

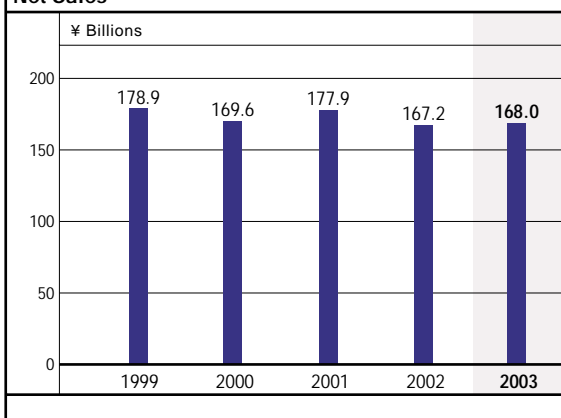
# Financial Highlights

Yamatake Corporation and consolidated subsidiaries, for the years ended March 31.

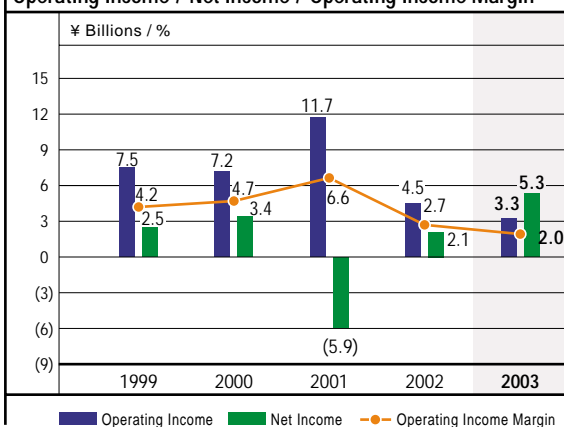
Years ended March 31, 2003 and 2002	Millions of yen		Thousands of U.S. dollars*
	2003	2002	2003
For the year			
Net Sales	¥ 167,969	¥ 167,164	\$ 1,399,745
Operating income	3,275	4,527	27,288
Net income	5,308	2,121	44,235
Per Share (in yen and U.S. dollars)			
Net income	¥ 68.65	¥ 24.77	\$ 0.57
Cash dividends	12.00	12.00	0.10
At year-end			
Total assets	¥ 162,919	¥ 180,958	\$ 1,357,659
Total shareholders' equity	91,780	98,886	764,827

\*The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120 to US \$1, the approximate exchange rate as of March 31, 2003, as described in Note 1 of Notes to Consolidated Financial Statements.

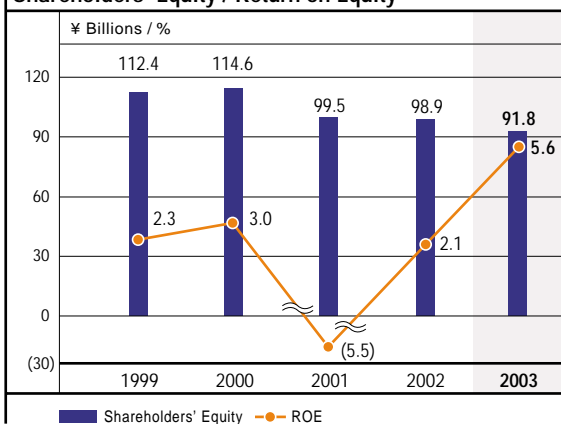
## Net Sales



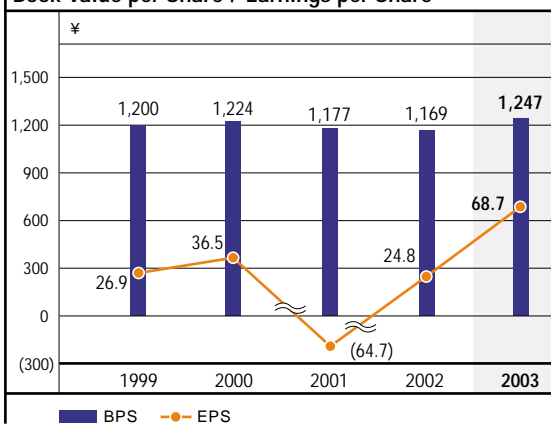
## Operating Income / Net Income / Operating Income Margin



## Shareholders' Equity / Return on Equity



## Book-value per Share / Earnings per Share



# To Our Shareholders



**Yoshiharu Sato**  
President and Chief Executive Officer

## *Consolidated Performance*

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Yamatake faced another challenging environment in the fiscal year ended in March 2003. Capital investment in the Japanese market was depressed, deflation drove down prices and the pace of economic recovery in Europe and the U.S. slowed.

The Yamatake group continued to introduce solutions based on core Yamatake technologies in measurement and control. A strong emphasis was placed on improving profitability in core fields of business, as well as cultivating and growing international markets and new fields of business.

Consolidated sales increased by 0.5% to 168.0 billion yen. This included the accounts of four newly consolidated subsidiaries, three of which are overseas. Although consolidated operating income amounted to 4.7 billion yen in the second half, for the year it fell 27.7% to 3.3 billion yen, due to increases in severance payments and other selling, general and administrative costs. Net income of 5.3 billion yen reflected an extraordinary gain of approximately 11 billion yen due to extraordinary profit from the transfer of substitutional portion of employees' pension funds to the public pension funds.

Yamatake, in view of the performance of the group overall, not just the Company, elected to pay a year-end dividend of 6 yen per share, as in the previous year. The combined annual dividend came to 12 yen per share.

## *Major Activities*

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Proprietary technologies and services were incorporated in comprehensive solutions for building automation, industrial automation and control products. Earnings were stabilized thanks to these efforts, despite a shrinking market and increasing price competition in Japan.

New business development was focused on new needs for environmental protection, energy conservation, security and indoor environments. The growth was fueled by more than 10% sales increases in emergency dispatch services for the elderly and in residential air conditioning systems.

Preparations were made for full-scale marketing of the Yamatake Sewage Inflow Prediction System in fiscal 2003. The system, which is based on proprietary topological case-based modeling (TCBM) forecasting technology, became the first software solution to receive a building technology certification from the Japan Institute of Wastewater Engineering Technology.

Japan's Ministry of Agriculture, Forestry and Fisheries adopted Yamatake's computer-based system for tracking fresh produce from farmer to grocer. The system is now being further developed for commercialization as a measure for improving food safety.

In R&D, we newly developed and further strengthened microflow products for the measurement of gas flows, based on Yamatake proprietary technology in Micro-Electro-Mechanical Systems (MEMS). In the field of biotechnology, we began developing automation technology for the manufacture of next-generation in situ synthesized DNA chips.

We refined new sensor technologies for factory automation, including binocular-range-image sensors and Moire 3-D sensors. Research continued with Yamatake sensors that detect subtle changes in air mattress pressure to unobtrusively monitor heartbeat, breathing and other vital signs. The sensors offer great promise for the treatment of sleeping disorders.

Production of sensor and control components began at a new factory in Shenzhen, China in December 2002. Yamatake also operates a factory in Dalian. These offshore manufacturing bases strengthen Yamatake's competitiveness with more cost-effective production.

A total of 10.7 billion yen was spent in July 2002 to buy back Yamatake shares held by Honeywell Asia-Pacific Inc., thereby ending Yamatake's equity relationship with the Honeywell group.

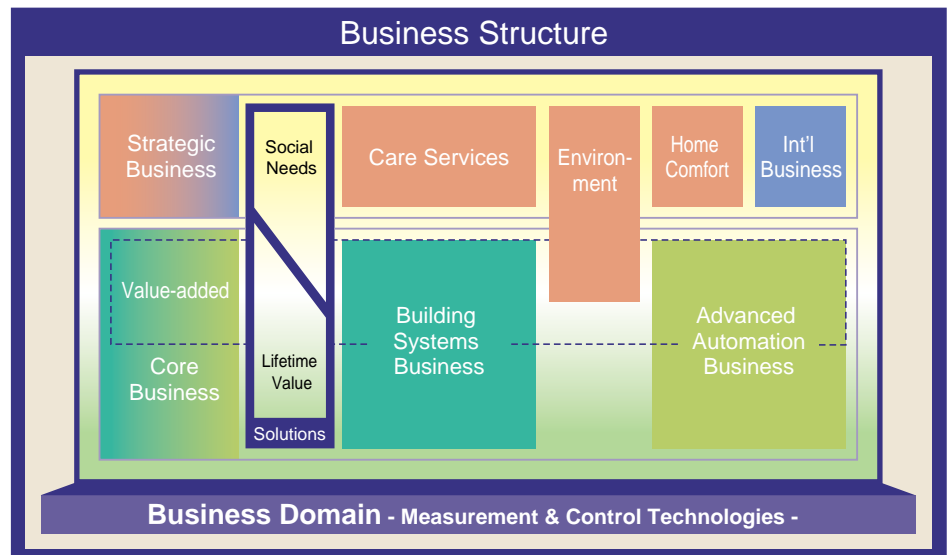
## Positioning for the Future

The following strategies will be carried out to strengthen the Yamatake group's positioning for the future:

- International markets and new fields of business will be cultivated and grown. International business development will focus on the Chinese market, including the strategic concentration of resources and expanded sales of core products. Yamatake will be established as a leader in solutions for the environment and care services.
- Sophisticated solutions will be offered to help customers reduce operational costs and raise asset value over the lifecycle of their facilities. Solutions will effectively integrate Yamatake technologies, engineering expertise and related services.
- Cost structures will undergo a major overhaul in conjunction with increased offshore manufacturing and other measures to restructure production.

In line with these strategies, the wholly-owned subsidiaries Yamatake Building Systems Co., Ltd. and Yamatake Industrial Systems Co., Ltd. were merged with Yamatake Corporation and reorganized into "in-house companies," or profit centers, on April 1, 2003. The new Building Systems Company handles building automation business, while the new Advanced Automation Company integrates the formerly separate industrial automation and control products businesses. The reorganization will strengthen the operational strength and profitability of core businesses, from marketing and development to production, sales and maintenance, including for international markets.

Measures for stronger corporate governance have also been implemented. The Company's Executive Officer System introduced in 2000 to streamline decision-making and increase flexibility, was revised in June 2002 to better clarify management responsibilities, accountability and overseeing duties. On April 1, 2003, the Business Conduct Office was established to monitor and guide the company in compliance and business ethics.



## *Increased Value for Shareholders*

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The following measures will be implemented to increase shareholder value, as well as enable the group to respond more flexibly to changes in the business environment:

- Increasingly strengthen the new in-house companies, particularly their tailoring of comprehensive solutions for building systems and advanced automation.
- Lower cost structures for group products and services by expanding production in China and streamlining domestic production, as well as establishing networks for global marketing and procurement.
- Apply Yamatake's traditional strengths in measurement and control toward new fields of special importance to society, such as the environment, energy saving and care services.
- Develop globally competitive products based on Yamatake's core technologies.
- Reorganize and rationalize business processes and structures with the help of advanced information technology.
- Reduce the environmental impact of Yamatake operations by strengthening efforts to prevent pollution, conserve resources and energy, reduce emissions, recycle materials and develop environmentally-aware products and services.

Yamatake cannot afford unwarranted optimism in the face of stiff competition and rapid changes in the business environment. Nevertheless, in accordance with the group's reorganization and implementation of new strategies outlined above, our consolidated forecast envisions sales increasing 4.8% to 176 billion yen and operating income increasing 113.8% to 7 billion yen. Net income is expected to decrease 28.4% to 3.8 billion yen compared to the previous year with the extraordinary profit related to Group pension obligations.

Although socioeconomic change is always a potentially destabilizing factor, it has prompted us to make a healthy reassessment of our future. Through this process, we have identified promising opportunities to achieve new growth by leveraging core strengths. At the same time, we will steadily implement measures aimed at enhancing our structure for long-term stability and profitability. In the medium term, we expect our annual return on equity to exceed 8% by fiscal 2007.

We look forward to offering true value to Yamatake customers, shareholders and other stakeholders as we help to realize a world that is easier both on people and the environment.

July 2003



**Yoshiharu Sato**, President and Chief Executive Officer

