

Reference translation

To whom it may concern

Company name: Takasago Thermal Engineering Co., Ltd.
(Code Number: 1969 Stock Exchange Listing: Tokyo, Osaka)

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Medium-term Business Plan

Takasago Thermal Engineering Co., Ltd. (the Company) has developed a three-year Medium-term Business Plan (April 1, 2008 to March 31, 2011) to start from the fiscal year ending March 31, 2009.

The business environment in which the Company operates has been getting stricter, with severe order competition and higher costs in a contracting construction market. The Company pursues stable growth and the assurance of profit within this environment. The year 2008, meanwhile, is the first year of implementation for greenhouse gas mitigation for the prevention of global warming under the Kyoto Protocol. The levels of greenhouse gases discharged from buildings are increasing. This underlines the need to take energy-saving measures for the running of HVAC systems, the main source of greenhouse gas. The Company has provided HVAC systems for many office buildings and factories since its inception. In the future it expects an increase in the number of buildings due for renewal, and also expansion in the demand for renovation for energy savings. The Company will provide energy-saving-type HVAC systems incorporating advanced technologies for newly built office buildings and factories.

Under these circumstances, the Company Group continues to further strengthen its earning capacity by accepting orders with emphasis on profitability and the concentration of managerial resources on strategic fields. It will also strive, with all its strength, to achieve its goals based on the theory that customer service is a top-priority and field-first principle.

Summary of the Medium-range Business Plan

1. Basic Principles

The Company Group offers customers optimally suitable environments with one-stop services based on comprehensive engineering advantages at every stage of the building equipment life cycle, from

design, construction, and after-sales services to renovation. It works intently to expand solution businesses relating to energy savings, harness synergy effects with construction of HVAC systems, one of its main businesses, and help conserve the global environment with balanced focus on ecology and economy.

2. Numerical Targets (Final year of the plan: Fiscal year ending March 31, 2011)

	Consolidated	Non-consolidated (the Company only)
Orders received	275 billion yen	230 billion yen
Net sales	260 billion yen	215 billion yen
Operating income	7.9 billion yen	5.6 billion yen
Ordinary income	8.4 billion yen	6.7 billion yen
Net income	4.5 billion yen	3.6 billion yen
Dividend on Equity (DOE)	2%	—

3. Measures for Plan

(1) Make the core business of renovation more profitable

The Company will strengthen consistent operating schemes for order-receipt, construction, and after sales services for renovation, in parallel with its schemes for the sales and marketing, design, engineering, and maintenance divisions. As a result, the Company will organize and develop follow-up services for buildings and provide one-stop services according to life cycles. As part of this undertaking, the Company will establish more customer centers, while establishing facility management service divisions in all branch offices. In the field of renovation, the Company aims to receive orders for overall building equipment, including equipment related to health safety and electricity, in addition to HVAC systems. Under its current targets, the Company would therefore like orders for renovation to make up 60% of all orders the Company receives on a non-consolidated basis.

Expansion of business areas

1) Go ahead with the Green Air business

The Company will support the energy management efforts of customers by newly developing “Energy saving services aimed at optical usage for managed energy of building equipment” as a Green Air business¹. To reduce energy consumption of building equipment to the full satisfaction of customers, the Company will provide a series of services from design and proposal to implementation and performance assurance as a fee-business. The Company will also seek to expand the renovation demands by extending these activities.

(Newly establish Green Air Business Promotion Department in the Facility Management Service Group)

¹ This includes not only proposals for the improvement of longstanding operating methods and technology proposals for renovation, but also business proposals (including fundraising proposals).

2) Strengthen comprehensive facility management business

In its operations for the management of production facilities and medical and research facilities, recent increases in the levels of outsourcing have convinced the Company to go ahead with the comprehensive facility management business² mainly developed by its consolidated subsidiary Takasago Maintenance Co., Ltd. and other companies. The Company will also work nationwide to strengthen business as an important step for one-stop services and extend maintenance businesses such as maintenance and repair, and thereby increase its prospects for receiving orders for renovation.

(Strengthen the operating schemes of Takasago Maintenance Co., Ltd.)

3) Strengthen electric instrumentation and telecommunication fields

Along with longstanding electric construction and instrumentation construction fields incidental to HVAC systems, the Company will use IP (Internet Protocol) networks to strengthen its supervision-and-control business for facilities, while also strengthening its information and telecommunication business (including image supervision systems and IP telephone nets). Through the aforesaid activities, the Company intends to optimally use energy and improve convenience of facilities in order to extend its business fields and promote the receipt of renovation orders.

(Establish an Electric Instrumentation Department and Telecommunication Department in the Facility Management Service Group)

(2) Expand industrial HVAC systems by capitalizing on the Company's proposal-making edge

The Company will strengthen its engineering edge in the new field of industrial HVAC systems with advanced technologies, and thereby optimize quality, costs, and processes. At the same time, the Company intends to improve customer satisfaction by solution activities such as CO₂ emission reduction, one of customers' key issues, and thereby help to protect the global environment.

(3) Improve productivity and strengthen cost competitiveness

The Company will reduce costs by improving procurement methods for equipment and materials, developing low-cost construction methods with improved design and construction technologies, and changing information technologies for operations. Additionally, the Company and its subcontractors will strengthen cost competitiveness by working towards improved productivity with a joint focus on quality assurance and the enhancement of technology and skills.

² Regarding energy and facility capacity, the Company always conducts operations for operating management, maintenance management, and enhanced management of building facilities on behalf of owners.

(4) Procure capable staff and arrange environment for working with motivation

To further expand business and increase the mandatory retirement of employees, the Company will procure required staff by systematically recruiting intermediary staff together with newly graduated staff. Additionally, the Company will improve the capacity and traditions of technology by reviewing its system for training staff. The Company intends to enhance systems for the development, use, and evaluation of staff, and to arrange a workplace environment in which every staff person will work with motivation.

(5) Improve earning capacity of overseas business

The Company will aim to receive more orders for industrial HVAC systems, mainly from Japanese companies and foreign companies in and around China and Southeast Asia, while coordinating the domestic and overseas orders received. The Company will also improve its earning capacity by pursuing orders with a selective emphasis on profitability and localization.

4. Dividend Policy

The Company has striven to improve medium- to long-term corporate value while distributing profits with a basic policy of balancing the payment of stable dividends with the strengthening of corporate quality. As it improves its profitability and capital efficiency in the future, the Company will pay out dividends with a target of 2% for dividends on equity (DOE) on a consolidated basis.

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