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Yamatake Corporation Annual Report 2003

Annual Report 2003



Profile

Since its founding in 1906, Yamatake has aggressively developed core measurement and control technologies to become a longtime leader in the fields of building automation, industrial automation and control products.

In fiscal 2002 (April 1, 2002 to March 31, 2003), Yamatake prepared for a major reorganization to refocus strategically on building systems and advanced automation.

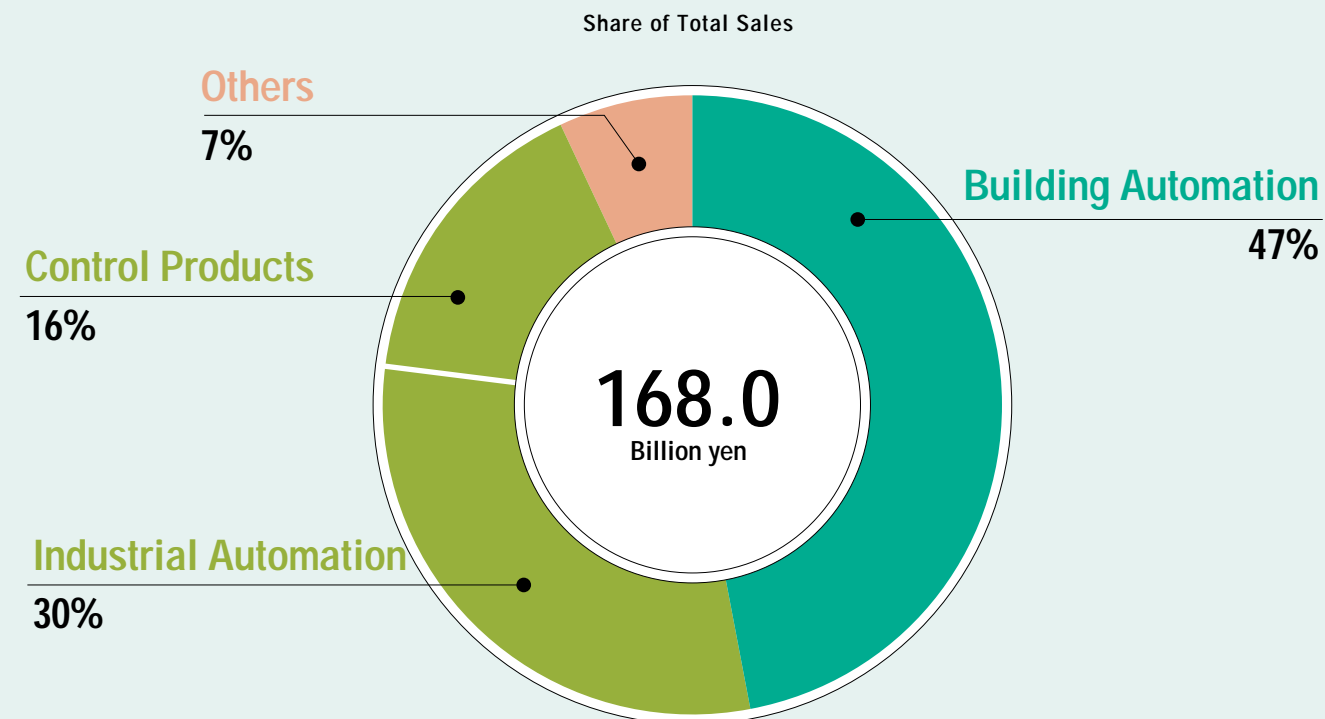
The Building Systems and Advanced Automation businesses were restructured as in-house companies, set up in April 2003.

Yamatake is also branching out into

promising new fields, including the environment, care services and residential systems.

The Yamatake group comprises Yamatake Corporation and nine Japanese and 16 overseas subsidiaries, which together employ some 7,000 people.

With our firm commitment to the "Savemation" philosophy of *saving through automation*, the Yamatake group will continue to develop technologies and solutions for the advancement of society and the preservation of our global environment.



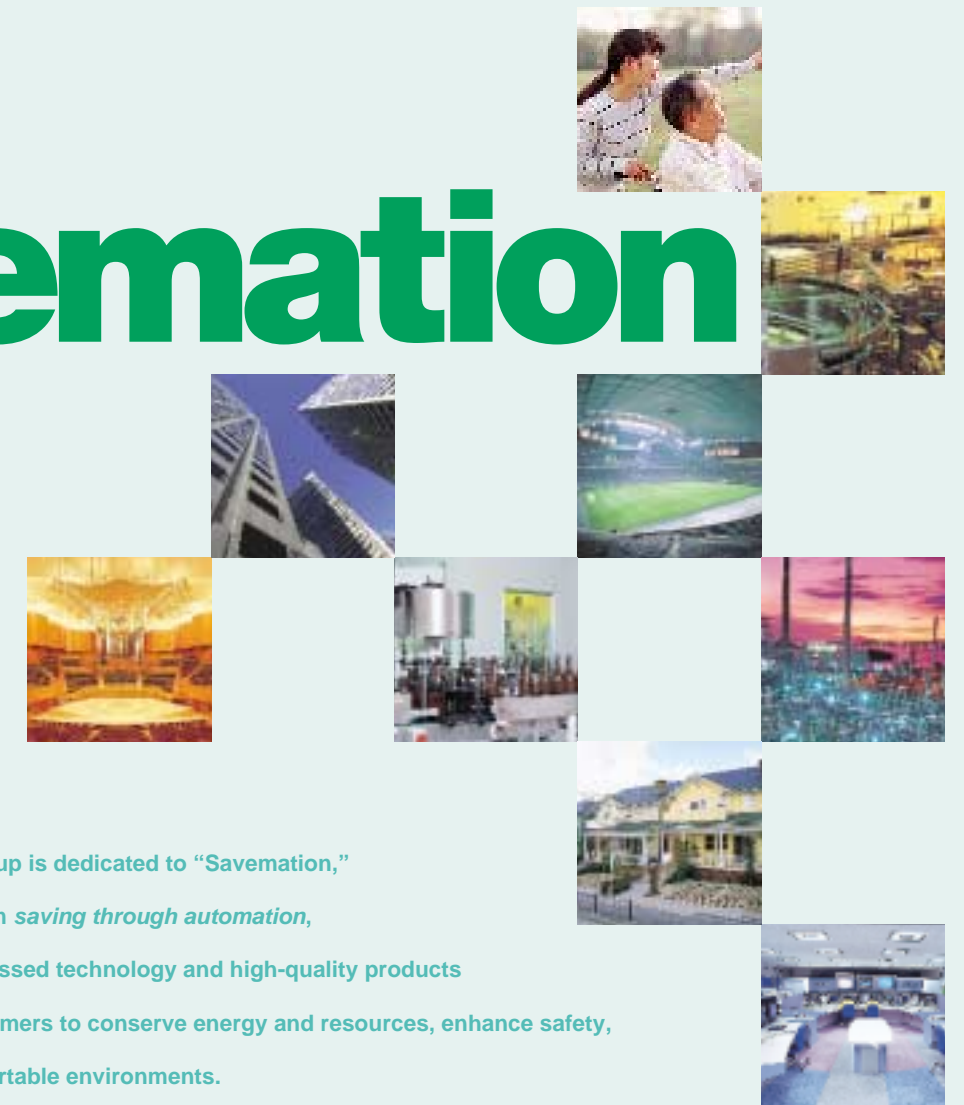
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*Statements made in this annual report with regards to Yamatake's plans, targets and strategies and other statements without historical facts are forward-looking statements about the future performance of Yamatake Corporation and subsidiaries. These projections are based on management's assumptions, intent and expectations in light of the information currently available to it, and therefore these statements are not guarantees of future performance.

Due to various factors, actual results may differ from those discussed in this document. Such factors include but are not limited to (i) general economic conditions in Yamatake's markets, particularly levels of capital investments; (ii) exchange rates particularly between the Japanese yen and U.S. dollar and other currencies in which Yamatake makes significant sales or Yamatake's assets and liabilities are denominated; and (iii) continued acceptance of Yamatake's products and services offered in highly competitive markets characterized by development of new technologies and the advancement of the global economy.

Savemation



The Yamatake Group is dedicated to "Savemation," a term derived from *saving through automation*, delivering unsurpassed technology and high-quality products that help our customers to conserve energy and resources, enhance safety, and provide comfortable environments.

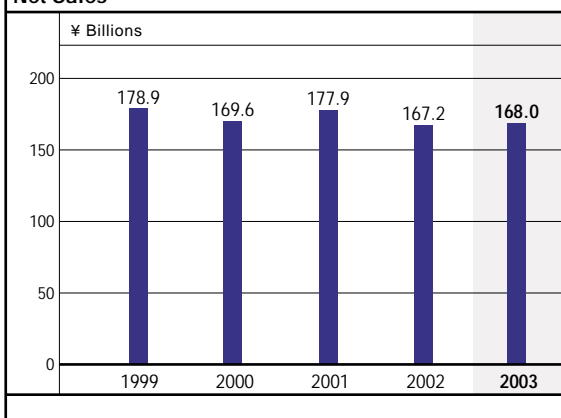
Financial Highlights

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

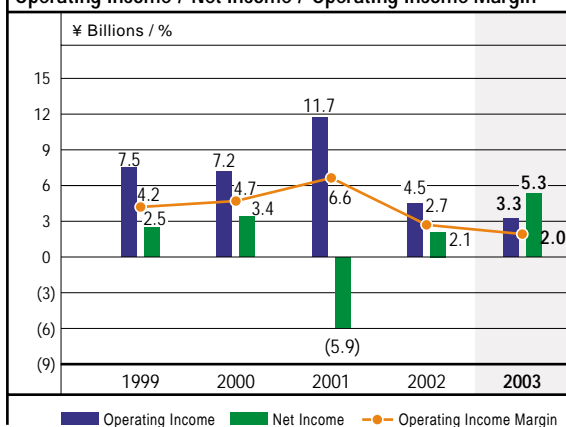
Years ended March 31, 2003 and 2002	Millions of yen		Thousands of U.S. dollars*
	2003	2002	2003
For the year			
Net Sales	¥ 167,969	¥ 167,164	\$ 1,399,745
Operating income	3,275	4,527	27,288
Net income	5,308	2,121	44,235
Per Share (in yen and U.S. dollars)			
Net income	¥ 68.65	¥ 24.77	\$ 0.57
Cash dividends	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.

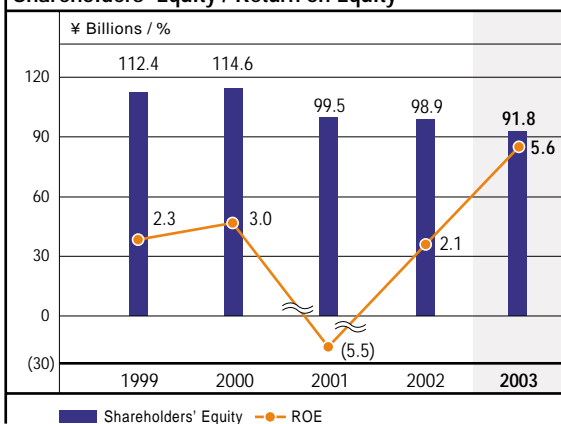
Net Sales



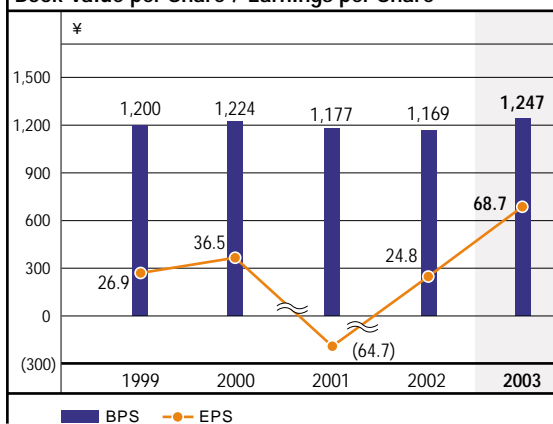
Operating Income / Net Income / Operating Income Margin



Shareholders' Equity / Return on Equity



Book-value per Share / Earnings per Share



To Our Shareholders



Yoshiharu Sato
President and Chief Executive Officer

Consolidated Performance

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

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.

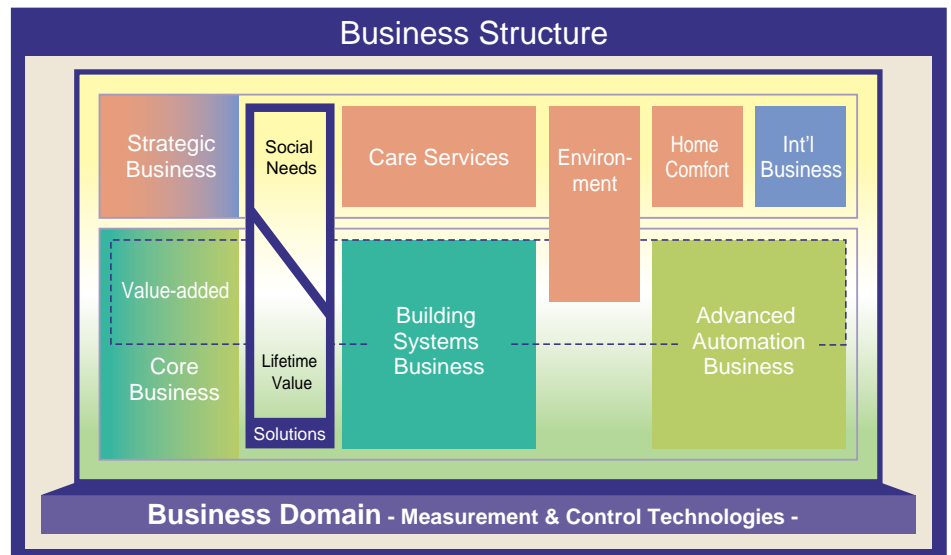
Positioning for the Future

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

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.



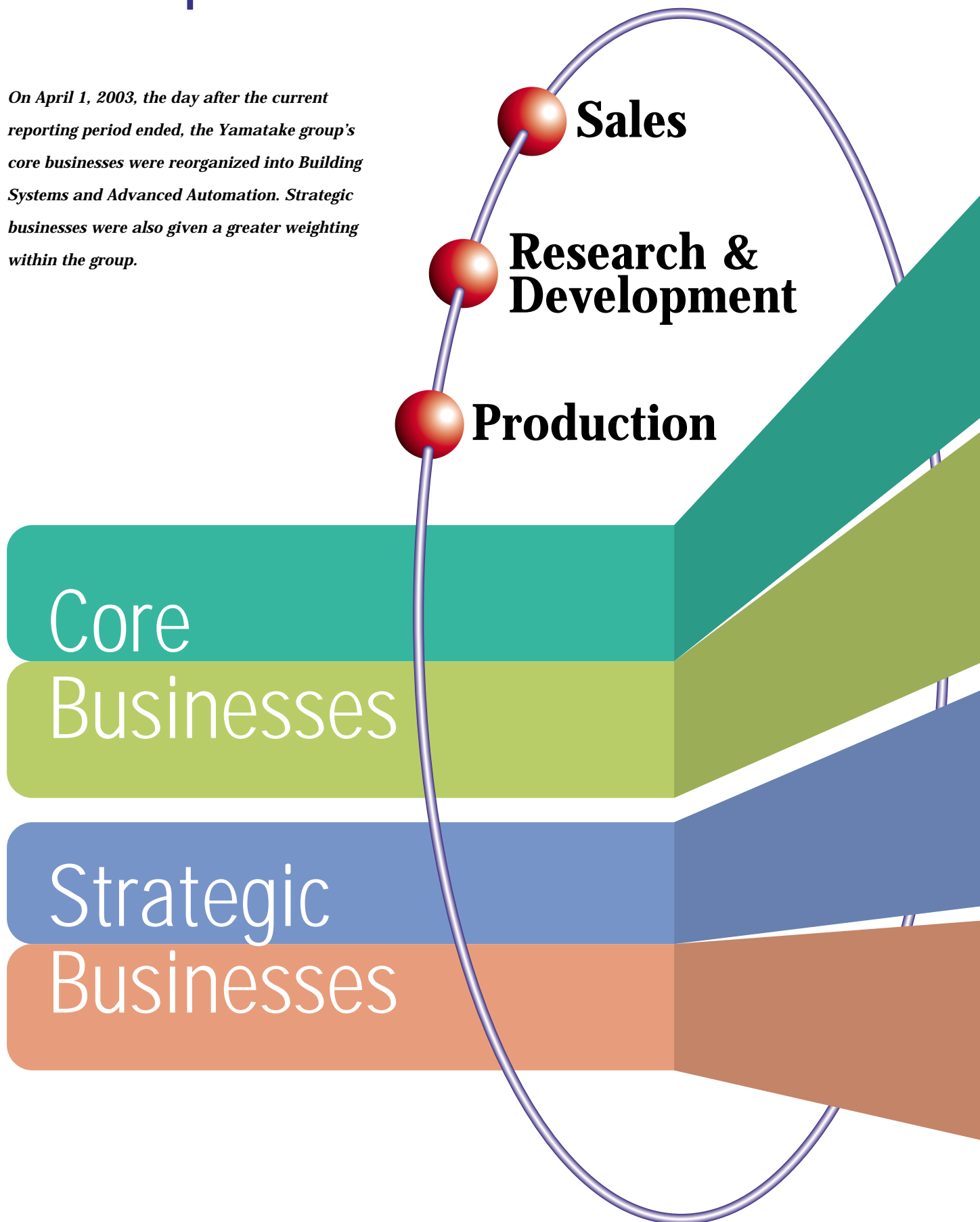
July 2003

A handwritten signature in black ink that reads "Yoshiharu Sato". The signature is written in a cursive, flowing style.

Yoshiharu Sato, President and Chief Executive Officer

New Corporate Structure

On April 1, 2003, the day after the current reporting period ended, the Yamatake group's core businesses were reorganized into Building Systems and Advanced Automation. Strategic businesses were also given a greater weighting within the group.



Building Systems Business

Yamatake building systems incorporate unique automation products, technology and know-how to save energy and resources, upgrade security, enhance the comfort of indoor environments, and effectively manage facilities. Yamatake building systems enable customers to raise asset value over the entire lifecycles of their buildings.



Advanced Automation Business

- Industrial Automation
- Control Products

Yamatake's advanced automation offerings incorporate system engineering and control products, as well as engineering, maintenance and consulting, for the enhancement of manufacturing and other industrial processes. Specialized products include sensors, switches, controllers, field instruments and valves. Yamatake solutions maximize the value of production facilities throughout their lifecycles.



International Business

Yamatake serves its international customers through a network of 16 bases in 11 countries of Asia, North America and Europe. Valued-added products and services centered on building systems and advanced automation, as well as energy saving, environmental protection and safety, are tailored for customers worldwide.



New Businesses

- Environment Business
- Care Services
- Home Comfort

Yamatake is strategically expanding into new businesses to better leverage the group's measurement and control technologies and provide a new foundation for long-term growth and profitability. Critical needs are being met in areas such as the environment, new energy, care services for the elderly and residential systems.





Building Systems Business

(Former Building Automation Business)



Hiroaki Kobayashi

Executive Director

Managing Executive Officer

and Building Systems Company President

Yamatake Corporation

Major Markets

- Commercial buildings
- Manufacturing facilities
- Hospitals
- Government and institutional buildings
- Schools
- Hotels
- Department stores

Message

Yamatake's building automation business has been broadly reorganized in recent years, starting with the consolidation of all related operations, from development to after-sales services, in 1998. Most recently, in the month following the end of fiscal 2002, operations were reorganized under the newly formed Building Systems Company, an "in-house company" (profit center), to optimize the development and delivery of value-added building system solutions.

During fiscal 2002, while preparations were under way to establish the new Building Systems Company, new products were developed and new businesses were launched in the building automation field. Research focused on areas such as advanced control technology for energy saving and next-generation information systems for building automation. Customers relied on Yamatake consulting services to minimize the operational costs and environmental impact of their buildings and related facilities.

Service systems incorporating advanced information technology were developed and marketed. Yamatake's Data Ware Center compiled and analyzed operational data from customer facilities to propose ways to lower operational costs and enhance indoor environments. The Center provided highly effective building automation solutions to a wide range of customers.

Yamatake's advanced information networks enabled customers to realize consolidated management of multiple buildings, freeing them from building automation tasks and costly investments in related infrastructure.

Given the weak prospects for a long-term recovery in new-building construction, value-chain capabilities — ranging from development and installation to after-sales service — were strengthened for the renewal of existing buildings. As a result, the Total Energy Management Service (TEMS) enjoyed significant growth in the field of guaranteed energy conservation (ESCO). Business in critical-environment control got under way with promising opportunities for expansion into new fields of building automation.

Despite weaknesses in investment in plant and equipment and public-sector demand, a number of major urban-renewal projects in the Tokyo area helped to fuel increased business involving new buildings. Yamatake services continued to be recognized for their value in helping customers to lower the lifetime operational costs of their buildings.

Traditional strengths in building automation continue to be enhanced and, at the same time,

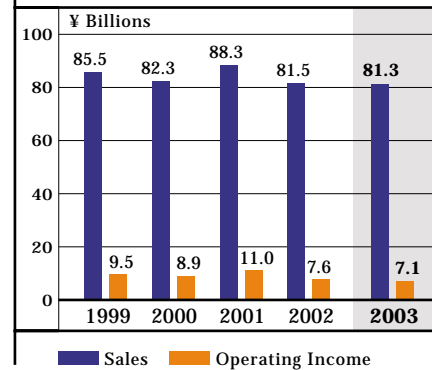


GY 7000 series wireless sensors



Message Browser, paperless software for savic-net

Sales / Operating Income



resources are being strategically reallocated to new undertakings for increased profitability and long-term growth.

Performance

Total sales were down 0.2% to 81.3 billion yen. Sales to new buildings increased by 3% due to several large redevelopment projects in Tokyo, mainly in the Shiodome, Roppongi and Shinagawa areas. Sales of maintenance services also grew 3%, thanks to more small-scale refurbishing projects and building inspections. In the existing buildings sector, sales of ESCO (guaranteed energy conservation) services and critical-environment systems increased significantly. Demand among existing buildings outside of Tokyo declined, however, resulting in a 7% fall in sales overall.

Operating income declined 6.4% to 7.1 billion yen. Selling, general and administrative costs increased, due mainly to pension obligations.

The building automation market suffered from reduced public spending and sluggish private capital investment. Yamatake shifted its focus from new buildings to existing buildings to maximize opportunities for its full range of technological expertise, from system development and installation to after-sales maintenance.

Manufacturing costs were reduced by aggressively adopting centralized purchasing for main products and expanding offshore production of HVAC valves at Dalian Yamatake Control Instruments in China.

Outlook

Business in building automation is faced with a number of challenges. These include the need to accelerate development of products and services for existing buildings, due to continued sluggishness in new-building construction, as well as the needs to develop overseas markets and enhance competitiveness in Japan, where foreign competition is intensifying.

Nevertheless, new buildings remain a mainstay of Yamatake's building automation business. Accordingly, operational efficiency will be enhanced for greater profitability, thereby enabling Yamatake to continue developing innovative systems for new buildings.

More and more Yamatake building automation systems installed in the past are now requiring refurbishing. This is creating opportunities to offer tailored solutions that enable customers to reduce the operational costs of their buildings while maintaining and even improving the comfort of these structures.

In the field of building automation services, Yamatake is taking a bigger role in the operations of its customers through the use of advanced information technology. At the same time, the reorganization of Yamatake building automation services is facilitating growth in the business of helping customers add value over the lifecycle of their buildings.

Efforts to develop new markets are centered on the Total Energy Management Service (TEMS) and controls for critical environments. Opportunities for building automation applications related to global warming prevention, environmental preservation and energy waste reduction are also being explored.

Yamatake is vigorously internationalizing its building automation business, placing a special focus on China and other markets of East Asia. This is requiring, however, a substantial reduction of operational costs. Yamatake is restructuring its total manufacturing process, including development, to offer products that are more globally competitive both in pricing and quality. Although more production is being moved offshore, quality control is being strictly maintained. This will also enhance earnings and competitiveness in the Japanese market, where foreign enterprises are increasing their presence. As such, these efforts are absolutely essential for Yamatake's future prosperity.

Sales of 82.7 billion yen, up 1.7% and operating income of 6.6 billion yen, down 6.7% are forecast for fiscal 2003.



Advanced Automation Business

(Former Industrial Automation and Control Products Business)



Seiji Onoki

Executive Director
Managing Executive Officer
and Advanced Automation Company President
Yamatake Corporation

Major Markets

- Petrochemical/chemical
- Public utilities
- Refining
- Electric power and gas
- Iron and steel
- Pulp and paper
- Shipping and marine
- Semiconductor/Semiconductor manufacturing
- Electrical/Electronic component
- Industrial machinery
- Automobiles
- Pharmaceutical
- Foods and beverage, Packaging
- Furnace/oven/boiler manufacturing
- Residential/commercial buildings

Message

Preparations were made throughout the year for a major reorganization of control products and industrial automation businesses. The aims of the reorganization are to develop more competitive solutions and generate more stable earnings. As a result, in April 2003, immediately following the end of the reporting period, the former control products and industrial automation businesses were merged and reorganized under the new core unit of Advanced Automation Company, an “in-house company.”

In the control products field, Yamatake components enable customers — mainly equipment manufacturers — to enhance automation and upgrade competitiveness. In industrial automation, Yamatake solutions support the lifetime operation of facilities in a wide range of fields, from upstream production of raw materials to downstream manufacturing of fine chemicals, pharmaceuticals, foods, electrical/electronic components and automobiles, as well as facilities for water/wastewater treatment and energy supply.

The reorganization substantially fortifies Yamatake Corporation’s competitiveness and business potential in regard to factories and other facilities. With its enhanced solutions capabilities, the corporation is now strategically positioned for expansion into new markets.

Yamatake aims to become a valued partner of each customer, creatively collaborating with them to offer tailored solutions centering on mainstay technologies in measurement, control and information. To this end, the following strategies are being pursued:

- In marketing, bolster sales and service networks to provide comprehensive support to the manufacturers and end-users of industrial equipment.
- In technologies and products, shorten the time-to-market interval by working more closely with customers. Also, strengthen automation solutions by incorporating innovative Yamatake products ranging from sensors, flow meters and control valves to advanced control systems, as well as floor-wide and plant-wide management systems.
- In productivity, make greater use of proprietary Just-in-Time Upgrade Manufacturing Process (JUMPS) technology to enhance cost competitiveness and just-in-time capabilities.

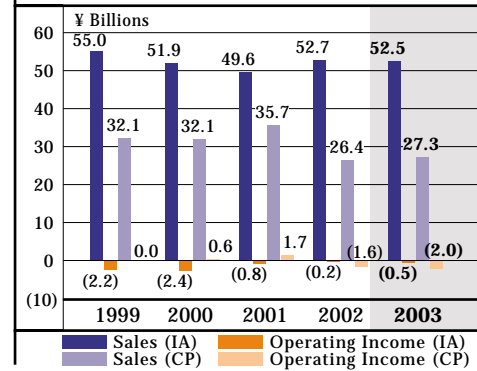


Liquid leak detector, liquid level sensor



Air flowmeter AIRcube

Sales / Operating Income



Performance

Industrial automation sales fell slightly by 0.5% to 52.5 billion yen. An operating loss of 478 million yen was incurred. With few exceptions, the industrial automation market remained extremely challenging. As more customers moved production offshore, the market in Japan contracted and price competition intensified. Nevertheless, industrial automation sales in Japan increased slightly, due to aggressive upgrading and optimization of existing systems and shifting emphasis to the company's value-added Manufacturing Execution System for production, quality and equipment management.

Although sales declined in the chemical, steel, gas and electrical power sectors, sales to oil refineries jumped 29%, driven by demand for environmental protection measures and the renewal of oil storage systems. Sharp growth of 31% was achieved in the foods and beverages sector, driven by greater investment in safety-enhancement equipment. Sales to shipbuilders were strong, thanks to increased construction of liquid natural gas carriers. Overseas, however, industrial automation sales slumped 11% due to postponement or cancellation of projects, mainly in the destabilized Middle East.

The addition of foreign subsidiaries in the consolidated account boosted sales of control products by 3.3% to 27.3 billion yen. Second-half sales jumped 10% from the first half due to a partial recovery in capital investment in Japan. An operating loss of 2.0 billion yen was posted for the year due to amortization and devaluation of dead stock and increased pension obligations.

By focusing on key markets and strengthening solution sales, a modest increase was achieved in industrial-market sales. Flow measurement sales remained strong, thanks to differentiated technology for massflow meters and controllers. Overall sales of strategic products increased in tandem with recovery in the semiconductor and electronics industries, and robust activity in the automobile and manufacturing equipment industries.

In the residential market, although sales of radiant floor heating were brisk, weaker sales of air cleaners due to price competition resulted in a fall in sales overall. International sales of control products increased, partly due to the addition of newly consolidated subsidiaries.

Outlook

Yamatake's main challenge in fiscal 2003 is to establish a sound foundation for sustained profitability. This entails a five-point strategy:

- Improve cost/profit structure by reorganizing product divisions, and production and marketing functions, through measures such as upgrading the sales, engineer staff and introducing other necessary changes throughout all facets of the business.
- Enhance customer-collaboration business models, underpinned by the synergistic application of control product and industrial automation technologies, to offer a more complete range of total services throughout facility lifecycles.
- Develop innovative solutions for the environment and safety, including seismic sensors and broad-area remote monitoring systems for gas-governor stations, quality-control management for the production of pharmaceutical and food products, and new energy products and services.
- Apply proprietary technology more aggressively, such as Yamatake micro-machining technologies for massflow measurement and Yamatake acoustic diagnosis technology for facility maintenance.
- Take greater advantage of Yamatake resources and capabilities — including development, quality assurance, marketing, etc. — to expand international business with foreign customers, as well as Japanese customers operating offshore.

Sales of 80.7 billion yen and operating income of 1.5 billion yen are forecast for fiscal 2003.

International Business



Jun Kawachi

Executive Director
Managing Executive Officer
Yamatake Corporation

Message

International business is centered on core strengths in building automation, industrial automation and control products. For the past 30 years, Yamatake has been combining products, control and measurement technologies and services for solutions tailored to specific markets around the world.

Major global players in the automation field are presenting a strong challenge in terms of cost competitiveness. Nevertheless, Yamatake has become a formidable competitor in fields such as natural gas, based on its extensive experience and world-class technology in energy efficiency, the environment and safety. A special emphasis is now being placed on global-market solutions underpinned by Yamatake's superior products and unparalleled technology and know-how. With strengths ranging from individual field instruments to comprehensive systems, as well as engineering and maintenance expertise, Yamatake is well positioned to grow its international markets through highly tailored solutions.

Investment in the company's international network has been made from a long-term perspective, knowing that the best way to develop useful solutions is to work directly with customers in their markets. Accordingly, Yamatake has established a comprehensive network of 16 subsidiaries and three factories in 11 countries worldwide, and is now focusing on strengthening the production, sales, services and engineering capabilities of this network.

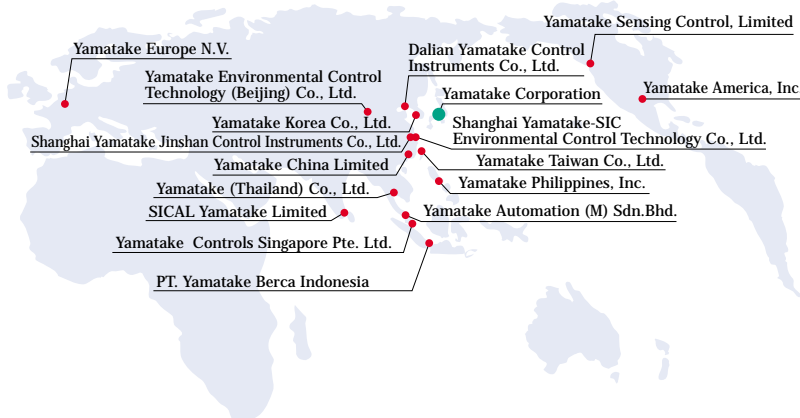
Production, supply and marketing systems are being enhanced for solutions required by global customers. The foundation of these solutions is Yamatake core products for measurement and control, including, for example, highly advanced photoelectric switches, temperature controllers and smart valve positioners. In addition to functionality, quality and cost, environmental friendliness is also constantly upgraded for the development of high-level products for global markets.

Different strategies and customers are pursued in each market. In the United States, the company's newly renamed subsidiary, Yamatake America, Inc., is focusing on field instruments.

In China, operations are now being coordinated through the Shanghai Representative Office. Major activities include the expansion of production capabilities in Dalian and Shenzhen, and reorganization of distribution channels around the country. The establishment of a unified business structure for supplying core products in China's huge and highly promising market is well under way.

Going forward, Yamatake will continue to develop its

Global Network

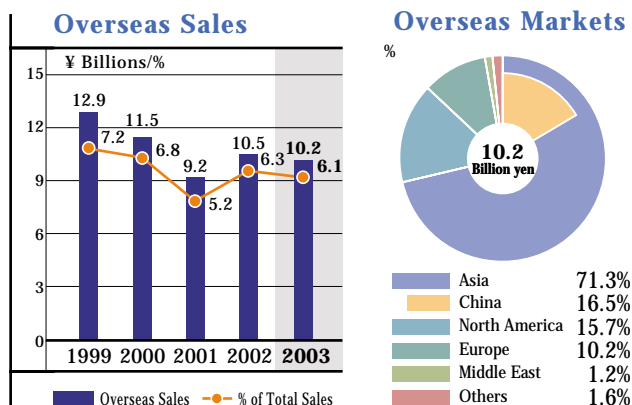




WGC 2003
Yamatake exhibited at 22nd World Gas Conference Tokyo 2003



Shenzhen Yamatake Factory
Yamatake's second production facility in China started full-fledged operation last December.



international business potential by responding to global needs for diverse solutions centered on core products.

Performance

International sales, including three newly consolidated overseas subsidiaries, fell nearly 3% to 10.2 billion (which is included under Building Systems Company and Advanced Automation Company sales stated elsewhere). Product sales grew steadily, mainly in Asia, but a falloff in system business led to the overall decline in international sales.

Building automation sales were up in the first half. This was due to increased construction and expansion of factories producing electronics and digital display equipment in China and other regions. Sales dropped slightly in the latter half of the year, however, as tension grew in the Middle East and consumption in Japan and the U.S.A. slumped.

Industrial automation sales fell. Although orders for control valves and field instruments were up slightly in China and Southeast Asia, overall performance was impacted by postponed orders for large systems in these same markets, and as well as instability in the Middle East.

Increased international sales were achieved with control products, including photoelectric switches and temperature controllers. Activity in the electrical/electronics sector was robust, particularly in Taiwan and South Korea. In China's fast-growing electrical/electronics market of the South China region, significant market penetration and sales were achieved with photoelectric switches and temperature controllers.

In the U.S.A., the subsidiary YCV Corporation was renamed Yamatake America, Inc. in September 2002. Increased recognition of the Yamatake brand due to the name change is expected to strengthen sales of products such as field instruments.

Outlook

In fiscal 2003, international business will benefit from Yamatake's newly reorganized structure and the increasingly effectively integration of group competencies. Development, production and marketing activities will draw on the full range of group resources — including in-

house companies, factories, research units and more — based on strategies devised by the International Business Headquarters and implemented by overseas subsidiaries.

Human resources, information systems and sales activities will continue to be strengthened, particularly in the key markets of China, with its potential for high growth, and North America, with its strong demand for advanced products.

In China, markets are being developed for Yamatake's core businesses. Significant new opportunities exist among major customers in fields ranging from chemicals, glass, rubber, metal and other materials to automotive fields such as parts and components production, painting and assembly.

The U.S. market has become a pillar of the company's international business. Yamatake Sensing Control, Ltd. is developing new markets for control products, including photoelectric switches, temperature controllers and microflow sensors.

In Europe, special expertise will continue to be applied toward the development of businesses mainly for the natural gas field.

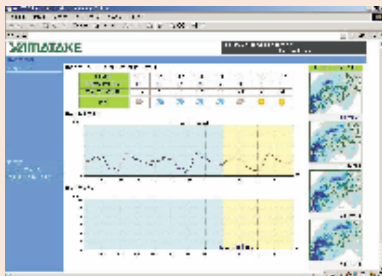
In the East Asian markets of Korea and Taiwan, building automation know-how is being leveraged through alliances with subsidiaries in the construction industry.

Yamatake's subsidiaries in Southeast Asia possess significant sales and engineering capabilities. Capitalizing on these strengths, operations are being strategically allocated within the region for stronger sales and distribution.

Activities in the Middle East are centered on opportunities to renew existing systems and market products, such as control valves and smart valve positioners.

Looking ahead, enhanced collaboration between research and production is expected to facilitate the development of advanced products for the global market, including new valve positioners, electromagnetic flowmeters and microflow sensors. At the same time, Yamatake's unique core products will provide a solid base for globally-oriented environmental and energy solutions.

New Businesses



TCBM (Topological Case-Based Modeling)
TCBM-based system for forecasting fluctuation in water flowing into sewage treatment plants



Call center at Safety Service Center, Inc.
Safety Service Center, Inc. offers emergency dispatch services and health consultation



Care Services
Yamatake Care-Net Co., Ltd. provides assisted care services to elderly and bedridden persons living at home.

Environment Business

Yamatake is growing its environment business by developing business models with applications in multiple fields, and by achieving greater synergy among Group technologies.

Yamatake's Net-TCBM (topological case-based modeling) system for sewage inflow prediction, officially certified by the Japan Institute of Wastewater Engineering Technology in March 2003, is a key technology for the prevention of urban disasters. Yamatake was commissioned to monitor effluents at two points along the Sagami River, west of Yokohama, bringing the number of Net-TCBM systems to eight locations. To date, significant results have been achieved in controlling overflows from combined (sewage, rainwater, etc.) sewer systems, as well as tracking inflow and infiltration of rainwater in separate (sewage only) sanitary sewer systems, thereby helping to prevent the pollution of public waters. Eventually, it is hoped that this proven Yamatake technology will be adopted for all of Japan's 1,900 sewage plants nationwide.

During the year, a pilot test was conducted with a system for tracking fresh produce as it moves through distribution channels. The test was commissioned by the Ministry of Agriculture, Forestry and Fisheries (MAFF) and carried out in collaboration with a private-sector association promoting fresh-produce traceability. A commercial version of the system was launched under the trade name "Trace Navi," making Yamatake the first company in Japan to offer a system for monitoring and tracking fresh produce from farm gate to kitchen table under new MAFF guidelines. This unique Yamatake technology will become more widely known with field installation subsidized by the Japanese government in fiscal 2003.



Exhibition

Yamatake exhibited at the 3rd World Water Forum in Osaka in March 2003

Yamatake was commissioned by the New Energy Foundation to develop a remote management system for evaluating the performance of residential fuel cells. A commercial version of the system attracted orders from fuel cell manufacturers in fiscal 2002, and more than 100 major contracts for systems are anticipated in fiscal 2003. Sales of Yamatake remote monitoring systems for isolated electrical-power generation facilities continued to grow, numbering about 30 new sites during the year. Demand for new-energy facilities in factories will also create new opportunities to provide consultation on saving energy.

Yamatake is deeply involved in recycling, having developed and verified the performance of biodegrading garbage process at the company's Fujisawa and Shonan factories. Equipment will be manufactured on a trial basis and field-tested at the Isehara factory in June 2003, with commercialization targeted at October.

Consulting services were provided for the design and construction of environmental management systems. Customers were also consulted on energy conservation, new energy and recycling activities to help them raise productivity and reduce environmental loads.

Yamatake also undertook various activities in keeping with its strong support of the sustainable management concept. Working in cooperation with the Sustainable Management Forum of Japan and the Japan Science and Technology Corporation, and drawing on past experience with European firms specializing in advanced environmental consulting, Yamatake helped to create the Japan Environmental Policy Index (JEPIX). The Company also participated in a project to rank the environmental programs of 100 leading companies in Japan.

Trace Navi
PC-based data tracking and management system



Dokodemo Data
Remote monitoring system for on-site distributed electrical-power generation facilities

Care Services

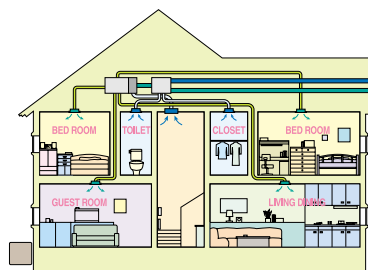
Yamatake care services incorporate measurement and control sensor technologies and IT know-how to enhance the safety and well-being of elderly persons. Group business in this sector is centered on Safety Service Center, Inc., which offers medical emergency dispatch services for seniors living at home, and Yamatake Care-Net Co., Ltd., a provider of in-home care services.

Offices were added in selected regions of Japan for stronger sales and services in these local markets. Safety Service Center, Inc. established sales offices in Osaka and Hiroshima, and Yamatake Care-Net Co., Ltd. opened seven outlets in Tokyo and neighboring Kanagawa Prefecture, bringing the total to 16. The two firms joined forces to explore new business opportunities in the field of in-home services for seniors. In addition, the center tied up with a site management organization to develop support services for clinical pharmacology.

Home Comfort

Yamatake has branched out into residential systems, based on its extensive experience with building air-conditioning systems. During the year, Yamatake's "Kikubari" central air-conditioning system enjoyed growing popularity as a cost-efficient, all-season system for upscale residences. The Kikubari brand name is now synonymous with indoor comfort and reduced energy consumption. Moreover, the system's superior performance and proven track record have attracted spec-in collaboration with leading homebuilders.

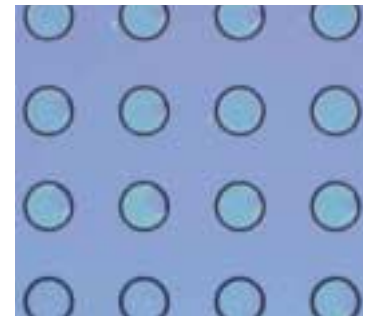
Advanced, highly versatile Yamatake home comfort products and services have earned high praise in the marketplace. In addition to boasting fully integrated design, installation and maintenance, Yamatake home comfort systems are supported with a 24-hour customer hotline, an informative website and announcements via email. Yamatake also markets negative-ion air conditioning systems for healthier indoor environments.



Central air-conditioning system



Research & Development



DNA chip with micro wells for automated in situ on-chip synthesis of oligo-DNA probes

Research and development within the Yamatake group encompasses Yamatake Corporation's R&D Headquarters — the group's core R&D unit — plus product development departments in each business section and the Technology Committee, which directs group-wide research and development strategies. The group's research and development activities are also underpinned by the R&D Headquarters' close collaboration with the Micro Device Center and Speed Production Engineering Department.

R&D resources were strategically reallocated during the year to strengthen activities in four key areas: core technologies, strategic technologies for new businesses, advanced technologies and micro devices. Core technology R&D centered on the development of next-generation products within each business section, supported by collaboration with the R&D Headquarters. Strategic technologies R&D focused on applications for health care, the environment and energy. Advanced technologies R&D concentrated on bio-engineering projects carried out in partnership with universities and research institutes, both at home and abroad.

Performance

Yamatake embarked on a joint effort with CEA-Leti (under the French Institute for Nuclear Sciences) to develop next-generation in situ synthesized biochips (microsystems for biology). Also, a prototype Bio-MEMS (micro electro-mechanical systems) chip was developed.

In the field of micro devices, Yamatake researched and developed microflow sensors for liquid and corrosive gas flows, and sapphire pressure sensors featuring high resistance to corrosion and heat. The MEMS Foundry Service was launched to provide MEMS technology for micro devices.

Ongoing R&D in factory automation included real-time three-dimensional measurement of objects under one millimeter in size with binocular range image sensors and Moire 3-D sensors.

Proprietary topological case-based modeling (TCBM) technology was enhanced for measurement-data analysis, such as sewage inflow prediction systems. TCMB technology offers promising applications in the fields of environment, public infrastructure and disaster prevention.

Network security solutions were developed for the prevention of unauthorized access and malicious interception of data. These solutions are marketed under the 'Security Friday' brand name.

In health care, Yamatake continued to research and develop air mattress sensors that detect slight changes in mattress air pressure to monitor breathing, pulse and

other vital signs. The technology is particularly useful for monitoring people with sleep disorders. Also studied were services that monitor and analyze vital signs to provide advice on how to maintain healthy lifestyles.

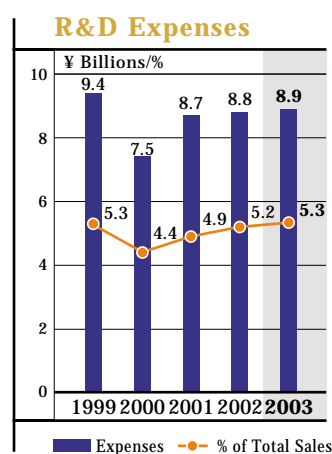
Research in environmental measurement, cleansing and management technologies, as well as fuel cell measurement technology, was carried out.

Outlook

Going forward, R&D will continue to focus on core technologies and will be strengthened for strategic and advanced technologies. Core technologies R&D will include the development of measurement, control and sensor products for medium- to long-term applications. Strategic technologies R&D will target new business fields such as the environment, energy and health care, while advanced technologies R&D will concentrate on areas of high growth potential, including network security and biotechnology.

In addition to in-house research, for selected technologies Yamatake will continue to collaborate with research institutes and universities, both domestic and foreign, as well as participate in government-sponsored research projects. The advantages of such efforts include faster and higher-quality research.

The reorganization will raise the productivity of research operations and thereby strengthen Yamatake's ability to keep pace with technological progress and customers' fast-changing needs. Further developments are expected in areas such as proprietary microflow and MEMS technologies, leading to new products that meet a broad range of customer needs. Applied R&D will support the introduction of new technologies for precision measurement and control in building systems and advanced automation, as well as care services and other new businesses.





Environmental Responsibility

Environmental Responsibility

Yamatake takes environmental accountability very seriously, fulfilling this essential social responsibility in two basic ways.

First, the environmental impact of all Yamatake business activities is minimized to the full extent possible. The Yamatake group Environmental Charter, introduced in April 2001, embodies a firm commitment to the realization of an environmentally sustainable society. The Kyoto Protocol principles are reflected in Yamatake operations, including efforts to reduce CO₂ emissions, eliminate toxic emissions, reduce the use of chemical substances, develop environmentally-friendly products and services, conduct green procurements and environmental accounting, and more.

Second, Yamatake provides customers with tailored solutions to help them reduce the environmental impact of their operations. With abundant experience in measurement and control technology, as well as extensive product lineup, Yamatake is well positioned to support customers in their environmentally-oriented endeavors. In fact, this is becoming a key business for Yamatake. At the same time, the company will continue to pursue technologies that contribute to environmentally sustainable societies.

Guided by the "Savemation" philosophy of saving through automation, as well as the goal of realizing world that is easier both on people and the environment, Yamatake remains committed to developing innovative technologies and automation solutions in close partnership with customers and society at large.

Accomplishments in 2002

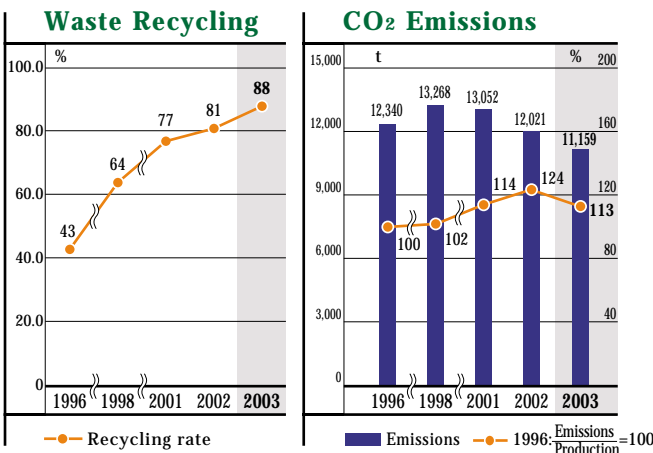
- Environmental Management
 - ISO14001 certification of Yamatake Industrial Systems Co., Ltd.
 - ISO14001 certification of Fujisawa Delivery Center
- Environmental Performance
 - Reduced CO₂ emissions at production facilities by 7.2%
 - Increased waste recycling at production facilities by 7.0%
- Environmental Products
 - Sales of environmentally labeled products being 24.4% of total sales
 - Number of environmentally labeled product developments being 65.4% of total number of products developments
 - Examples of environmentally labeled products
 - Electromagnetic flowmeter WaterMAG
 - Industrial-DEO Process Controller DOPC II
 - Actival compact 3-way valve
 - Conducting out Life Cycle Assessment
 - Recording paper
- Environmental Business
 - Exhibited Fujisawa Factory as a model for energy conservation (894 visitors from 236 companies)

Objectives for 2003

- Strengthen environmental management (prepare to integrate certifications of 6 organizations)
- Use more lead-free soldering and fewer toxic chemicals
- Establish Shonan and Isehara factories as showcase energy-conservation models

Targets for 2005

- Finish certification of domestic non-manufacturing facilities and offshore manufacturing facilities
- Achieve lead-free soldering in all production processes
- Reduce CO₂ emissions at production facilities in Japan by 4.5%
- Raise waste recycling rate at production facilities in Japan to 98%
- Raise environmental labeling conformity to 70% of new products



Board of Directors and Corporate Auditors

As of July 1, 2003



(Seated from left) Nobuyuki Takai, Yoshiharu Sato, Hiroshi Shima
(Standing from left) Hiroaki Kobayashi, Jun Kawachi, Masaaki Togo, Seiji Onoki

Yoshiharu Sato
President
and Chief Executive Officer

Nobuyuki Takai
Executive Vice President
and Chief Financial Officer

Hiroshi Shima
Executive Vice President
and Chief Technology Officer

Masaaki Togo
Executive Director
Managing Executive Officer
and Chief Information Officer

Jun Kawachi
Executive Director
Managing Executive Officer

Seiji Onoki
Executive Director
Managing Executive Officer
and Advanced Automation Company
President

Hiroaki Kobayashi
Executive Director
Managing Executive Officer
and Building Systems Company President

Yukihiko Tsuruta
Corporate Auditor

Shosaku Maeda
Corporate Auditor

Tomonori Kobayashi
Corporate Auditor

Makoto Yasuda
Corporate Auditor

Masaaki Iwai
Executive Officer

Makoto Iwakura
Executive Officer

Sadachika Ogawa
Executive Officer

Kouichi Kamisawa
Executive Officer

Ikuya Kitta
Executive Officer

Kiyofumi Saito
Executive Officer

Tadayuki Sasaki
Executive Officer

Kazuo Shimizu
Executive Officer

Toshio Hiraoka
Executive Officer

Tadashi Hirooka
Executive Officer

Takuzo Furuki
Executive Officer

Hisayoshi Mori
Executive Officer

Selected Financial Data

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

	Millions of yen					Thousands of U.S. dollars*	
	1999	2000	2001	2002	2003	2003	
For the year							
Net sales	¥178,896	¥169,634	¥177,940	¥167,164	¥167,969	\$1,399,745	
Operating income	7,458	7,198	11,694	4,527	3,275	27,288	
Income (loss) before income taxes	6,848	6,332	(9,576)	4,345	11,235	93,627	
Net income (loss)	2,520	3,413	(5,918)	2,121	5,308	44,235	
Per Share (in yen and U.S. dollars)							
Net income (loss)	26.93	36.47	(64.74)	24.77	68.65	0.57	
Cash dividends	12.00	12.00	12.00	12.00	12.00	0.10	
Shareholders' equity	1,200.32	1,224.36	1,176.54	1,169.07	1,247.07	10.39	
Depreciation and amortization	2,951	2,810	2,655	2,809	2,655	22,126	
R&D expenses	9,447	7,482	8,674	8,770	8,881	74,007	
Capital expenditures	2,869	2,350	3,552	2,255	2,065	17,205	
	1999	2000	2001	2002	2003	2003	
At year-end							
Total assets	¥181,654	¥179,054	¥186,302	¥180,958	¥162,919	\$1,357,659	
Total shareholders' equity	112,353	114,603	99,495	98,886	91,780	764,827	
Number of shares outstanding (thousands)	93,604	93,604	84,566	84,566	84,566		
Number of employees	6,697	6,691	6,857	7,106	7,092		
Return on equity (%)	2.3	3.0	(5.5)	2.1	5.6		

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

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Financial Review

Consolidated Results

Overview

Consolidated net income rose ¥3.2 billion to ¥5.3 billion largely due to ¥11.0 billion of extraordinary profit realized by the release from future payment obligations on group pensions entrusted to the company, although there was a reduction in operating income as a result of an increase in selling, general and administrative expenses and losses on both sales of investments and impairment of investments.

Because of the addition of one domestic subsidiary and three overseas subsidiaries to the consolidated accounts, net sales increased by ¥2.5 billion and operating income decreased by ¥37 million. Total assets grew by ¥842 million, and shareholders' equity increased ¥419 million.

Consequently, net income per share increased ¥43.9 year-on-year to ¥68.7 and shareholders' equity per share rose ¥78 over the previous year to ¥1,247.

Net Sales

Net sales, including the newly consolidated subsidiaries, increased slightly by 0.5% to ¥168.0 billion. Net sales of control products rose, but building automation and industrial automation sales both declined slightly due to continuing economic sluggishness at home and abroad.

Gross Profit and SGA Expenses

The cost of sales ratio improved in each of the company's three core businesses, and by 0.9 percentage point in total. This was due to streamlining the procurement cost structure for building automation, managing industrial automation project costs more stringently and achieving greater efficiency and productivity in the manufacture of control products.

Gross profit on sales increased ¥1.9 billion from the previous year. Selling, general and administrative (SGA) expenses rose ¥3.2 billion to ¥61.1 billion. The increase in those expenses included ¥1.0 billion for the effects of newly consolidated subsidiaries; ¥1.5 billion due to a rise in personnel costs, including the burden caused by a drop in the expected rate of return on plan assets, and about a ¥900 million loss for impairment of slow-moving assets for maintenance in conjunction with stricter inventory management.

Operating Income

Operating income fell ¥1.3 billion (27.7%) year-on-year to ¥3.3 billion.

Other Income and Expenses

Yamatake group obtained approval from Japan's Ministry of Health, Labor and Welfare for exemption from the future benefit obligations of the substitutional portion of the employees' pension funds on December 24, 2002. As of this date, we recognized the extinction of both severance payment liabilities and pension assets to be transferred to the public pension funds. As a result, the company booked an extraordinary profit of ¥11.0 billion.

— Sales of Investment Securities

The net loss on the sales of investment securities listed on the stock exchanges for reducing high risk assets totaled ¥1.1 billion, reflecting bearishness in the stock markets.

— Amortization of Consolidation Adjustments

Amortization of excess of the acquisition cost over the acquired net equity of ¥761 million was recorded in conjunction with the inclusion of Safety Service Center Inc. in the consolidated financial statements.

Income before Income Taxes and Minority Interests

Income before income taxes and minority interests came to ¥11.2 billion, an increase of ¥6.9 billion over the previous year.

Income Taxes

The effective tax rate on income before income taxes rose 2 percentage points to 52.4%. The rise was mainly due to nondeductible amortization of excess of acquired net equity over cost. On March 31, 2003, a tax reform law was enacted in Japan, which changed the normal effective statutory tax rate from approximately 42.0% to 40.4%, effective for years beginning April 1, 2004. The effect of this tax rate reduction on the actual effective tax rate of 2003 is 2.2 percentage point decrease.

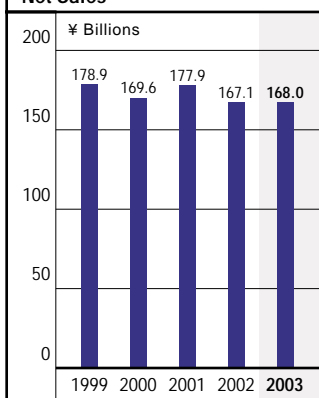
Net Income

As a result, net income increased ¥3.2 billion year-on-year to ¥5.3 billion.

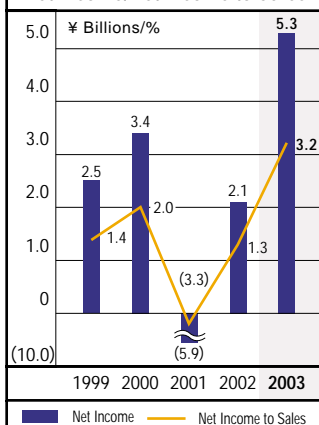
Financial Position

Total assets at the end of the fiscal year decreased ¥18.0 billion to ¥162.9 billion. The reasons included the purchase of treasury stock (¥10.7 billion cash outflow) in July 2002, decrease in receivables and inventories, and losses on sale and impairment of securities.

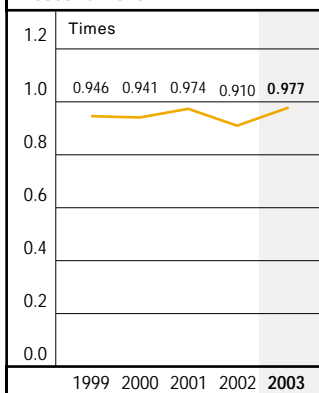
Net Sales



Net Income/Net Income to Sales



Asset Turnover



Assets

Assets decreased for three primary reasons. First, trade receivables shrank ¥5.6 billion, because the settlement of notes receivable expiring on the last day of the previous financial year was carried over into this financial year due to a financial holiday falling on the close of the previous fiscal year. Second, inventory shrank ¥2.7 billion, due to a decrease in work in process for building and industrial automation at the end of the year, coupled with a loss for impairment of slow-moving inventories. Third, investment securities shrank ¥3.8 billion, due to sales, impairment and the effects of consolidation. Deferred taxable assets decreased ¥1.4 billion, as a result of a gain from the company being released from its entrusted pension plan obligations.

Liabilities

Liabilities totaled ¥70.7 billion, a decrease of ¥11.0 billion over the previous year. Liabilities for retirement benefits were reduced ¥9.5 billion with the release from entrusted pension plan obligations.

Shareholders' Equity

Shareholders' equity declined ¥7.1 billion to ¥91.8 billion, due in part to a ¥10.7 billion purchase of treasury stock.

Asset performance indicators (average of balances of beginning and end of the year) improved over the previous year.

- Receivables/Sales (days): decreased 16 days to 142 days
- Inventories/Cost of sales (days): decreased 5 days to 66 days
- Asset turnover (times): increased 0.067 point to 0.977

The ratio of shareholder's equity to total assets rose 1.7% to 56.3%. This was largely due to bank loan repayments and a reduction of liabilities for retirement benefits following the release from entrusted pension plan obligations, although there was a decrease in shareholders' equity due to the purchase of treasury stock.

Cash Flows

The year-end balance for cash and cash equivalents, including the balances of cash and equivalents held by newly consolidated subsidiaries, decreased ¥2.7 billion to ¥33.7 billion. Net cash flows from operating activities increased ¥3.6 billion to ¥12.0 billion. The main reason was a drop in net working capital (total of trade receivables and inventories less trade payables). Net cash used in investing activities decreased ¥1.0 billion to ¥2.5 billion, primarily due to a ¥2.1 billion increase in receipts from sales of investment securities. Net cash used in financing activities increased significantly by ¥10.5 billion to ¥12.7 billion, as a result of a ¥10.7 billion outlay for the purchase of treasury stock.

Risk Management

Yamatake business faces a variety of potential risks and uncertainties. These are affected by economic conditions in the markets, particularly capital investment demands; currency exchange rates and interest rates; fluctuations in the prices of key raw materials; and demands for products and services in highly competitive markets.

To manage the financial risk of fluctuations in currency exchange and interest rates, Yamatake carefully monitors foreign currency transaction balances and interest rate movements. Risk is hedged through the use of derivative transactions including forward currency exchange, currency options and interest swaps.

Seasonality

The highly seasonal nature of Yamatake's sales is due to the peculiarities of key industries, including building construction and materials industries. Accordingly, sales in the second-half of the year are generally much higher than sales in the first half of the year.

Outlook for Fiscal 2003

For fiscal 2003 ending March 31, 2004, Yamatake forecasts net sales increasing 4.8% to ¥176.0 billion, operating income increasing 113.8% to ¥7.0 billion and net income decreasing 28.4% to ¥3.8 billion.

Building Systems Business

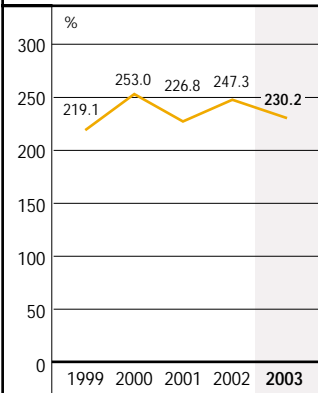
Sales are forecast to increase slightly from the previous fiscal year due to expanding sales in energy saving measures, refurbishment and maintenance services.

Operating income is expected to decrease slightly, reflecting weak market conditions.

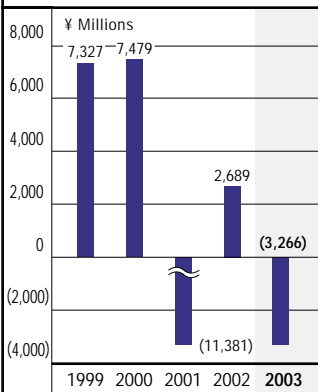
Advanced Automation Business

Both sales and operating income are forecast to improve from the previous year due to the recovery in the semiconductor and the electronics markets as well as improved efficiency through merging the industrial automation business and control products business.

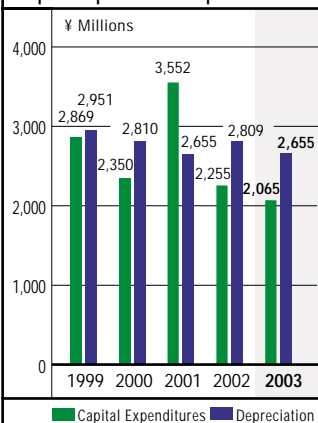
Current Ratio



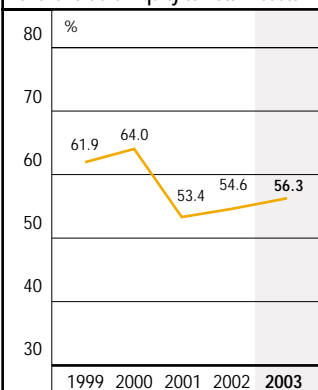
Cash Flows



Capital Expenditures/Depreciation



Shareholders' Equity to Total Assets





Consolidated Balance Sheets

Yamatake Corporation and consolidated subsidiaries as of March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
CURRENT ASSETS:			
Cash and cash equivalents	¥ 33,671	¥ 36,383	\$ 280,588
Short-term investments (Note 3)	1,457	564	12,144
Notes and accounts receivable:			
Trade	62,421	68,041	520,175
Other	348	773	2,901
Allowance for doubtful receivable	(343)	(367)	(2,856)
Inventories (Note 5)	17,247	19,961	143,723
Deferred tax assets (Note 9)	6,075	2,517	50,625
Prepaid expenses and other current assets	2,059	1,752	17,154
Total current assets	122,935	129,624	1,024,454
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 6)	4,537	4,537	37,812
Buildings and structures (Note 6)	18,913	18,843	157,611
Machinery and equipment	10,241	10,424	85,338
Furniture and fixtures	17,601	17,879	146,678
Construction in progress	238	241	1,980
Total	51,530	51,924	429,419
Accumulated depreciation	(34,933)	(34,157)	(291,110)
Net property, plant and equipment	16,597	17,767	138,309
INVESTMENT AND OTHER ASSETS:			
Investment securities (Notes 4 and 6)	8,264	10,456	68,867
Investment in and advances to unconsolidated subsidiaries and associated companies	639	2,092	5,327
Deferred tax assets (Note 9)	7,303	12,272	60,855
Other assets	7,181	8,747	59,847
Total investment and other assets	23,387	33,567	194,896
TOTAL	¥ 162,919	¥ 180,958	\$ 1,357,659

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	¥ 1,272	¥ 1,024	\$ 10,599
Current portion of long-term debt (Note 6)	1,380	737	11,501
Notes and accounts payable:			
Trade	27,190	27,925	226,583
Other	704	547	5,866
Income taxes payable	4,143	3,552	34,523
Accrued bonuses	6,680	6,209	55,666
Other accrued expenses and current liabilities	12,024	12,418	100,209
Total current liabilities	53,393	52,412	444,947
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	4,567	6,574	38,058
Liabilities for retirement benefits (Note 7)	12,730	22,636	106,087
Other long-term liabilities	54	90	447
Total long-term liabilities	17,351	29,300	144,592
MINORITY INTERESTS	395	360	3,293
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11, 12 and 13)			
SHAREHOLDERS' EQUITY (Notes 8 and 14):			
Common stock—authorized, 290,700,000 shares; issued, 84,566,256 shares	10,523	10,523	87,689
Capital surplus	6,792	6,792	56,596
Retained earnings	85,155	81,719	709,628
Unrealized loss on available-for-sale securities	(47)	(105)	(396)
Foreign currency translation adjustments	12	(39)	98
Total	102,435	98,890	853,615
Treasury stock—at cost, 10,995,660 shares in 2003 and 4,203 shares in 2002	(10,655)	(4)	(88,788)
Total shareholders' equity	91,780	98,886	764,827
TOTAL	¥ 162,919	¥ 180,958	\$ 1,357,659



Consolidated Statements of Income

Yamatake Corporation and consolidated subsidiaries, for the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
NET SALES	¥ 167,969	¥ 167,164	\$ 1,399,745
COST OF SALES	(103,592)	(104,723)	(863,271)
Gross profit	64,377	62,441	536,474
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	(61,102)	(57,914)	(509,186)
Operating income	3,275	4,527	27,288
OTHER INCOME (EXPENSES):			
Interest income	77	50	641
Dividend income	111	96	929
Interest expense	(174)	(206)	(1,454)
Exchange gain (loss)	(190)	129	(1,586)
Loss on impairment of investment securities	(783)	(597)	(6,523)
Gain (loss) on sales of investment securities—net	(1,053)	140	(8,779)
Gain on exemption from future pension obligation of the governmental program (Note 2.g)	11,021		91,845
Other—net	(1,049)	206	(8,734)
Other income (expenses)—net	7,960	(182)	66,339
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	11,235	4,345	93,627
INCOME TAXES (Note 9):			
Current	4,516	4,231	37,636
Deferred	1,376	(2,038)	11,464
Total income taxes	5,892	2,193	49,100
MINORITY INTERESTS IN NET INCOME	(35)	(31)	(292)
NET INCOME	¥ 5,308	¥ 2,121	\$ 44,235

	Yen		U.S. dollars
	2003	2002	2003
PER SHARE OF COMMON STOCK (Note 2.o):			
Basic net income	¥ 68.65	¥ 24.77	\$ 0.57
Cash dividends applicable to the year	12.00	12.00	0.10

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Yamatake Corporation and consolidated subsidiaries, for the years ended March 31, 2003 and 2002

	Thousands		Millions of yen				
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for- sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2001	84,566	¥ 10,523	¥ 6,792	¥ 80,934	¥ 1,247		¥ (1)
Adjustment of retained earnings for newly consolidated subsidiaries				(321)			
Net income				2,121			
Cash dividends, ¥12 per share				(1,015)			
Purchase of treasury stock							(3)
Net decrease in unrealized gain on available-for-sale securities					(1,352)		
Adjustments of foreign currency translation for newly consolidated subsidiaries						¥ (39)	
BALANCE, MARCH 31, 2002	84,566	10,523	6,792	81,719	(105)	(39)	(4)
Adjustment of retained earnings for newly consolidated subsidiaries				(897)			
Net income				5,308			
Cash dividends, ¥12 per share				(948)			
Bonuses to directors				(27)			
Purchase of treasury stock							(10,651)
Net decrease in unrealized loss on available-for-sale securities					58		
Net increase in foreign currency translation						51	
BALANCE, MARCH 31, 2003	84,566	¥ 10,523	¥ 6,792	¥ 85,155	¥ (47)	¥ 12	¥ (10,655)

	Thousands of U.S. dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for- sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
BALANCE, MARCH 31, 2002	\$ 87,689	\$ 56,596	\$ 681,003	\$ (879)	\$ (325)	\$ (35)	
Adjustment of retained earnings for newly consolidated subsidiaries			(7,480)				
Net income			44,235				
Cash dividends, \$0.1 per share			(7,905)				
Bonuses to directors			(225)				
Purchase of treasury stock						(88,753)	
Net decrease in unrealized loss on available-for-sale securities				483			
Net increase in foreign currency translation					423		
BALANCE, MARCH 31, 2003	\$ 87,689	\$ 56,596	\$ 709,628	\$ (396)	\$ 98	\$ (88,788)	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Yamatake Corporation and consolidated subsidiaries, for the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 11,235	¥ 4,345	\$ 93,627
Adjustments for:			
Income taxes—paid	(4,082)	(4,322)	(34,017)
Depreciation and amortization	2,655	2,809	22,126
Amortization of excess of acquired net equity over cost	806		6,716
Provision for doubtful receivables	152	271	1,265
Gain on exemption from future pension obligation of the governmental program	(11,021)		(91,845)
Loss (gain) on sale of property, plant and equipment—net	310	(187)	2,582
Loss (gain) on sales of investment securities—net	1,053	(140)	8,779
Loss on impairment of investment securities	783	597	6,523
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:			
Decrease in notes and accounts receivable	6,019	7,675	50,154
Decrease in inventories	2,540	1,397	21,170
Decrease in notes and accounts payable	(887)	(3,917)	(7,389)
Increase in liabilities for retirement benefits	1,116	1,353	9,296
Other—net	1,294	(1,487)	10,790
Total adjustments	738	4,049	6,150
Net cash provided by operating activities	11,973	8,394	99,777
INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	122	613	1,019
Purchase of property, plant and equipment	(1,407)	(2,149)	(11,722)
Proceeds from sale of investment securities (Note 4)	2,257	197	18,806
Purchase of investment securities	(1,964)	(2,383)	(16,366)
Decrease of time deposits with maturity over three months	255	218	2,125
Decrease (increase) of deposit with the restriction	104	(152)	871
Increase of beneficiary securities of trust	(1,252)		(10,437)
Other—net	(615)	153	(5,125)
Net cash used in investing activities	(2,500)	(3,503)	(20,829)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	1	(275)	5
Proceeds from long-term debt	502	2,048	4,183
Repayment of long-term debt	(1,617)	(2,967)	(13,477)
Purchase of treasury stock	(10,650)	(3)	(88,753)
Dividends paid	(948)	(1,015)	(7,901)
Dividends paid for minority in consolidated subsidiary company	(35)	(22)	(292)
Other—net	7		62
Net cash used in financing activities	(12,740)	(2,234)	(106,173)
NET CASH PROVIDED BY TRANSLATION OF CASH AND CASH EQUIVALENTS	1	32	4
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,266)	2,689	(27,221)
CASH AND CASH EQUIVALENTS NEWLY			
CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	554	835	4,617
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	36,383	32,859	303,192
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 33,671	¥ 36,383	\$ 280,588
NON-CASH ACTIVITIES:			
Increase due to consolidation of subsidiaries previously unconsolidated (Note 2.a):			
Assets	¥ 2,158	¥ 3,878	\$ 17,981
Liabilities	527	270	4,390
Minority interests	34	146	285

See notes to consolidated financial statements.



Notes to Consolidated Financial Statements

Yamatake Corporation and consolidated subsidiaries, for the years ended March 31, 2003 and 2002

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Certain reclassifications have been made in the 2002 consolidated financial statements to conform to the classifications adopted in 2003.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamatake Corporation ("Yamatake") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120 to \$1, the approximate rate of exchange as of March 31, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of March 31, 2003, include the accounts of Yamatake and its 21 significant (17 in 2002) subsidiaries (together, "Yamatake Group").

Under the control or influence concept, those companies in which Yamatake, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The cost in excess of net assets of subsidiaries and associated companies at the time of acquisition which cannot be specifically assigned to individual assets is amortized on the straight-line basis over five years with the exception of minor amounts which are charged to income in the period of acquisitions.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within Yamatake Group is also eliminated.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits and beneficiary securities of trust under resale agreements, all of which mature or become due within three months of the date of acquisition.

c. Inventories — Inventories are primarily stated at cost on the specific identification basis. Raw materials are stated at cost determined by the moving-average method.

d. Allowance for Doubtful Receivable — The allowance for doubtful receivable is stated in amounts considered to be appropriate based on Yamatake Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

e. Marketable and Investment Securities — Marketable and investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of

applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

f. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is from 15 to 50 years for buildings and structures, from 4 to 12 years for machinery and equipment, and from 2 to 6 years for furniture and fixtures.

g. Retirement and Pension Plans — Yamatake and certain domestic subsidiaries have two funded pension plans, i.e., a contributory trust employees' pension plan and a non-contributory trust pension plan covering substantially all of their employees.

The contributory trust employees' pension plan was established by an agreement with certain trust banking corporations and insurance companies in accordance with the Japanese Employees' Pension Insurance Law. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, Yamatake applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. Yamatake obtained an approval of exemption from future obligation by the Ministry of Health, Labour and Welfare on December 24, 2002.

As a result of this exemption, Yamatake and certain subsidiaries recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥11,021 million (\$91,845 thousand) in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003.

The non-contributory trust pension plan was established by an agreement with certain trust banking corporations and insurance companies. Certain consolidated subsidiaries have non-contributory trust pension plans or a multiemployer plan which substantially cover all employees.

The liability for employees' retirement benefits is provided at the amount based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at each balance sheet date.

h. Research and Development Costs — Research and development costs are charged to income as incurred.

i. Leases — All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. Income Taxes — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. **Appropriations of Retained Earnings** — Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

l. **Foreign Currency Transactions** — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

m. **Foreign Currency Financial Statements** — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity. Revenue and expense accounts of consolidated foreign subsidiaries are also translated into yen at the current exchange rate as of the balance sheet date.

n. **Derivatives Financial Instruments** — Yamatake Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by Yamatake Group to reduce foreign currency exchange and interest rate risks. Yamatake Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statement of income and for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts are utilized to hedge foreign exchange exposures for export sales and import purchases.

Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Forward contracts applied for forecasted (or committed) transactions are measured at the fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps, which qualify for hedge accounting, are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other assets or liabilities.

o. **Per Share Information** — Effective April 1, 2002, Yamatake adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The weighted-average number of common shares used in the computation was 76,853,343 shares for 2003 and 84,564,518 shares for 2002.

Diluted net income per share is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. SHORT-TERM INVESTMENTS

Short-term investments consist of beneficiary securities of trust under resale agreements, time deposits and banking arrangements other than cash equivalents.

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Non-current:			
Marketable equity securities	¥ 6,295	¥ 8,456	\$ 52,456
Trust fund investments and other	1,969	2,000	16,411
Total	¥ 8,264	¥ 10,456	\$ 68,867

The carrying amounts and aggregate fair values of investment securities at March 31, 2003 and 2002, were as follows:

	Millions of yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 4,451	¥ 495	¥ 593	¥ 4,353
Trust fund investments and other	956	13		969

	Millions of yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 8,540	¥ 1,336	¥ 1,525	¥ 8,351
Trust fund investments and other				

	Thousands of U.S. dollars			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$37,093	\$ 4,122	\$ 4,939	\$36,276
Trust fund investments and other	7,966	112		8,078

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002, were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Available-for-sale:			
Equity securities	¥ 1,942	¥ 105	\$ 16,180
Trust fund investments and other	1,000	2,000	8,333

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥3,310 million (\$27,585 thousand) and ¥197 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥489 million (\$4,073 thousand) and ¥1,542 million (\$12,852 thousand), respectively, for the year ended March 31, 2003 and ¥140 million and ¥0 million, respectively, for the year ended March 31, 2002.

5. INVENTORIES

Inventories as of March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Merchandise	¥ 1,398	¥ 1,937	\$ 11,645
Finished products	1,119	1,375	9,328
Work in process	10,377	12,137	86,475
Raw materials	4,353	4,512	36,275
Total	¥ 17,247	¥ 19,961	\$ 143,723

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2003 and 2002, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.6% to 1.9% and from 0.6% to 2.5% as of March 31, 2003 and 2002, respectively.

Long-term debt as of March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans from banks and other financial institutions, due serially to 2027 with interest rates ranging from 0.7% to 5.2% in 2003 and from 0.7% to 5.5% in 2002:			
Collateralized	¥ 1,916	¥ 2,876	\$ 15,966
Unsecured	4,031	4,435	33,593
Total	5,947	7,311	49,559
Less current portion	(1,380)	(737)	(11,501)
Long-term debt, less current portion	¥ 4,567	¥ 6,574	\$ 38,058

As of March 31, 2003, Yamatake had an unused line of credit amounting to ¥30,000 million (\$250,000 thousand) of which ¥10,000 million (\$83,333 thousand) related to commitment line with five banks and ¥20,000 million (\$166,667 thousand) related to medium term notes program.

Annual maturities of long-term debt as of March 31, 2003, were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 1,380	\$ 11,501
2005	3,198	26,646
2006	541	4,512
2007	123	1,027
2008	115	959
2009 and thereafter	590	4,914
Total	¥ 5,947	\$ 49,559

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt at March 31, 2003, were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 40	\$ 333
Buildings and structures	198	1,654
Investment securities	1,658	13,815
Total	¥ 1,896	\$ 15,802

As is customary in Japan, Yamatake Group maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.

In addition, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the bank concerned. Yamatake Group has never received any such request.

7. RETIREMENT AND PENSION PLANS

Yamatake Group has severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from Yamatake Group and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits for directors and

corporate auditors for the years ended March 31, 2003 and 2002, were ¥429 million (\$3,575 thousand) and ¥867 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits as of March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥ 53,211	¥ 88,950	\$ 443,426
Fair value of plan assets	(23,917)	(50,260)	(199,311)
Unrecognized prior service cost	(2,122)	1,367	(17,686)
Unrecognized actuarial gain	(14,950)	(18,355)	(124,582)
Prepaid pension expense	79	67	665
Net liability	¥ 12,301	¥ 21,769	\$ 102,512

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 3,174	¥ 4,042	\$ 26,451
Interest cost	1,910	2,208	15,913
Expected return on plan assets	(1,057)	(2,795)	(8,810)
Amortization of prior service cost	(2)	129	(14)
Amortization of actuarial gain	1,059	959	8,824
Extraordinary severance payment	23	43	196
Net periodic benefit costs	¥ 5,107	¥ 4,586	\$ 42,560

Assumptions used for the years ended March 31, 2003 and 2002, are set forth as follows:

	2003	2002
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	5.5%
Amortization period of prior service cost	15-17 years	15-17 years
Recognition period of actuarial gain/loss	15-17 years	15-17 years

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced

in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥21,800 million (\$181,623 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

9. INCOME TAXES

Yamatake and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2003 and 2002.

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 42.0% to 40.4%, effective for years beginning April 1, 2004. The effect of this change on deferred taxes in the consolidated statements of income for the year ended March 31, 2003 is approximately ¥246 million (\$2,056 thousand).

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Pension and severance costs	¥ 4,985	¥ 9,135	\$ 41,544
Accrued expenses	3,051	2,065	25,422
Depreciation	819	781	6,829
Loss on impairment of land	808	840	6,733
Loss on investment securities	482	515	4,020
Tax loss carryforwards	2,629	1,526	21,909
Others	1,242	858	10,341
Less valuation allowance	(96)	(371)	(801)
Total	13,920	15,349	115,997
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	32	38	265
Special advanced depreciation	396	486	3,298
Others	115	45	957
Total	543	569	4,520
Net deferred tax assets	¥ 13,377	¥ 14,780	\$ 111,477

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2003 and 2002, and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2003	2002
Normal effective statutory tax rate	42.0%	42.0%
Expenses not deductible for income tax purposes	1.5	5.4
Equalization tax	2.5	3.7
Effect of tax rate reduction	(2.2)	
Amortization of goodwill	7.2	
Others—net	1.4	(0.7)
Actual effective tax rate	52.4%	50.4%

As of March 31, 2003, Yamatake and certain subsidiaries have tax loss carryforwards aggregating approximately ¥6,297 million (\$52,473 thousand) which are available to be offset against taxable income of such companies in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 646	\$ 5,383
2007	1,273	10,611
2008	4,157	34,642
2009 and thereafter	221	1,837
Total	¥ 6,297	\$ 52,473

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,881 million (\$74,007 thousand) and ¥8,770 million for the years ended March 31, 2003 and 2002, respectively.

11. LEASES

(1) Financing Leases as a Lessee

Yamatake Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses under the above leases for the years ended March 31, 2003 and 2002, were ¥4,864 million (\$40,533 thousand) and ¥4,648 million, respectively, including ¥574 million (\$4,783 thousand) and ¥399 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003 and 2002, was as follows:

	Millions of yen				
	2003				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 5	¥ 152	¥ 2,392	¥ 80	¥ 2,629
Accumulated depreciation	4	114	1,743	36	1,897
Net leased property	¥ 1	¥ 38	¥ 649	¥ 44	¥ 732
Millions of yen					
2002					
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 5	¥ 251	¥ 1,287		¥ 1,543
Accumulated depreciation	3	211	946		1,160
Net leased property	¥ 2	¥ 40	¥ 341		¥ 383
Thousands of U.S. dollars					
2003					
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	\$ 42	\$ 1,267	\$ 19,935	\$ 666	\$ 21,910
Accumulated depreciation	35	949	14,525	300	15,809
Net leased property	\$ 7	\$ 318	\$ 5,410	\$ 366	\$ 6,101

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 607	¥ 423	\$ 5,062
Due after one year	1,923	1,494	16,021
Total	¥ 2,530	¥ 1,917	\$ 21,083

The above obligations under finance leases include the imputed interest income portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed mainly by the declining balance method at rates based on the period of those financing leases with remaining value of 10% of total lease payment was ¥568 million (\$4,734 thousand) and ¥335 million for the years ended March 31, 2003 and 2002, respectively.

(2) Financing Leases as a Lessor

Yamatake Group leases certain machinery and equipment.

Pro forma information of leased property as receivables under the finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003 and 2002, was as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Receivables under finance leases:			2003
Due within one year	¥ 129	¥ 113	\$ 1,078
Due after one year	1,216	1,108	10,131
Total	¥ 1,345	¥ 1,221	\$ 11,209

12. DERIVATIVES

Yamatake Group enters into foreign currency forward contracts and currency options to hedge foreign exchange risk associated with trade receivables and payable denominated in foreign currencies. Yamatake Group also enters into interest rate swap contracts to manage its interest rate exposures on long-term debt.

It is Yamatake Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities, not to hold or issue derivatives for speculative or trading purposes.

Since all of Yamatake Group's foreign currency forward contracts and currency options are related to qualified hedges of underlying business exposures, market gains or loss risk in the derivative instruments is effectively offset by opposite movements in the value of the hedged assets or liabilities.

Yamatake Group's interest rate swap contracts are subject to market risk, which is the exposure created by potential fluctuations in market conditions, including interest rates.

Because the counterparties to these derivatives are limited to major international financial institutions, Yamatake Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by Yamatake Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

The fair value of Yamatake Group's derivative financial instruments as of March 31, 2003 and 2002, was as follows:

	Millions of yen		
	2003		
	Contract or Notional Amount	Fair Value	Unrealized Loss
Interest rate swaps—Pay fixed/receive floating	¥ 2,000	¥ (46)	¥ 6

	Millions of yen		
	2002		
	Contract or Notional Amount	Fair Value	Unrealized Loss
Interest rate swaps—Pay fixed/receive floating	¥ 2,000	¥ (63)	¥ 3

	Thousands of U.S. dollars		
	2003		
	Contract or Notional Amount	Fair Value	Unrealized Loss
Interest rate swaps—Pay fixed/receive floating	\$16,667	\$ (386)	\$ 47

13. COMMITMENT AND CONTINGENT LIABILITIES

As of March 31, 2003, Yamatake Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥ 66	\$ 547
Guarantees and similar items of loans and sublease	69	572

Commitment outstanding at March 31, 2003, for the purchase of property, plant and equipment and other assets were approximately ¥14 million (\$122 thousand).

14. SUBSEQUENT EVENT

At the general shareholders meeting held on June 27, 2003, Yamatake's shareholders approved the following:

Appropriations of Retained Earnings at March 31, 2003

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥6.0 (\$0.05) per share	¥ 441	\$ 3,679
Bonuses to directors	32	267

15. SEGMENT INFORMATION

Yamatake Group focuses on creating value through measurement and control technology. The operating segments reported below are the segments of Yamatake for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

The building automation segment designs, develops, manufactures, distributes and provides engineering/maintenance services for building automation products such as integrated automation systems, security systems and energy and facility management, for primarily such markets as commercial buildings, manufacturing facilities, hospitals, government and institutional buildings, schools, hotels and department stores.

The industrial automation segment designs, develops, manufactures, distributes and provides engineering/maintenance service for industrial automation products such as field measurement instruments and control valves and factory automation systems, for primarily such markets as petrochemical/chemical, refining, electric power and gas, iron and steel, food and beverage, pharmaceutical, automobile, pulp and paper, semiconductors, shipping and marine, and electric/electronic components.

The control products segment designs, develops, manufactures and distributes control products such as machine controllers, automatic recognition machines, simple instrumentation controls, combustion safety controls, recorders, proximity switches, photoelectric switches, mass flow meters/controllers and electronic air cleaners, for primarily such markets as semiconductor manufacturing, electric/electronic components, industrial machinery, automobiles, food, packaging, furnace/oven/boiler manufacturing and residential/commercial buildings.

The other segment consists of various operating activities primarily including sales of inspection and measurement equipment for automobile and machinery industries.

Information about industry segments of Yamatake Group for the years ended March 31, 2003 and 2002, was as follows:

(1) Industry Segments

a. Sales and Operating Income

Millions of yen							
2003							
	Building Automation	Industrial Automation	Control Products	Other	Total	Eliminations/Corporate	Consolidated
Sales to customers	¥ 80,669	¥ 50,943	¥ 25,341	¥ 11,016	¥167,969		¥167,969
Intersegment sales	663	1,558	1,953	680	4,854	¥ (4,854)	
Total sales	81,332	52,501	27,294	11,696	172,823	(4,854)	167,969
Operating expenses	74,260	52,979	29,246	12,957	169,442	(4,748)	164,694
Operating income (losses)	¥ 7,072	¥ (478)	¥ (1,952)	¥ (1,261)	¥ 3,381	¥ (106)	¥ 3,275

Millions of yen							
2002							
	Building Automation	Industrial Automation	Control Products	Other	Total	Eliminations/Corporate	Consolidated
Sales to customers	¥ 80,890	¥ 51,161	¥ 24,605	¥ 10,508	¥ 167,164		¥ 167,164
Intersegment sales	631	1,582	1,823	724	4,760	¥ (4,760)	
Total sales	81,521	52,743	26,428	11,232	171,924	(4,760)	167,164
Operating expenses	73,963	52,989	28,061	12,376	167,389	(4,752)	162,637
Operating income (losses)	¥ 7,558	¥ (246)	¥ (1,633)	¥ (1,144)	¥ 4,535	¥ (8)	¥ 4,527

Thousands of U.S. dollars							
2003							
	Building Automation	Industrial Automation	Control Products	Other	Total	Eliminations/Corporate	Consolidated
Sales to customers	\$672,242	\$424,527	\$211,176	\$ 91,800	\$1,399,745		\$1,399,745
Intersegment sales	5,529	12,980	16,278	5,662	40,449	\$ (40,449)	
Total sales	677,771	437,507	227,454	97,462	1,440,194	(40,449)	1,399,745
Operating expenses	618,838	441,491	243,717	107,976	1,412,022	(39,565)	1,372,457
Operating income (losses)	\$ 58,933	\$ (3,984)	\$ (16,263)	\$ (10,514)	\$ 28,172	\$ (884)	\$ 27,288

b. Assets, Depreciation and Capital Expenditures

Millions of yen							
2003							
	Building Automation	Industrial Automation	Control Products	Other	Total	Eliminations/Corporate	Consolidated
Assets	¥ 51,925	¥ 37,065	¥ 24,073	¥ 5,299	¥118,362	¥ 44,557	¥162,919
Depreciation	909	794	884	68	2,655		2,655
Capital expenditures	606	563	834	62	2,065		2,065

Millions of yen							
2002							
	Building Automation	Industrial Automation	Control Products	Other	Total	Eliminations/Corporate	Consolidated
Assets	¥ 55,831	¥ 42,757	¥ 23,404	¥ 4,757	¥ 126,749	¥ 54,209	¥ 180,958
Depreciation	971	843	928	67	2,809		2,809
Capital expenditures	718	862	647	28	2,255		2,255

Thousands of U.S. dollars							
2003							
	Building Automation	Industrial Automation	Control Products	Other	Total	Eliminations/Corporate	Consolidated
Assets	\$432,710	\$308,871	\$200,612	\$ 44,154	\$986,347	\$371,312	\$1,357,659
Depreciation	7,579	6,614	7,367	566	22,126		22,126
Capital expenditures	5,051	4,692	6,951	511	17,205		17,205

Note: Corporate assets of ¥47,139 million (\$392,825 thousand) and ¥55,386 million for the years ended March 31, 2003 and 2002, respectively, included in "Eliminations/corporate" mainly consist of cash and cash equivalents and investment securities.

(2) Geographical Segments

Overseas sales amounts are less than 10% of consolidated sales.

(3) Sales to Foreign Customers

Sales to foreign customers are less than 10% of consolidated sales.



Independent Auditors' Report

Tohmatu & Co.

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**Deloitte
Touche
Tohmatu**

To the Board of Directors and Shareholders of
Yamatake Corporation:

We have audited the accompanying consolidated balance sheets of Yamatake Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yamatake Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatu

June 27, 2003

Corporate Data

As of March 31, 2003

Company Name	Yamatake Corporation
Headquarters	Totate International Building 2-12-19 Shibuya, Shibuya-ku Tokyo 150-8316, Japan
Founded	December 1, 1906
Incorporated	August 22, 1949
Paid-in Capital	¥10,523 million
Factories	Fujisawa, Shonan, Isehara
Employees	1,912
Contact	Tel: 81-3-3486-2011 Fax: 81-3-3409-7388
Website	http://www.yamatake.com

Subsidiaries and Affiliates

Yamatake Building Systems Co., Ltd.* Tokyo, Japan Ownership 100% 2003 Sales ¥80.6 billion Employees 2,213	Yamatake Korea Co., Ltd.* Seoul, Korea Ownership 100%
Yamatake Industrial Systems Co., Ltd.* Kanagawa, Japan Ownership 100% 2003 Sales ¥46.0 billion Employees 1,609	Yamatake Taiwan Co., Ltd.* Taipei, Taiwan Ownership 99.9%
Yamatake & Co., Ltd.* Tokyo, Japan Ownership 100% 2003 Sales ¥13.4 billion Employees 185	Yamatake (Thailand) Co., Ltd.* Bangkok, Thailand Ownership 99.9%
Yamatake Control Products Co., Ltd.* Kanagawa, Japan Ownership 100% 2003 Sales ¥8.4 billion Employees 242	Yamatake Philippines, Inc.* Makati, Philippines Ownership 99.9%
Yamatake Techno-Systems Co., Ltd.* Tokyo, Japan Ownership 100% 2003 Sales ¥1.0 billion Employees 59	Yamatake Automation (M) Sdn.Bhd.* Petaling Jaya, Malaysia Ownership 100%
Yamatake Expert Services Co., Ltd. Tokyo, Japan Ownership 100%	Yamatake Controls Singapore Pte. Ltd.* Singapore Ownership 100%
Yamatake Friendly Co., Ltd. Kanagawa, Japan Ownership 100%	PT. Yamatake Berca Indonesia* Jakarta, Indonesia Ownership 55%
Yamatake Care-Net Co., Ltd. Tokyo, Japan Ownership Wholly owned by Yamatake Building Systems Co., Ltd.	SICAL Yamatake Limited Chennai, India Ownership 25%
Safety Service Center Inc.* Tokyo, Japan Ownership 77.6% 2003 Sales ¥1.9 billion Employees 56	Dalian Yamatake Control Instruments Co., Ltd.* Dalian, China Ownership 100%
Kumamoto Safety Service Center Co., Ltd. Kumamoto, Japan Ownership Wholly owned by Safety Service Center Inc.	Yamatake Environmental Control Technology (Beijing) Co., Ltd. Beijing, China Ownership 100%
Taishin Co., Ltd.* Nagano, Japan Ownership 50% 2003 Sales ¥2.8 billion Employees 116	Shanghai Yamatake-SIC Environmental Control Technology Co., Ltd.* Shanghai, China Ownership 60%
ESD Co., Ltd. Tokyo, Japan Ownership 51%	Shanghai Yamatake Jinshan Control Instruments Co., Ltd.* Shanghai, China Ownership 60%
Building Performance Consulting, Inc. Tokyo, Japan Ownership 45% owned by Yamatake Building Systems Co., Ltd.	Yamatake China Limited* Hong Kong, China Ownership 99.9%
Hara Engineering Co., Ltd. Kanagawa, Japan Ownership 16.7% owned by Yamatake & Co., Ltd	Yamatake Sensing Control, Limited* Santa Clara, CA, U.S.A. Ownership 100%
	Yamatake America, Inc.* Houston, TX, U.S.A. Ownership 100%
	Yamatake Europe N.V.* Brussels, Belgium Ownership 99.9%

*Consolidated subsidiary

Stock Information

As of March 31, 2003

Total Number of Authorized Shares	290,700,000
Shares of Common Stock Issued	84,566,256
Shareholders	4,789
Fiscal Year	April 1—March 31
Annual Shareholders' Meeting	June
Stock Listing	Tokyo Stock Exchange, 1st Section
Transfer Agent	Mizuho Trust & Banking Co., Ltd.

Major Shareholders

	Number of shares held (thousands)	Percentage of total shares outstanding
Northern Trust Company (AVFC) Sub-account American Clients	12,105	14.3
The Yasuda Mutual Life Insurance Co.	4,339	5.1
Mizuho Corporate Bank, Ltd.	2,850	3.8
Nippon Life Insurance Co.	2,714	3.2
Mitsui Asset Trust Banking Company, Limited	2,455	2.9
Sompo Japan Insurance Inc.	2,357	2.8
Mizuho Trust & Banking Co., Ltd.	2,301	2.7
Boston Safe Deposit BSTD Treaty Clients Omnibus	2,204	2.6
The Master Trust Bank of Japan, Ltd.	1,925	2.3
Commerz Securities (Japan) Co.	1,523	1.8

Ownership among Shareholders

Japanese Financial Institutions	35.1%
Other Japanese Corporations	8.3%
Foreign Institutions and Individuals	32.6%
Japanese Individuals and Others	11.0%
Treasury Stock	13.0%

