Lou, Heli Gufen Wenkang Lou, Di Er Gong Ye
Cun, Fu Yong Zhen, Bao An Qu, Shenzhen
518103, P.R. of China
Tel: 86-755-27381078 Fax: 86-755-27381055

Suzhou Representative Office
Unit A1, 22/F, Kings Tower, Shinshan Rd.,
Suzhou 215011, P.R. of China
Tel: 86-5126-8092986 Fax: 86-5126-8097842

Shanghai Representative Office
Unit 910C, Pidemco Tower, No.318 Fuzhou Rd.,
Huangpu District, Shanghai, 200001, P.R. of China
Tel: 86-21-6391-2308 Fax: 86-21-6391-2558

(Overseas Affiliates)

T.T.E. Engineering (Malaysia) Sdn. Bhd.
Ground Fl., Wisma IJM Annexe, Jalan,
Yong Shook Lin, 46760 Petaling Jaya,
Selangor, Malaysia
Tel: 60-3-7955-5972 Fax: 60-3-7955-4370

Thai Takasago Co., Ltd.
Bangna Towers C 16th Fl., 40/14 Moo 12,
Bangna-Trad Rd., K.M. 6.5, Bangkaew,
Bangplee, Samutprakarn 10541, Thailand
Tel: 66-2-751-9695 Fax: 66-2-751-9694

Takasago Thermal Engineering (Hong Kong) Co., Ltd.
37/Fl., Citicorp Centre, 18 Whitfield Rd.,
Causeway Bay, Hong Kong
Tel: 852-2520-2403 Fax: 852-2861-0795

Takasago Philippines, Inc.
4th floor, Raha Suleyman Bldg.,
108 Benavidez St. Legaspi Village,
Makati City, Manila, Philippines
Tel: 63-2-840-0014 Fax: 63-2-817-7025

Takasago Thermal Engineering (Shenzhen) Co., Ltd.
5Lou, Heli Gufen Wenkang Lou, Di Er Gong Ye
Cun, Fu Yong Zhen, Bao An Qu, Shenzhen
518103, P.R. of China
Tel: 86-755-27381078 Fax: 86-755-27381055

P.T. Takasago Engineering Indonesia
Kompleks Salaiman Jalan,
Sultan Abdulla Rahman Blk B No. 12
Nagoya Batam 29432 Indonesia
Tel: 62-778-424281 Fax: 62-778-424325

BOARD OF DIRECTORS AND CORPORATE AUDITORS

Masaru Ishii | Hanji Tsutsui | Tsuyoshi Furuno | Eiichi Ishida

President
Masaru Ishii*

Vice President
Hanji Tsutsui*

Senior Managing Directors
Tsuyoshi Furuno*
Eiichi Ishida*

Managing Directors
Takashi Kikuchi
Makoto Matsushita
Kozo Iwai
Akio Tanaka
Saburo Sato
Yoshiharu Makino
Yasuhiko Okamoto
Masamichi Kaya

Directors
Takayuki Matsushita
Tasuku Nakajima
Takefusa Miyamoto
Ryoji Shoda
Yukiji Kinoshita
Tadashi Kawasaki
Masahiro Kimura
Susumu Kamata
Osamu Nishiyama

Corporate Auditors
Keishi Umeki
Tadaaki Yumoto
Tatsuro Saruyama

(As of June 27, 2002)

*Representative Director

INVESTOR INFORMATION

Date of Establishment
November 16, 1923

Paid-in Capital
¥13,134,919,960

Number of Shareholders
6,168

Number of Employees
1,680

Outstanding Shares
85,765,768

Stock Exchange Listings
Tokyo Stock Exchange and Osaka Securities Exchange, First Sections

Transfer Agent and Registrar
The Chuo Mitsui Trust and Banking Co., Ltd.
3-33-1 Shiba, Minato-ku,
Tokyo 105-8574, Japan

Annual Meeting of Shareholders
The Annual Meeting of Shareholders is normally held in June in Tokyo, Japan

(As of March 31, 2002)

Takasago Thermal Engineering Co., Ltd.
4-2-8 Kanda Surugadai, Chiyoda-ku, Tokyo 101-8321, Japan

This annual report is printed on recycled paper.
Printed in Japan