

# Achieving Sustained Growth Into the Future With “Human-centered Automation.”

Over the years, Yamatake has followed its own growth path by leveraging automation technologies to contribute to the creation of value for customers and to the protection of the environment. By providing solutions unique to Yamatake to customers, we have developed an original and significant presence in the market and enjoy a strong reputation among our customers.

In today's markets, we face social structural changes, progress in production technology and research activities, and heightened environmental protection and energy conservation requirements. Many new business opportunities are emerging from these changes in the building and industrial markets. Through new applications of our automation technology, we are expanding our business domains to such fields as Lifeline, Life Assist and Life Science.

While the changes in our business environment represent an opportunity for Yamatake to target sustained growth in its second century of operations, they also represent business obstacles that must be overcome. To do so, we are switching from the previous concept of controlling equipment to fulfilling people's satisfaction. We will continue to supply customers with value in the traditional fields of energy and resource conservation, and global environmental protection. We will also provide new value through “human-centered automation”, which we define as the provision of technologies, products and services that contribute to people's safety, comfort, and fulfillment. By providing value in this domain, we will achieve sustained growth in our second century.

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**Cautionary Statement:** 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 its 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.

**To realize safety, comfort and fulfillment in people's lives through "human-centered automation", and contribute to the global environment.**

**To achieve our philosophy,**

- **We create value together with customers at their site.**
- **We pursue our unique value based on the idea of "human-centered."**
- **We think about the future and act progressively.**

This is the new corporate philosophy of the Yamatake Group.

In line with this philosophy, we have created a new symbol to unify all employees of the Group, enabling them to demonstrate the necessary teamwork to solve customer problems.

The symbol is azbil (Automation-Zone-Builder).

Building  
Automation  
Business

Advanced  
Automation  
Business

Life  
Automation  
Business

# azbil

**[ázbil]**

The roundness of the letters signifies tender humanity, and the oval shape curving upward to the right expresses our unlimited potential.

Unified by this symbol, the Yamatake Group will continue to strive to create a corporate culture that generates the reforms necessary for the Group to meet the expectations of its shareholders, customers, local communities, and society as a whole.

# One Hundred Years Since We Started “Freeing People from Drudgery” Today, We Are Pursuing Human-centered Automation

Yamatake has grown in step with the advancement of automation in Japan. Since our founding, we have constantly sought through automation to provide value unique to Yamatake in response to the needs of the times. Today, as we look ahead to a second century in business, we have evolved from a company with the humble aim of freeing people from drudgery to one that is fully committed to realizing human-centered automation.



## 1953

Yamatake formed an equity-based alliance with Honeywell Inc. (currently Honeywell International Inc.) of the U.S. Honeywell acquired a 50% share based on a technical license agreement.

## 1963

Established wholly owned subsidiary Yamatake Keiso, which was renamed Yamatake Building Systems Co., Ltd. in July 1998. Taking advantage of business opportunities provided by the construction boom in preparation for the Tokyo Olympics, Yamatake started offering a complete package of heating, ventilation and air conditioning in its Building Automation business, which had just begun full-scale expansion at the time.

## 1965

Took a 50% equity interest in Sanwa Keiso Co., Ltd., a company that performed maintenance work on industrial instruments, renamed Yamatake Maintenance Co., Ltd. (then later Yamatake Industrial Systems Co., Ltd. in July 1998)



## 1950

### First in control

Shared catchphrase of both companies of being “first in control” after Yamatake formed alliance with Honeywell.

#### Changing Needs and Industry Trends

### The Dawn of the Automation Era Responding to Rapid Growth of the Japanese Economy



## 1969

Company listed on the First Section of the Tokyo Stock Exchange

## 1904

Kimmon Manufacturing Co., Ltd. developed Japan's first gas meter

## 1936

Yamatake successfully started manufacturing the first control valves in Japan



## 1913

Kimmon Manufacturing began manufacturing Japan's first water meters

## 1920

Concluded sales agency agreement with U.S. company Brown Instrument Co. (later merged with Honeywell)

## 1932

Yamatake Shokai converted to a joint-stock company (*kabushiki gaisha*), began assembling industrial instruments

## 1906

Yamatake Shokai established by founder Takehiko Yamaguchi, commenced import and sale of machine tools and other equipment from the U.S. and Europe.

#### Changing Needs and Industry Trends

### Pre-industrial Instruments Era From Imports to Domestic Manufacture

## 1906

### Free people from drudgery

Management aim since Yamatake's founding.



## Formulated new Group philosophy and symbol

To realize safety, comfort and fulfillment in people's lives through "human-centered automation", and contribute to the global environment.

# 2006

# azbil

## 1981

Kimmon Manufacturing developed Japan's first gas meter-equipped microprocessor with a safety function



## 1983

TDC3000 total distributed control system

## 1982

SAVIC integrated building automation system



### Changing Needs and Industry Trends

## Open Network Systems

Provision of Solutions to Meet Increasing Environmental and Energy-saving Needs in Society and Support Sustainable Development

## 2006

Kimmon Manufacturing Co., Ltd. made a consolidated subsidiary

## 2006

Launch of gemkey™ on-demand customized DNA chips



# 1978

## 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.

### Changing Needs and Industry Trends

## The Shift From Analog to Digital Instrumentation

Increasing Needs for Energy Saving, Higher Performance and Accuracy

## 1997

μF™ (Microflow) sensors



## 2003

Yamatake Corporation, Yamatake Building Systems Co., Ltd. and Yamatake Industrial Systems Co., Ltd. merged into a single company



## 1985

ST3000 Smart Pressure Transmitter  
CV3000 control valve



## 2002

Equity-based alliance with Honeywell ended



## 1975

MagneW electromagnetic flowmeters



## 1995

Harmonas harmonized automation system



## 2000

Took a 67% equity interest in Safety Service Center Co., Ltd.

## 1999

Established Yamatake Care-Net Co., Ltd. as a wholly owned subsidiary

## 1998

Yamatake-Honeywell renamed Yamatake Corporation

## New Growth in Yamatake's Second Century

Yamatake was founded in 1906 and in the ensuing years has served both society and customers by delivering solutions to issues relating to "saving" with respect to resources, energy and other areas. Underpinning this ability are our sophisticated measurement and control technologies and the extensive knowledge we have acquired over the years. As we mark our 100<sup>th</sup> anniversary, our operating environment is undergoing major change. Society's and customers' expectations of us are also changing.

These conditions prompted us to clarify our raison d'être and readdress how we can live up to it. This is our new corporate philosophy we introduced and the symbol "azbil" that represents our new corporate philosophy.

One point is clear—our measurement and control technologies will remain the cornerstone of this company. Our approach will change, however. Heretofore, our approach has centered on the control of machinery and equipment. From here on, though, our approach will transform to ensuring that people feel a sense of satisfaction through our work. In other words, our aim is to enrich people's lives and help create better working environments. Measurement and control have many uses and we can use them to create value. These technologies can realize safer homes and workplaces, yielding a sense of security. They can realize a sense of comfort that can facilitate activity. And they can help realize a sense of accomplishment when goals are achieved.

In order to realize our corporate philosophy based on azbil, we must know and understand our customers and use that knowledge to create value hand in hand with customers at their work sites. We must understand what it takes to make people happy and deliver technologies, products and services to help realize that. We must constantly pursue innovation utilizing measurement and control. And we must continue to rise to the challenge of creating a corporate culture that transforms in response to the expectations of customers, regional communities, society at large and shareholders, thinking all the time of what mark we should leave on the future and taking actions in that regard. We must put greater stock in these things than ever before.

Right: Yoshiharu Sato, Chairman

Left: Seiji Onoki, President and Chief Executive Officer



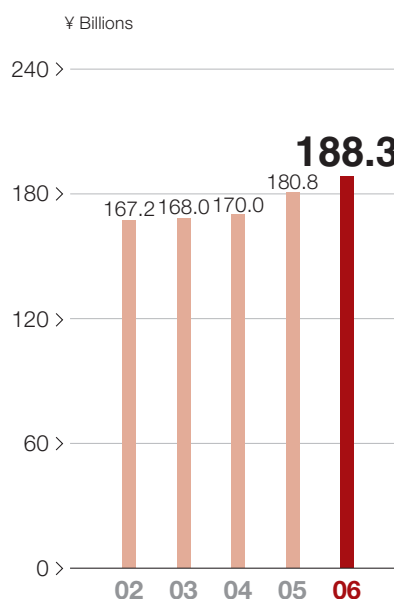
# Financial Highlights

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

	Millions of Yen					Thousands of U.S. Dollars	
	2001	2002	2003	2004	2005	2006	2006
<b>For the year:</b>							
Net sales	¥ 177,940	¥ 167,164	¥ 167,969	¥ 169,951	¥ 180,763	<b>¥ 188,321</b>	<b>\$1,609,579</b>
Operating income	11,694	4,527	3,275	6,820	9,353	<b>13,515</b>	<b>115,512</b>
Income (loss) before income taxes	(9,576)	4,345	11,235	6,493	5,769	<b>15,650</b>	<b>133,762</b>
Net income (loss)	(5,918)	2,121	5,308	3,241	3,709	<b>9,795</b>	<b>83,720</b>
Depreciation and amortization	2,655	2,809	2,655	2,346	2,291	<b>2,352</b>	<b>20,098</b>
R&D expenses	8,674	8,770	8,881	8,099	8,170	<b>8,360</b>	<b>71,451</b>
Capital expenditures	3,552	2,255	2,065	2,065	2,460	<b>6,790</b>	<b>58,038</b>
Return on equity (%)	(5.5)	2.1	5.6	3.5	3.8	<b>9.3</b>	
<b>At year-end:</b>							
Total assets	¥ 186,302	¥ 180,958	¥ 162,919	¥ 165,264	¥ 172,586	<b>¥ 217,882</b>	<b>\$1,862,242</b>
Total shareholders' equity	99,495	98,886	91,780	95,530	99,848	<b>110,859</b>	<b>947,509</b>
<b>Per share (in yen and U.S. dollars):</b>							
Net income (loss)	¥ (64.74)	¥ 24.77	¥ 68.65	¥ 43.51	¥ 49.88	<b>¥ 132.52</b>	<b>\$ 1.13</b>
Cash dividends	12.00	12.00	12.00	14.00	23.00	<b>50.00</b>	<b>0.43</b>
Shareholders' equity	1,176.54	1,169.07	1,247.07	1,297.95	1,356.65	<b>1,506.25</b>	<b>12.87</b>

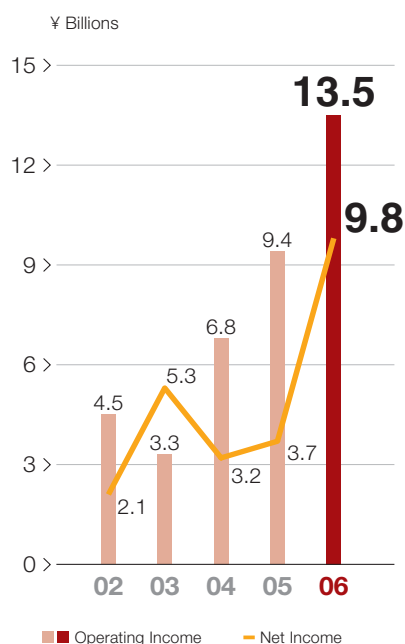
\* The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117 to U.S.\$1, the approximate exchange rate as of March 31, 2006, as described in Note 1 of Notes to Consolidated Financial Statements.

## Net Sales



(Years ended March 31)

## Operating Income/ Net Income



(Years ended March 31)

# Fiscal 2005 Consolidated Performance Highlights

Final year of medium-term management plan (Fiscal 2006)  
Achieved operating income target one year early

Delivered higher year-on-year sales and earnings

Achieved plan targets for both sales and earnings

Declared large increase in annual dividend

[Consolidated Net Sales] Rose **4.2%** to **¥188.3** billion

[Consolidated Operating Income] Climbed **44.5%** to **¥13.5** billion

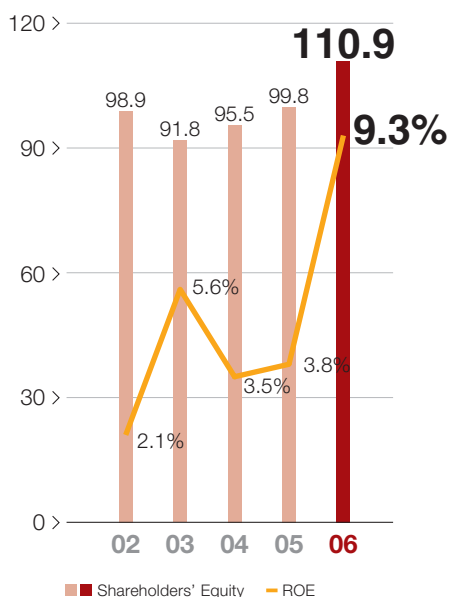
[Consolidated Net Income] Jumped **164.1%** to **¥9.8** billion

[ROE] Increased from **3.8%** in fiscal 2004 to **9.3%**

[Annual Dividend per Share] Raised from **¥23** to **¥50**, an increase of **¥27**

## Shareholders' Equity/ROE

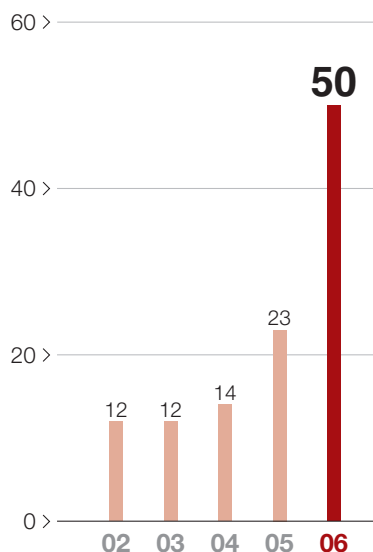
¥ Billions/%



(Years ended March 31)

## Cash Dividends per Share

¥



(Years ended March 31)

# To Our Shareholders

Unified under the symbol of **azbil**, we will achieve sustained growth by strengthening our business foundation through pursuing three creation concepts.

Fiscal 2005, ended March 31, 2006, was a notable year for the Yamatake Group, one in which we attained the operating income target for the final year (fiscal 2006) of our current three-year medium-term management plan one year ahead of schedule, and placed our feet firmly on the path toward growth in our coming second century of operations.

Under our medium-term management plan, which got under way in April 2004, we began transforming our corporate culture and our business foundation to achieve sustainable growth for the future along with our customers as a value-creating company. Now, we are finally starting to see results emerge.

Heading toward the start of our second century in 2007, with azbil as our symbol, the Yamatake Group is working as a team in pursuing the concept of human-centered automation to further expand its operations. We believe that this initiative meets the expectations of all our stakeholders, including shareholders, customers, local communities, and society as a whole.

**Fiscal 2005 Performance**  
***Net sales and earnings exceed medium-term management plan targets.***

***Operating income jumps to targeted figure for the final year (fiscal 2006) of the plan.***

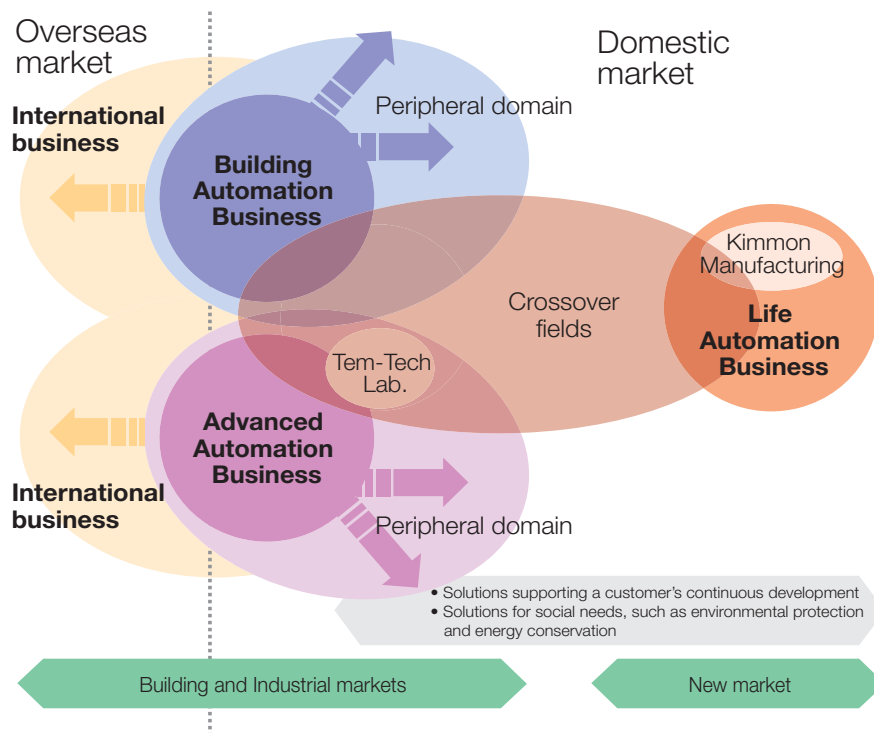
The Yamatake Group posted strong results in the fiscal year under review. Consolidated net sales totaled 188.3 billion yen while operating income rose to 13.5 billion yen and net income climbed to 9.8 billion yen. These figures met our performance targets for the second year of the medium-term management plan, and in the case of operating income, even surpassed the goal for the final year of the plan.

These strong results can be attributed to the Yamatake Group being able to deliver optimum solutions to its customers on site. This was made possible by the entire Group working together under a collaborative structure and through partnerships that went beyond organizations. We believe that the Group has met the expectations of its shareholders by increasing corporate value, reflecting progress in corporate performance.



President and Chief Executive Officer  
Seiji Onoki

## Business Structural Reforms and Domain Expansion



### Results in Fiscal 2005

**Strengthening of earning base and acceleration in business domain expansion through steady progress in reforms.**

#### [Business Climate]

Looking at the business climate in fiscal 2005, the second year of the medium-term management plan, the Japanese economy mounted a firm recovery. Despite concerns over the impact of the sharp increase in oil prices, capital investment in the private-sector increased with the strength of better corporate performances, as well as the upward personal consumption by improvements in hiring conditions and in personal incomes. Overseas economies also performed well, with the Chinese economy maintaining its high growth rate and the U.S. economy posting expansion. Reflecting these favorable conditions, demand rose in Yamatake's various markets.

#### [Business Domains and Three Creation Concepts]

In this business environment, Yamatake leveraged its various strengths in measurement and control technologies to expand its Building Automation and Advanced Automation businesses. We also continued to create new businesses by breaking into the peripheral domain, such as crossover fields as well as actively developing business overseas. In addition, we took steps to create and expand our Life Automation business, building it into our third core business.

As we head toward our 100<sup>th</sup> anniversary in the fiscal year ending March 31, 2007, we are implementing a Group-wide creation drive to reinforce our corporate power. We are achieving this goal by boosting the value-creation capabilities and productivity of the full gamut of our business functions, sales, staff operations, product development, engineering and production. The three key concepts of our creation drive to transform our corporate culture, and our business foundations are:

**Changing the business structure, creating a new work style, and creating a new corporate culture imbued with the spirit of challenge.**

### **[Performance by Business Segment and Business Structural Reforms]**

In fiscal 2005, we focused our plans on the market for existing buildings in the Building Automation business, mainly our ESCO business, a total energy management service that optimizes energy conservation in entire buildings. The service business also achieved steady growth based on offering more sophisticated services and introducing new products. Sales declined unavoidably, edging down 0.5% year on year, to 82.2 billion yen because of a substantial drop off in the number of new buildings after the low construction starts recorded in the previous fiscal year. Nevertheless, changes in business composition and improvements in the earning base yielded operating income of 6.5 billion yen, up 16.7% from the previous fiscal year. The picture is looking much brighter for the current fiscal year, with demand in the market for new buildings already rebounding and orders received during fiscal 2005 climbing 11.5% year on year to 86.0 billion yen.

In the Advanced Automation business, capital investment in the manufacturing industry continued to grow both in Japan and overseas. Sales of Yamatake's specialty products, such as sensors, controllers, and valves, recorded substantial growth, including the system business. As a result, sales for the Advanced Automation business rose 10.3% year on year to 93.0 billion yen, while operating income soared 58.4% to 7.5 billion yen. During the fiscal year, we invested in Tem-Tech Lab., also signing a wide-ranging business alliance agreement with the company. Tem-Tech Lab. possesses special capabilities in advanced pressure sensors, and promises to demonstrate strong synergies with our business. We took this action to further develop and deepen our business activities in the semiconductor and food industries.

Sales of the Life Automation business advanced 1.8%, to 4.6 billion yen, supported by development of businesses that target opportunities created by revisions in laws and regulations, such as the nursing care and environmental recycling fields.

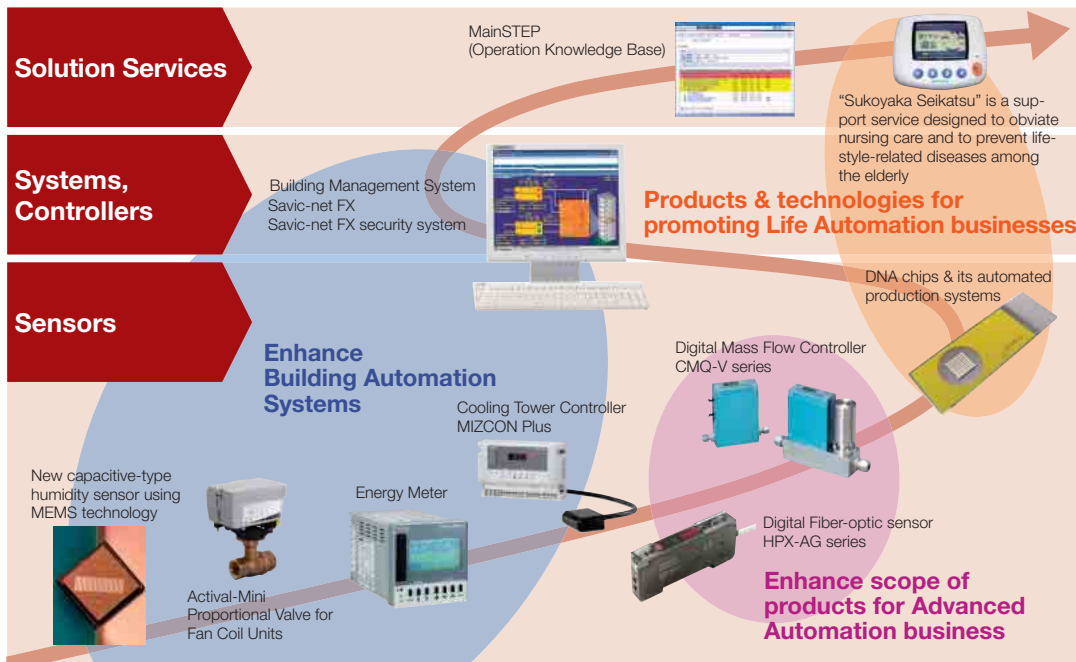
Although the business segment's operating loss improved by 0.5 billion yen from the previous fiscal year, it was still 0.7 billion yen. Among fiscal highlights, **Yamatake made Kimmon Manufacturing Co., Ltd., a major manufacturer of gas and water meters, a subsidiary.** Yamatake is considering a range of business developments utilizing the special capabilities of both companies, especially in the lifeline infrastructure market. By acquiring Kimmon Manufacturing and making it the core of Yamatake's business in this field, the scale\* of the business in terms of sales will expand to more than 30.0 billion yen.

\* Since the net sales and profits of Kimmon Manufacturing Co., Ltd., will be included in consolidated earnings from the fiscal year ending March 31, 2007, the acquisition had no impact on the fiscal 2005 consolidated performance.

### **[Business Operation Reforms]**

During the fiscal year, we implemented several measures as part of the drive to transform our corporate culture and business foundation that commenced in the previous fiscal year. In November 2005, to prepare the way for a large-scale strengthening and increase in efficiency of our administration, we transferred and integrated our head office functions in our Marunouchi office. In addition, to promote collaborative business between in-house companies of the Group, we gathered our six sales offices, which had been spread out around metropolitan Tokyo, into the Shinagawa office. We also took steps to reform our research and development and engineering functions. To substantially shorten the lead times between basic research and product development and between engineering stages, we will unify these functions in the new Technology Center (provisional name) currently being constructed at the Fujisawa factory. We made further progress with integrating and reorganizing manufacturing facilities, expanding two factories in China (Dalian and Shenzhen), and initiating a reorganization of our domestic factories by function. Finally, we will consolidate manufacturing into six factories in Japan and overseas to optimize our production capabilities.

## Enhancing product power with original technologies and new products



### [Product Appeal and Brand Power]

High-performance products based on Yamatake's original technologies are the core products that provide solutions through advanced control and precise measurement for the problems customers encounter on site as well as being one of the drivers of our business development. We sought to strengthen Yamatake's product appeal and brand power by launching various new products, including Ultra-high-speed response Digital mass flow controller incorporating a Micro Flow sensor built with original Yamatake technology.

## Management Targets for Yamatake's 2<sup>nd</sup> Century

***Focusing on the human condition, we will build a world of automation created through human ingenuity and technology.***

In the past, Yamatake has provided value to its customers by contributing to their energy and resources conservation and environmental protection measures through automation technology based on our "Savemation" philosophy of saving through automation. This remains an important business area because we believe that

corporations have a great responsibility to contribute to the sustainable development of society and environmental protection. However, the transformation in the business environment caused by the structural changes in society created by an aging population and a heightened interest in safety and security has produced new demands. The type of value our customers require is changing and new needs are emerging. For Yamatake to continue to be recognized as a solution provider, we must adapt to these changes. We must also be able to clearly indicate to our customers what type of value we can provide, and unify our efforts in providing it. In order to do this, it will be necessary to work together, mutually coordinating personnel, technology, and expertise without regard for borders between businesses or Group companies.

As we approach our 100<sup>th</sup> anniversary, we are redefining this value provided to customers by Yamatake as human-centered automation. Based on this philosophy, we will help people achieve safety, comfort, and fulfillment, while also contributing to the protection of the environment.

**azbil**  
Automation·Zone·Builder

Operating under the concept of human-centered automation, we will press forward as a unified Group that goes beyond lines of demarcation between businesses and Group companies in collaborating to provide customers with optimum solutions.

As a symbol of that unity, we have created the new symbol azbil. It represents the unity of our Group management—not only within Yamatake but also including newly consolidated Kimmon Manufacturing—in applying teamwork to solve customer problems.

Under this symbol, we will focus on the human, building a world of automation created through human ingenuity and technology. Our long-term goal will be to become a top-class global corporate

group that supports the safety and security of its customers, achieves growth in corporate value, and contributes to solutions for environmental issues.

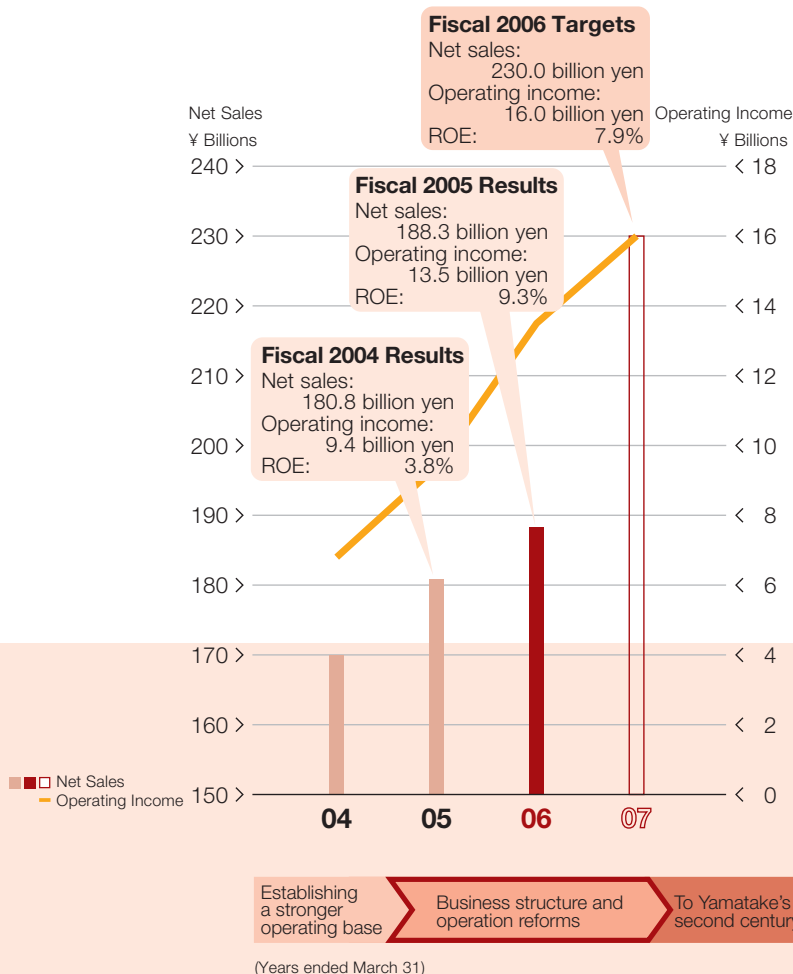
## Sustained Growth Through Unique Yamatake Business Collaboration

**Putting the finishing touches on the basic framework that will serve as the cornerstone for Yamatake's next leap forward.**

Due to the inclusion of Kimmon Manufacturing in consolidation, our ultimate goals for the final year of the medium-term management plan are substantially higher than our original targets. We are now aiming for consolidated net sales of 230.0 billion yen, operating income of 16.0 billion yen, and ROE of 7.9%. These figures are the first hurdle on our previously mentioned "Path to becoming a top class global corporate group." Achieving these goals through rigorous development of the three creation concepts will signify that our Life Automation business has taken its place alongside our Building Automation and Advanced Automation businesses as a core business of the Yamatake Group. Clearing these performance targets will also signify that we are achieving a significant range of unique Yamatake business synergies—not only within the three core business segments but also through inter-business collaboration—by combining customers, products, and technology.

Yamatake is the sole automation systems and equipment manufacturer in the world operating in the Building Automation, Advanced Automation, and Life Automation business domains. Leveraging that strength, many cases of collaboration have already emerged at various levels of our business, from the research stage to the actual operation of businesses. For example, a cooperative effort between the Building Automation and Advanced Automation businesses is developing business in the comprehensive energy management field, which manages energy conservation of both the plant buildings and production facilities at factories. And a collaboration between Kimmon Manufacturing and the Building Automation and

### Medium-term Management Plan Targets



Advanced Automation businesses is expanding Yamatake's presence in the Lifeline infrastructure field. Moreover, one of the Group companies in the care services and another in the emergency dispatch services are jointly starting a new service business in the Life Assist field.

The fiscal year ending March 31, 2007 is the final year of our current medium-term management plan "Creating Yamatake's 2<sup>nd</sup> Century," which covered the period from fiscal 2004 to 2006. Keeping the momentum built up over the past two years, we will proceed with strengthening and developing the Life Automation business and achieving further synergies throughout our businesses, completing the foundation for growth and profitability necessary for our next leap in development.


## Returning to Shareholders

### **Targeting improved payout as well as stable dividend levels.**

We recognize returning profits to shareholders as being one of our most important management issues, and strive to increase those payments. In addition to meeting the expectations of shareholders by achieving growth in corporate value and a higher stock price, we also endeavor to increase our dividend payout levels while maintaining stable dividends. For fiscal 2005, ended March 31, 2006, we declared a year-end dividend of 30 yen per share, which included a 10 yen per share commemorative dividend to mark our 100<sup>th</sup> anniversary. Including an interim dividend of 20 yen per share, therefore, the annual dividend was 50 yen per share. This dividend represents a substantial increase from the annual dividend of 23 yen per share paid in the previous fiscal year and the third consecutive year of increased dividend payout. It also represents an increase in dividend on equity ratio—one of our management performance indicators—to the 3% level from 1.7% in fiscal 2004, rising above the average dividend on equity ratio for Japanese corporations. For fiscal 2006, we plan to increase the regular dividend by 10 yen per share. The interim and year-end dividends are expected to be 25 yen per share, for an annual dividend of 50 yen per share.

Yamatake recognizes the role of internal control systems in helping companies fulfill their corporate social responsibility and pursue sustained growth. In this light, we realize the importance of strengthening corporate governance and risk management, and of thorough compliance, including adherence to relevant laws and regulations and a code of business ethics. Based on this awareness, we will continue to strive for sustained growth and the expansion of corporate value. We will also endeavor to meet the expectations of our shareholders, customers, and other stakeholders through our business activities as well as through our environmental protection and social contribution activities. In meeting the challenges of our 2<sup>nd</sup> century of operations, we look forward to the continued support of our shareholders.

July 2006



Seiji Onoki, President and Chief Executive Officer

