

From the Management

Operating Environment



*Yoshiharu Sato (left), president,
and Ichiro Ido, chairman*

In fiscal 1998, ended March 31, 1998, the Japanese economy followed a slow yet steady track to recovery, but only during the first and second quarters. Once more the Japanese economy stumbled, affected by the political and economic turmoil in Thailand, Malaysia, Indonesia and Korea as well as the lack of progress in Japan's fundamental restructuring. The Southeast Asian economy also took a cyclical downturn this term, plagued by its lingering economic crisis and Japan's weakening yen.

In spite of these unfavorable economic conditions, Yamatake Corporation achieved growth in both sales and operating income. Sales in this fiscal term increased 2.3 percent from the previous term, to ¥198,932 million. Operating income climbed 7.3 percent, to ¥12,733 million. Net income, on the other hand, recorded a slight decline of 0.5 percent, to ¥5,020 million, partly due to losses incurred by the depreciation of Yamatake's investments in securities.

Business Performance

The Industrial Automation Business witnessed sluggish orders in petroleum and pulp and paper markets during this fiscal term, whereas sales in the iron and steel, food processing and shipbuilding markets posted healthy gains. Total volume of orders generated in the industrial sector in this fiscal term remained unchanged from the previous term, offset by declining orders in Asia. The Building Automation Business registered minimal growth in the number of orders received from office buildings, its mainstay market. In contrast, the volume of orders in factories, medical facilities and department store sectors increased steadily. In the Control Products Business, orders in the automotive and machine tool markets turned in solid performances; however, orders in the residential product sector increased slightly.

In October 1997, the 40-year alliance between Yamatake and Honeywell Inc. was amended, enabling Yamatake to maintain amicable relations with Honeywell as well as enhance our opportunities to invest and

grow globally. We will continue to pursue overseas markets with our top-quality systems and products that are developed and manufactured in-house; Yamatake products constitute almost 90% of our total sales.

In this fiscal term, Yamatake undertook the most dynamic expansion of overseas operations to date. Adding to our well-placed Southeast Asian affiliates in Thailand and the Philippines, Yamatake formed a joint venture with PT. Berca Indonesia in December 1997. Named PT. Yamatake Berca Indonesia, this affiliate offers sales, engineering and maintenance of industrial and building automation systems and products. YCV Corporation, our U.S. affiliate in Phoenix, Arizona, opened a branch in Houston, Texas, to supply Yamatake's diverse line of industrial control products and aftersale services. Another wholly-owned affiliate, Yamatake Controls Singapore Pte. Ltd., was established in May 1998 to reinforce our total service capabilities for our customers in Singapore, Malaysia and Brunei.

Group Reorganization

Until October 1998, the development, manufacture, and domestic and international sales of building and industrial automation systems and products will be managed by Yamatake Corporation, while Yamatake Building Systems and Yamatake Industrial Systems will handle engineering, installation, aftersale services and maintenance in the building and industrial automation sectors.

However, recent changes in the global business environment necessitated the reorganization of Yamatake's operations—namely, the

transfer of domestic sales, marketing, instrumentation and systems development departments from Yamatake Corporation's Building Systems Division and Industrial Systems Division to Yamatake Building Systems and Yamatake Industrial Systems, scheduled for October 1, 1998. By taking control of all operations in their respective business domains, the Group companies will be well positioned to provide customers with value-added systems and products and timely support. They will also provide complete solutions for increased productivity, higher quality, energy

savings and environmental conservation.

Yamatake Corporation can now reinforce its capabilities in core product R&D, new business development and promotion, and overseas operations; and introduce innovative products with the quality, performance and price to successfully compete in today's global markets. The Group's administrative functions will also be integrated and streamlined to further strengthen Yamatake Corporation's already formidable strategic planning abilities.

Future Outlook

With virtually no turnaround in private-sector capital investment and consumer spending anticipated in the foreseeable future, Japan's economic environment remains veiled in uncertainty.

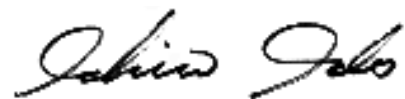
In such precarious times, Yamatake took a bold step forward in consolidating the Group's business activities, becoming one of the first in this industry to modernize its operations. Our corporate-wide reorganization enables us to achieve our primary objective, that is, to ensure customer satisfaction by creating value in business. Through consolidating and regrouping our core businesses, we can further enhance our expertise, boost our overall competitiveness and meet each customer's unique requirements with the most suitable products, systems and services we have to offer.

To deliver satisfaction to our customers worldwide, we aim to strengthen our global reach as well as add speed to all of our activities; to

respond quickly to our customers in Japan and overseas. Our information and communication infrastructure is being upgraded and updated, to enhance our sales and customer support with the rapid exchange of the latest information. At our newly consolidated R&D headquarters, researchers and engineers now focus on designing products for our expanding international markets. To centralize our overseas operations and provide local support in global markets, the International Business Division was set up at our headquarters in Tokyo. Also based in Tokyo, our New Business Development Office continues to explore new possibilities and promote innovative business, in which it has already shown consistent progress. Reflecting our renewed commitment of ensuring satisfaction with greater speed to our customers throughout the world, we have adopted GOALS—Global, Originality, Agility, Leadership, Satisfaction—as our corporate policy. Yamatake Corporation and the

Group companies look forward to the coming challenges, and will work closely together to ensure a smooth transition of our business reorganization. With our long history and proven expertise in measurement and control technologies, we will strive to extend our renewed capabilities to worldwide markets, in preparation for the 21st century.

June 26, 1998



Ichiro Ido, Chairman



Yoshiharu Sato, President

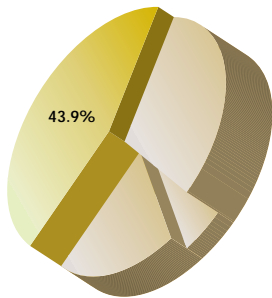
BS Building Automation Business

1. Market situation and business results

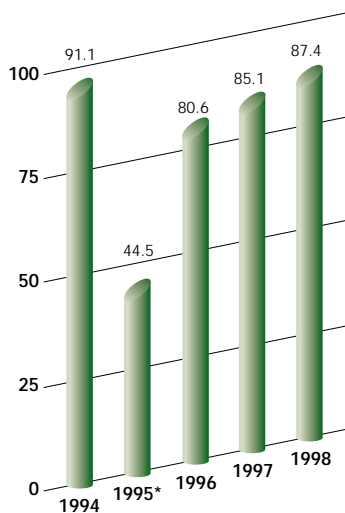


SADAO INOUE
President of Yamatake Building Systems Co., Ltd.

Percent of Consolidated Sales



Building Automation Sales
(¥ billion)



*Six-month period ended March 31, 1995

The continuation of the construction industry's lackluster performance from the previous year, as the floor space of new construction starts contracted and competition remained intense, left little room for expansion of the building market. Yamatake's Building Automation Business responded with concentrated efforts to achieve customer satisfaction by offering new products and services. Despite these efforts, orders from the office building sector—its largest market—recorded extremely limited growth, and orders for hotel construction fell off. Orders for equipment for manufacturing facilities, public buildings and medical and service facilities, on the other hand, increased.

Sales by the Building Automation Business improved as a result, advancing by 2.6 percent to ¥87,369 million.

Fiscal 1998 saw the launch into the market of the following new products: savic-net EV, available in Chinese and English, a comprehensive building automation system combining comfort with energy conservation developed for sale in overseas markets; FriendTouch, a simple, easy-to-operate fingerprint recognition system, for monitoring building entry and exit; the Actual Mini/Spring return model, a two-way electrical ball valve for use in controlling cooling and heating water in fan coil units; and an "insertion-type dew-point temperature transmitter" for measuring temperatures inside ducts.



The Sapporo Concert Hall Kitara, a large concert arena opened in 1997 in the capital city of Japan's northernmost main island of Hokkaido, employs world-class acoustics to give audiences an extraordinary musical experience. Further assurance of an ideal listening environment has been achieved through the installation of Yamatake's savic-net 30 integrated monitoring and control system for air-conditioning and other equipment.

2. Future strategies

In its primary area of concern—energy and resource conservation—the Building Automation Business obtains orders by employing a solution-oriented marketing approach. This approach uncovers replacement demand through a stress on such specific benefits as reduced building management operating costs and the reduction or elimination of labor requirements. We back up our energetic sales activities with reference to our strong record of success in providing building control systems for some 16,000 buildings.

The building security business is expected to benefit from the release of new products, such as the FriendTouch fingerprint recognition system, more than doubling sales from the previous term. The Company plans to market this fingerprint recognition system worldwide, making the most of its safety and accuracy and cultivating awareness of various other applications to achieve healthy profits. The change in the relationship with Honeywell will not exert a negative impact on the operations of the Building Automation Business, since it already has a well-established history of supplying its own technologies to customers in Japan, who are among the world's most demanding.

Although Yamatake has not yet developed much business overseas in this field, since that role was formerly assigned to Honeywell, operations outside Japan will become increasingly important in the future. In the initial stage, especially active efforts will be directed toward securing customers among Japan-based multinationals. The Company will also work to boost



In the installation of the savic-net 30 in Concert Hall Kitara's monitoring/control center, careful attention was paid to such vital concerns as air-conditioning noise reduction to avoid interference with the audience's listening pleasure.



The savic-net 20 system integrates building monitoring and control of building automation equipment.



Innovative valve products such as the Actival Mini/Spring auto-return two-way electrical ball valve set Yamatake apart.



The FriendTouch system employs a fingerprint recognition technology to monitor people entering and exiting buildings.

worldwide unit sales, centered on products with demonstrable superiority such as its humidity sensors and valves. Furthermore, it will develop new lower-cost products to meet the needs of Southeast Asia as part of its efforts to increase sales in the region.

The potential for growth is immense as the Building Automation Business expands its capabilities to cover virtually every aspect of the building environment.

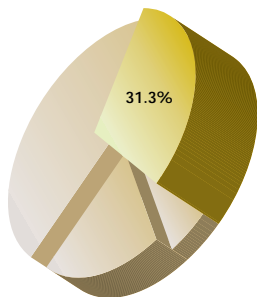
Industrial Automation Business

1. Market environment and business results

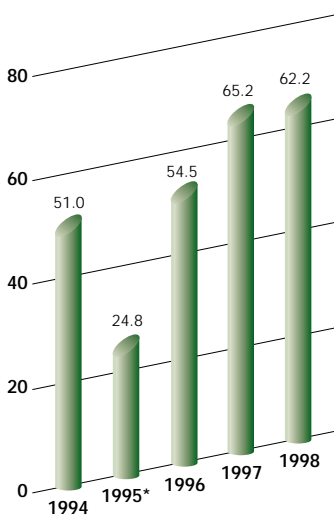


TADAHARU OHBA
President of Yamatake Industrial
Systems Co., Ltd.

Percent of Consolidated Sales



Industrial Automation Sales
(¥ billion)



*Six-month period ended March 31, 1995

Continued deferment of capital investments in its major domestic markets contributed to flat growth. In this environment, the Company launched an aggressive marketing initiative aimed at promoting sales of new products outside its existing customer base, and securing a larger share of the equipment renewal business. Volume orders from the petroleum and pulp and paper industries declined, but orders from the chemical and power and gas utilities markets improved slightly. Healthy gains were also registered in the iron and steel, shipbuilding and factory automation industries. Both direct and indirect exports decreased, meanwhile, under the impact of the currency crisis and economic instability affecting the countries of Southeast Asia.

For the fiscal year, the Industrial Automation Business reported sales of ¥62,172 million, down 4.7 percent from the previous year.



The Euprexa control and monitoring system for electrical power equipment

New products launched during the term included the Harmonas Basic-II automation system, the Euprexa control and monitoring system for the power industry, the UCS pro factory automation system, the enlarged CV 3000 Alphaplus lineup of control valves and the Bravo Light compact pressure transmitter.



A Harmonas supervisory station installed in the central monitoring room at the Shinoro Waste Treatment Plant helps the city of Sapporo's staff keep tabs on plant operations.

2. Future Strategies

Yamatake continues to reinforce its solution-oriented marketing structure focusing on products, solution systems and field engineering service businesses, with the reorganization of the Yamatake Group. As an early developer of products compatible with the international Fieldbus communications standards, the Company expects that its products and systems will continue to satisfy customer needs for state-of-the-art automation. New solutions services by the Industrial Service Operation Program (ISOP) offer industrial plant operators advanced support and maintenance. Long-term returns are also expected from life-cycle asset management programs that help to preserve the value of customers'

investments.

With Honeywell, Yamatake has changed its strategic outlook and continues to conduct cooperative development in specific areas. The two companies will also continue to supply each other with complementary parts and products.

Internationally, Yamatake will increase sales of products such as control valves for which there is a strong demand, particularly in Asia, as well as small, hybrid automation systems. Its maintenance service offerings, which are highly regarded by customers in Japan, are being developed for local markets. Already, two service centers have been established and are operating in Thailand and other centers are planned for the future.



Industrial automation system
Industrial-DEO



CV3000 Alphaplus
control valve



As Sapporo's population grows, the volume of garbage from Kita and Higashi wards processed at the Shinoro Waste Treatment Plant expands each year. The recent addition of the Harmonas automation system to the plant's monitoring equipment permits integrated monitoring of equipment by means of display graphics, contributing to maintenance of all the equipment at a higher performance level.

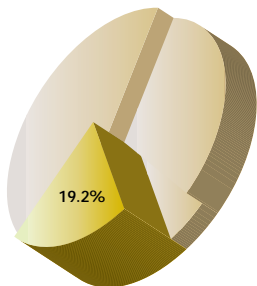
CP Control Products Business

1. Market situation and business results



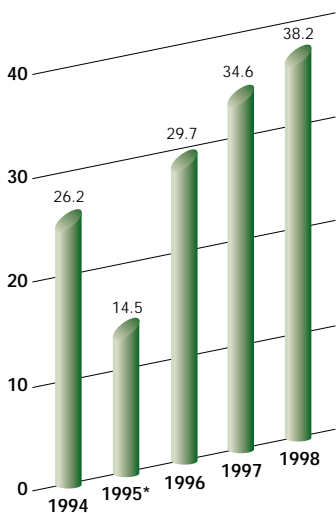
MASAO SHIMA
Executive Director & General
Manager, Control Products
Division

Percent of Consolidated Sales



Control Products Sales

(¥ billion)



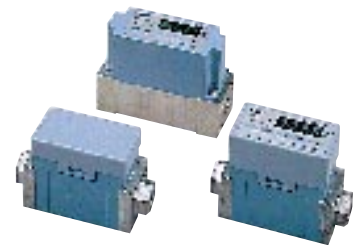
*Six-month period ended March 31, 1995

The machine tool industry turned in a strong performance during the early part of the year, enabling the Control Products Business to record overall steady growth in the market for industrial-use products in fiscal 1998. This growth was achieved despite the negative impact of the rapidly deteriorating economic situation in Southeast Asia in the electrical and electronic industries during the latter half of the term. In the market for products oriented toward consumers, meanwhile, orders for air cleaners, primarily from medical institutions, increased during the second half. This also boosted the home comfort business, a field the Company has entered only recently.

Since these favorable results were offset by intensifying price competition



A Takara Shoyu Co., Ltd., employee uses an EST330 operation display to monitor the liquid mixing process for dip sauces that exploit the savory flavor of soy sauce at the company's Choshi Plant.



CMS20/50 mass flow meter

in the residential and combustion control product markets, however, the overall volume of orders has shown only slight growth. Exports recorded steady gains, meanwhile, as new product launches in the European and U.S. markets compensated for a falloff in exports to Southeast Asia.

The Control Products Business saw sales improve from the year before as a result of these and other developments, climbing by 10.5 percent to ¥38,219 million.

The following new products were placed on the market during the term under review: the CMS20/50 high-precision, high-resolution mass flow meter for gas flow measurement; the CMG150/250 compact but highly accurate gas flow meter; the FNB793C convenience counter, which is equipped with an air cleaner to draw in tobacco smoke; the HPB series of photoelectric sensors suited for detection purposes in distribution systems; the LPK series of LED-illuminated manual switches; the SSM microswitch series; the SRF200 depressor-bar recorder, a product designed to satisfy space-saving requirements for control panels; and the Kikubari energy-efficient central duct air-conditioning system for residences.

2. Future strategies

Initiatives to improve results in this business segment will include creation of a system under which staff maintain close contact with customers and engage in solution-oriented marketing activities. The Company will identify target customers more clearly and provide each target group with a selection of products featuring high added value. Efforts to improve profitability will focus on maintaining the composition ratio of new products to total sales at approximately 30 percent.

One product offering particular promise is a gas flow sensor developed for use with semiconductor fabrication equipment. This sensor, with its rapid response and its ability to detect minute traces of gas, is expected to see a wide range of applications developed outside

the high-tech field as well. It can be employed in residential gas meters, for example, and in gas measurement sensors for oxygen and other gases hospitals keep in stock for the treatment of inpatients.

We anticipate that Internet-related business will have a large impact on a number of markets. In response, we are developing a range of new products, such as a Web adapter that can easily control and monitor factory equipment via the Internet. Combining such offerings with our control products should further increase our sales.

The Control Products Business comprises the production and sale of component products, which is the Company's core business, and the upcoming reorganization and consolidation of the Group's various



Photoelectric sensor HPB Series

businesses will have little effect on its structure. The effect of the changes in the terms of the partnership between Yamatake and Honeywell should also be relatively minor, since the two partners will continue to develop and supply products to fill out each other's product lines, much as they have done in the past. Yamatake will, however, direct greater efforts toward expanding exports.



FNB793C electronic air cleaner

Many of the brewmasters, or toji, who have traditionally watched over the sake production process are aging, and there are not enough young staff to take their place. Yamatake is lending a hand by developing automation equipment with sensors and thermometers to monitor and control every stage of the process.

Overseas Operations



MASAAKI TOGO

Managing Director & General Manager,
International Business Division

The maturing of the domestic market, the accelerated pursuit of overseas operations by major clients and the reshaping of the Yamatake Group's relationship with Honeywell have created an ideal environment for the Group to increase its involvement in the global marketplace. In connection with the upcoming reorganization and consolidation of domestic businesses, the Company has established an International Business Division to strengthen its participation in the global markets for building automation and industrial control systems. In the past, each business pursued overseas development independently.

The International Business Division integrates marketing, sales, maintenance, engineering services and manufacturing to meet demands for building and industrial automation in the Pacific region, the Americas, Europe, the Middle East, India, Russia

and other markets. Its medium-term objective will be to raise the ratio of overseas sales to total sales from the current level of approximately 10 percent to about 20 percent.

During the current term, the International Business Division will focus on the Pacific markets for building and industrial automation, and on strengthening the capabilities of its local affiliates. Under an integrated management structure, the division will work closely with customers while continuing its strong service provision to key global engineering and construction companies. Focusing on specific regions, the Company will manage its overseas assets efficiently, initially targeting Japan-based global corporations. The Company will also leverage its broad expertise in equipment services to support customers' operations. Going beyond the automation of manufacturing facilities, and responding to every

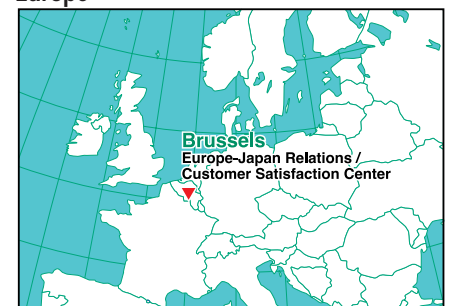
automation need, it will develop broad integrated automation and service offerings, including support for other manufacturers' equipment.

The Company continues to see immense potential for its products and services in the Pacific market, which generates 70 percent of its total overseas sales and which will remain a highly promising market in the years to come. Yamatake's affiliates are extremely active in the region. The Company operates through three joint ventures and a wholly-owned manufacturing facility in China and sales and service affiliates in Thailand, the Philippines, Indonesia and Singapore. Under the International Business Division's umbrella, these companies will be the main vehicles of accelerating Yamatake's global business as its international marketing network expands to take advantage of a growing number of opportunities.

Asia



Europe



United States



Research & Development

The Yamatake R&D structure is divided into three components: the Development Headquarters for new product development by individual businesses attuned to current trends; a Companywide R&D system comprising the Solid State Advance Center, Advanced Technology Center and Production Engineering Center, which takes responsibility for solutions and improvements to individual technological concerns; and the Technology Committee, which takes responsibility for solving and improving common technological issues. The Company maximizes the use of this tripartite structure to conduct aggressive R&D activities that anticipate and respond accurately to global technological trends.

During the decade in which this structure has been in place, all three corporate R&D centers have realized their full potential. Today, however, the expanded range of research and the diversification of the business world require an even greater ability to keep pace with rapid advances in technology in the Company's fields of operation. For this reason, and in light of the reorganization and consolidation of the Yamatake Group, the three R&D centers have been integrated to reinforce and expand their capabilities.

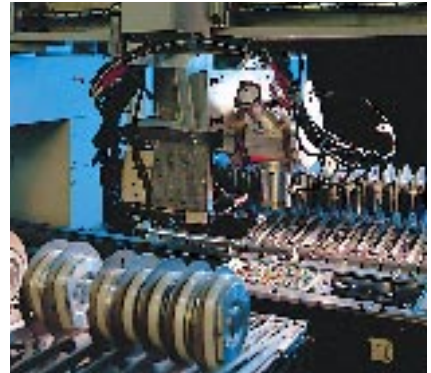
• Basic Research System



Software development by the 2nd R&D Department

A new R&D Headquarters has been established to provide a basis for medium- to long-term R&D. This can be expected to enhance productivity and generate strong, distinctive technology offering greater flexibility and less-repetitive functions. The fruits of the research to date include self-diagnostic technology and microflow sensors making use of micro-machining technology. Marketed by the business divisions as distinctive products, these are beginning to contribute substantially to the Company's business.

The Company has traditionally invested heavily in R&D. Today, it is actively promoting R&D activities in



A chip molder developed by the 3rd R&D Department for use in HIC

cooperation with governmental organizations, academic institutions and private firms to ensure the continual ability to offer unique products which are clearly differentiated from those offered by other companies. The former relationship with Honeywell was a comprehensive strategic alliance under which products were developed for the global marketplace. Under the new structure, each Yamatake business unit will make decisions concerning key investments at its own discretion according to its respective contract. The various units will conduct joint development when appropriate.

A clean room at the 1st R&D Department, site of highly advanced sensing technology development



Financial Review

Consolidated Operating Results

In fiscal 1998, consolidated sales totaled ¥198,932 million (\$1,507 million), up 2.3 percent year on year. Building Automation Business sales gained 2.6 percent. Industrial Automation Business sales declined 4.7 percent, while Control Products Business sales jumped 10.5 percent.

Domestic sales rose 2.3 percent, to ¥179,812 million (\$1,362 million), and accounted for 90.4 percent of net sales. Overseas sales advanced 1.9 percent, to ¥19,120 million (\$145 million).

Cost of sales was held to an increase of 2.0 percent, to ¥136,948 million (\$1,037

million), and accounted for 68.8 percent of net sales, down 0.2 percentage point. R&D expenses included in cost of sales amounted to ¥9,835 million (\$75 million), up 4.4 percent. Selling, general and administrative (SG&A) expenses rose 1.9 percent, to ¥49,251 million (\$373 million).

Operating income increased 7.3 percent, to ¥12,733 million (\$96 million), and the operating margin rose to 6.4 percent, from 6.1 percent. Net other expenses totaled ¥2,631 million (\$20 million) and included a loss from devaluation of investment securities of ¥2,725 million (\$21 million).

Income before income taxes advanced 5.3 percent, to ¥10,102 million (\$77 million).

Other items comprised mainly current and deferred income taxes for the year, which rose 12.3 percent, to ¥5,396 million (\$41 million). As a result, net income declined 0.5 percent, to ¥5,020 million (\$38 million), and the net profit margin decreased by 0.1 percentage point, to 2.5 percent. Return on equity dropped 0.5 percentage point, to 4.6 percent. Net income per share declined ¥3.13, to ¥53.63 (\$0.41), while cash dividends per share for the year totaled ¥12.00 (\$0.09).

Financial Position

Total assets as of March 31, 1998 amounted to ¥196,456 million (\$1,488 million), up 1.3 percent. Total current assets rose 3.8 percent, to ¥152,533 million (\$1,156 million). Total property, plant and equipment (net of accumulated depreciation) and total

other assets declined 6.7 percent, to ¥43,923 million (\$333 million).

Total current liabilities decreased 7.3 percent, to ¥72,061 million (\$546 million). Total long-term liabilities rose 63.4 percent, to ¥12,265 million (\$93 million). Short-term and long-term debt declined 32.1 percent, to

¥12,528 million (\$95 million).

Total shareholders' equity rose 3.5 percent, to ¥110,995 million (\$841 million). The equity ratio advanced to 56.5 percent, from 55.3 percent.

Cash Flows

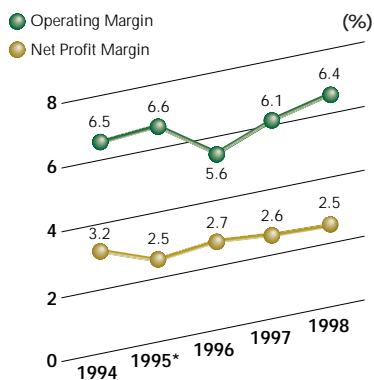
Operating activities provided net cash of ¥9,232 million (\$70 million), up 9.5 percent. Net cash used in investing activities totaled ¥2,656 million (\$20 million), down 31.4 percent.

Net cash used in financing activities amounted to ¥7,185 million (\$54 million). The increase in the amount of net cash used, compared with the previous year, mainly reflected the absence in fiscal 1998 of net cash provided by proceeds from the exercise

of warrants, which had reached ¥11,939 million in fiscal 1997.

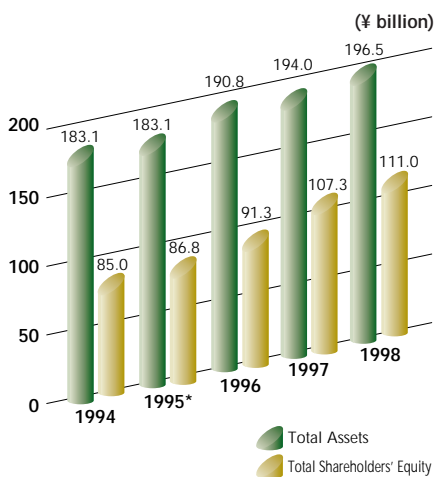
As a result, in fiscal 1998 cash and cash equivalents decreased by ¥609 million (\$5 million), or 1.6 percent, to ¥37,713 million (\$286 million).

Profit Margins

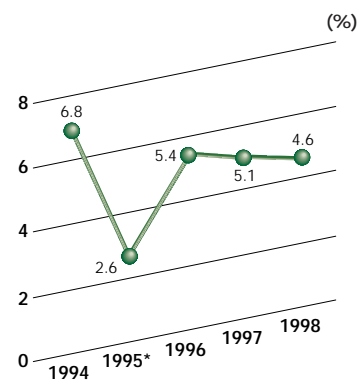


*Six-month period ended March 31, 1995

Total Assets and Total Shareholders' Equity



Return on Equity



Selected Financial Data

Yamatake-Honeywell Co., Ltd. and consolidated subsidiaries,
for the years ended March 31, 1998, 1997 and 1996,
for the six-month period ended March 31, 1995 and
for the year ended September 30, 1994.

	Millions of yen (except per share data)					Thousands of U.S. dollars*
	1994	1995**	1996	1997	1998	1998
FOR THE YEAR						
Sales	¥ 178,687	¥ 89,140	¥ 176,640	¥ 194,511	¥ 198,932	\$ 1,507,063
Operating income	11,601	5,868	9,855	11,862	12,733	96,459
Income before income taxes	11,534	4,442	9,750	9,594	10,102	76,530
Net income	5,666	2,216	4,808	5,045	5,020	38,027
Per share (yen and U.S. dollars)						
Net income	¥ 67.45	¥ 26.39	¥ 57.20	¥ 56.76	¥ 53.63	\$ 0.41
Cash dividends	11.00	5.50	11.00	13.00	12.00	0.09
Shareholders' equity	1,012.39	1,032.80	1,080.23	1,146.11	1,185.81	8.98
Depreciation and amortization	¥ 3,484	¥ 1,545	¥ 2,750	¥ 2,652	¥ 2,809	\$ 21,285
R&D expenses	9,856	4,804	9,560	9,420	9,835	74,507
Capital expenditures	2,511	1,140	3,713	4,046	3,624	27,455
AT YEAR-END						
Total assets	¥ 183,076	¥ 183,060	¥ 190,790	¥ 193,986	¥ 196,456	\$ 1,488,306
Total shareholders' equity	85,040	86,754	91,282	107,279	110,995	840,877
Number of shares outstanding (thousands) . .	84,000	84,000	84,504	93,604	93,604	
Number of employees	7,646	7,376	7,166	6,946	6,770	
Return on equity (%)	6.8	2.6	5.4	5.1	4.6	

* The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥132 to US\$1, the approximate exchange rate as of March 31, 1998.

** Effective March 31, 1995, the Company changed its fiscal year-end from September 30 to March 31. Accordingly, fiscal 1995 includes only six months of operations.

Consolidated Balance Sheets

Yamatake-Honeywell Co., Ltd. and consolidated subsidiaries,
as of March 31.

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Current assets:			
Cash and cash equivalents -			
Cash	¥ 17,158	¥ 22,766	\$ 129,984
Time deposits	19,555	12,777	148,144
Marketable securities (Note 3)	1,000	2,779	7,576
Total cash and cash equivalents	37,713	38,322	285,704
Notes and accounts receivable -			
Trade	86,953	80,470	658,733
Officers and employees	230	253	1,740
Other	705	500	5,342
Allowance for doubtful notes and accounts	(603)	(623)	(4,565)
Inventories (Note 4)	24,412	25,204	184,943
Deferred taxes (Note 7)	1,709	1,744	12,944
Prepaid expenses and other current assets	1,414	1,061	10,711
Total current assets	152,533	146,931	1,155,552
Property, plant and equipment:			
Land	6,623	6,621	50,171
Buildings	18,225	17,505	138,072
Machinery and equipment	32,592	31,954	246,912
Construction in progress	353	171	2,673
Less - Accumulated depreciation	(35,661)	(34,625)	(270,159)
Total property, plant and equipment	22,132	21,626	167,669
Other assets:			
Investment securities (Note 3)	9,811	12,458	74,328
Rental deposits	3,785	3,964	28,672
Long-term loans to officers and employees	2,858	3,286	21,652
Deferred taxes - long-term (Note 7)	1,806	1,816	13,685
Other assets	3,531	3,905	26,748
Total other assets	21,791	25,429	165,085
Total assets	¥196,456	¥193,986	\$1,488,306

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Current liabilities:			
Bank loans (Note 5)	¥ 2,615	¥ 3,861	\$ 19,809
Notes payable -			
Trade	28,183	25,491	213,510
Construction	640	631	4,844
Accounts payable -			
Trade	14,714	14,055	111,469
Other	1,826	861	13,832
Accrued income taxes	4,318	2,862	32,713
Accrued bonuses to employees	6,451	6,244	48,874
Current portion of long-term debt (Note 5)	731	10,785	5,539
Accrued expenses and other current liabilities	12,583	12,950	95,328
Total current liabilities	<u>72,061</u>	<u>77,740</u>	<u>545,918</u>
Long-term liabilities:			
Long-term debt (Note 5)	9,182	3,803	69,562
Accrued severance indemnities (Note 6)	3,083	3,702	23,352
Total long-term liabilities	<u>12,265</u>	<u>7,505</u>	<u>92,914</u>
Excess of acquired net equity over cost (Note 1(b))	619	867	4,690
Minority interest in income of consolidated subsidiary	516	595	3,907
Shareholders' equity:			
Capital -			
Common stock, ¥50 par value:			
Authorized	-300,000,000 shares		
Issued and outstanding	-93,603,631 shares	10,510	79,618
Additional paid-in capital	6,313	6,313	47,827
Legal reserve (Note 8)	1,566	1,429	11,868
Retained earnings (Note 8)	92,607	89,028	701,570
Common stock in treasury, at cost (514 shares in 1998 and 582 shares in 1997)	(1)	(1)	(6)
Total shareholders' equity	<u>110,995</u>	<u>107,279</u>	<u>840,877</u>
Commitments and contingent liabilities (Note 11)			
Total liabilities and shareholders' equity	¥196,456	¥193,986	\$ 1,488,306

Consolidated Statements of Income

Yamatake-Honeywell Co., Ltd. and consolidated subsidiaries,
for the years ended March 31.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Sales	¥198,932	¥194,511	\$1,507,063
Cost of sales (Note 9(a))	136,948	134,308	1,037,485
Gross profit	61,984	60,203	469,578
Selling, general and administrative expenses (Notes 7, 9(b) and 10) ..	49,251	48,341	373,119
Operating income	12,733	11,862	96,459
Other income (expenses):			
Interest income	266	238	2,016
Dividend income	131	138	994
Interest expenses	(297)	(466)	(2,252)
Cash discounts	(7)	(8)	(57)
Foreign exchange gains - net	117	84	889
Loss from devaluation of investment securities	(2,725)	(1,984)	(20,644)
Loss on sale or disposal of fixed assets	(192)	(142)	(1,453)
Other - net	76	(128)	578
	(2,631)	(2,268)	(19,929)
Income before income taxes	10,102	9,594	76,530
Income taxes (Note 7):			
Current	5,038	4,157	38,167
Deferred	358	648	2,712
	5,396	4,805	40,879
Minority interest in consolidated subsidiary company	31	(8)	240
Amortization of excess of acquired net equity over cost			
(Note 1(b))	(345)	(248)	(2,616)
Net income	¥ 5,020	¥ 5,045	\$ 38,027
Per share amounts:			
		Yen	U.S. dollars
Net income	¥ 53.63	¥ 56.76	\$ 0.41
Cash dividends	¥ 12.00	¥ 13.00	\$ 0.09

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Yamatake-Honeywell Co., Ltd. and consolidated subsidiaries,
for the years ended March 31.

	Thousands	Millions of yen			
	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance as of March 31, 1996	84,504	¥ 4,531	¥ 353	¥1,309	¥85,090
Net income	-	-	-	-	5,045
Cash dividends	-	-	-	-	(953)
Bonuses to directors	-	-	-	-	(34)
Proceeds from exercise of warrants	9,100	5,979	5,960	-	-
Transfer to legal reserve	-	-	-	120	(120)
Balance as of March 31, 1997	93,604	10,510	6,313	1,429	89,028
Net income	-	-	-	-	5,020
Cash dividends	-	-	-	-	(1,264)
Bonuses to directors	-	-	-	-	(40)
Transfer to legal reserve	-	-	-	137	(137)
Balance as of March 31, 1998	93,604	¥10,510	¥6,313	¥1,566	¥92,607

	Thousands of U.S. dollars (Note 2)			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance as of March 31, 1997	\$79,618	\$47,827	\$10,829	\$674,458
Net income	-	-	-	38,027
Cash dividends	-	-	-	(9,573)
Bonuses to directors	-	-	-	(303)
Transfer to legal reserve	-	-	1,039	(1,039)
Balance as of March 31, 1998	\$79,618	\$47,827	\$11,868	\$701,570

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Yamatake-Honeywell Co., Ltd. and consolidated subsidiaries,
for the years ended March 31.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Cash flows from operating activities:			
Net income	¥ 5,020	¥ 5,045	\$ 38,027
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	2,809	2,652	21,285
Amortization of excess of acquired net equity over cost	(345)	(248)	(2,616)
Loss on sale or disposal of fixed assets	192	142	1,453
Loss from devaluation of investment securities	2,725	1,984	20,644
Deferred taxes	45	735	337
Provision for allowance for doubtful notes and accounts	14	88	108
Minority interest - net of dividends	30	(31)	230
Bonuses to directors	(40)	(34)	(303)
Other changes that (used) provided cash:			
Receivables	(6,665)	(2,908)	(50,491)
Inventories	792	147	6,001
Other current assets	(353)	96	(2,676)
Notes and accounts payables	4,332	2,110	32,816
Accrued income taxes	1,456	(2,046)	11,028
Accrued severance indemnities - net of payment	(620)	(505)	(4,694)
Other accrued liabilities	(160)	1,203	(1,212)
Net cash provided by operating activities	<u>9,232</u>	<u>8,430</u>	<u>69,937</u>
Cash flows from investing activities:			
Payment for acquisition of fixed assets	(3,534)	(3,851)	(26,776)
Proceeds from sale of fixed assets	20	37	155
Acquisition of interest in consolidated subsidiary	(11)	(720)	(85)
Payment for purchase of investment securities	(110)	(104)	(831)
Proceeds from sale of investment securities	43	41	328
Rental deposits reimbursed	179	348	1,357
Decrease in other assets	757	376	5,732
Net cash used in investing activities	<u>(2,656)</u>	<u>(3,873)</u>	<u>(20,120)</u>
Cash flows from financing activities:			
Proceeds from long-term debt	1,354	430	10,257
Payment of long-term debt	(6,029)	(13,043)	(45,673)
Proceeds from bank loans	236	442	1,783
Payment of bank loans	(1,482)	(470)	(11,227)
Dividends paid	(1,264)	(953)	(9,573)
Proceeds from sale of common stock in treasury	9	23	71
Purchase of common stock in treasury	(9)	(24)	(70)
Proceeds from exercise of warrants	-	11,939	-
Net cash used in financing activities	<u>(7,185)</u>	<u>(1,656)</u>	<u>(54,432)</u>
Net (decrease) increase in cash and cash equivalents	(609)	2,901	(4,615)
Cash and cash equivalents:			
At beginning of year	38,322	35,421	290,319
At end of year	<u>¥37,713</u>	<u>¥38,322</u>	<u>\$ 285,704</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for-			
Interest	¥ 302	¥ 467	\$ 2,289
Income taxes	<u>¥ 4,940</u>	<u>¥ 7,317</u>	<u>\$ 37,422</u>

The accompanying notes are an integral part of these statements.

Board of Directors and Auditors

Yamatake Corporation
As of July 1, 1998



Yamatake's Executive Committee:
(sitting, from left) Ichiro Ido and Yoshiharu Sato; (standing, from left) Hiroshi Shima, Nobuyuki Takai, Kozo Tanaka and Masaaki Togo

Chairman and Representative Director	Ichiro Ido
President and Representative Director	Yoshiharu Sato
Executive Vice President	Nobuyuki Takai
Managing Directors	Kozo Tanaka Hiroshi Shima Masaaki Togo
Executive Directors	Shosaku Maeda Masao Shima Jun Kawachi Masao Ogawa Kouichi Kamisawa Tetsuo Ishiyama Sadachika Ogawa Yutaka Yamada Masaaki Kousaka
Standing Statutory Auditors	Tadashi Sonobe Muneo Toda
Statutory Auditors	Eiichiro Kawai Akihiko Shiratori

Corporate Data

As of March 31, 1998

Founded	December 1, 1906
Incorporated	August 22, 1949
Headquarters	Totate International Building 2-12-19, Shibuya, Shibuya-ku, Tokyo 150-8316, Japan
Factories	Fujisawa Shonan Isehara
Sales and Service Offices	Japan 50 Overseas 3
Employees	3,874
Paid-in Capital	¥10,509,585,567
Shares of Common Stock Issued	93,603,631
Shareholders	3,593
Independent Accountants	Price Waterhouse
Fiscal Year	April 1–March 31
Annual Shareholders' Meeting	June
Stock Listing	Tokyo Stock Exchange, 1st Section
Transfer Agent	The Yasuda Trust and Banking Company, Limited

Subsidiaries and Affiliates

As of July 1, 1998

Yamatake Building Systems Co., Ltd.* Headquarters: Tokyo, Japan YC Ownership: 100% 1998 Sales: ¥68.3 billion Employees: 1,496	Yamatake-SIC Control Systems Co., Ltd. Headquarters: Beijing, China YC Ownership: 52.9%
Yamatake Industrial Systems Co., Ltd.* Headquarters: Tokyo, Japan YC Ownership: 100% 1998 Sales: ¥23.7 billion Employees: 915	Yamatake-SIC Building Automation Co., Ltd. Headquarters: Shanghai, China YC Ownership: 60%
Yamatake & Co., Ltd.* Headquarters: Tokyo, Japan YC Ownership: 76.9% 1998 Sales: ¥20.5 billion Employees: 225	Dalian Yamatake Control Instruments Co., Ltd. Headquarters: Dalian, China YC Ownership: 100%
Yamatake Control Products Co., Ltd.* Headquarters: Kanagawa, Japan YC Ownership: 100% 1998 Sales: ¥10.5 billion Employees: 270	Shanghai Yamatake Jinshan Control Instruments Co., Ltd. Headquarters: Shanghai, China YC Ownership: 60%
Yamatake Techno-Systems Co., Ltd. Headquarters: Tokyo, Japan YC Ownership: 100%	Yamatake (Thailand) Co., Ltd. Headquarters: Bangkok, Thailand YC Ownership: 49%
Yamatake Friendly Co., Ltd. Headquarters: Kanagawa, Japan YC Ownership: 100%	YCV Corporation Headquarters: Phoenix, AZ, U.S.A. YC Ownership: 100%
Taishin Co., Ltd. Headquarters: Nagano, Japan YC Ownership: 50%	Yamatake Philippines, Inc. Headquarters: Makati, Philippines YC Ownership: 99.9%
	PT. Yamatake Berca Indonesia Headquarters: Jakarta, Indonesia YC Ownership: 55%
	Yamatake Controls Singapore Pte. Ltd. Headquarters: Singapore YC Ownership: 100%

*Consolidated subsidiary