

Financial Review

Consolidated Results

Net Sales

In fiscal 2005, ended March 31, 2006, net sales increased 7.6 billion yen, or 4.2%, to 188.3 billion yen, driven by proactive sales activities.

Building Automation Business

In the Building Automation business, consolidated sales edged down 0.4 billion yen, or 0.5%, to 82.2 billion yen.

In Japan's building industry, the real estate market is gaining momentum, particularly in the Tokyo metropolitan area, spurred by the country's economic recovery. On the other hand, price-based competition persists. In the market for new buildings, while Yamatake increased orders, sales declined slightly. In the market for existing buildings, Yamatake's ESCO business, a comprehensive energy management service for conserving energy in entire buildings targeting building owners, operators and managers, expanded on the back of rising awareness of energy conservation. In the market for factories, where capital investments are increasing, the Building Automation business collaborated with the Advanced Automation business to conduct aggressive sales activities. Sales grew in the international business, mainly in China and Southeast Asia.

Advanced Automation Business

In the Advanced Automation business, sales rose 8.7 billion yen, or 10.3%, to 93.0 billion yen, with improved corporate earnings, and the consequential increase in capital investments, underpinning continued strength in the market. In this robust market environment, Yamatake conducted sales activities closely tailored to customers. The Company supplied diverse products and solutions that catered to customer needs with respect to energy saving, environmental friendliness, safe operations and productivity enhancements. In the international business, there was a large increase in sales in China and elsewhere in Asia.

Life Automation Business

The Life Automation business saw sales increase 1.8% to 4.6 billion yen. Sales in the Lifeline field declined overall, despite higher sales in the environmental recycling business, spurred by growing awareness of the need to reduce environmental impact and moves by food service-related companies to comply with the Food Recycling Law. In the Life Assist field, sales grew as Yamatake offered disease management and other new services. Stepped-up sales activities and a review of the business operations framework also helped lift sales.

Other Businesses

In this segment, sales declined 0.6 billion yen, or 5.5%, to 10.4 billion yen. Regarding the import, purchasing and sale of inspection and measurement equipment, while there was an increase in capital investments in the automotive, electric and electronic markets, the effect was limited, resulting in a slight drop in sales.

Operating Income

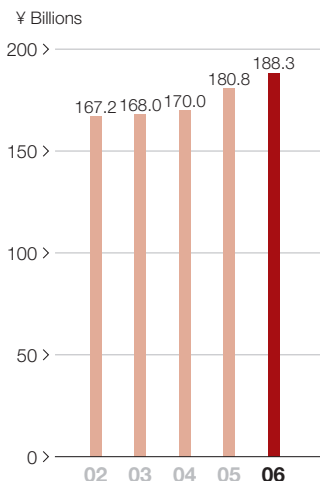
Cost of sales increased 2.5 billion yen, or 2.3%, to 115.6 billion yen. The cost of sales ratio declined 1.1 points to 61.4% thanks to efforts to lower costs. Gross profit rose 5.0 billion yen, or 7.4%, to 72.8 billion yen. Selling, general and administrative expenses rose 0.8 billion yen to 59.3 billion yen, due to a 0.1 billion yen rise from the inclusion of two companies in consolidated operations for the first time, and a 0.2 billion yen increase in R&D expenses. As a result of the foregoing, operating income climbed 4.2 billion yen, or 44.5%, to 13.5 billion yen.

Net Income

Other Income and Expenses

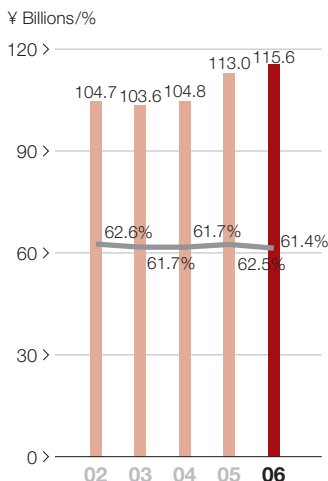
Yamatake recorded other income of 2.1 billion yen, compared with other expenses of 3.6 billion yen in the previous fiscal year. The main factors behind this improvement were a net 1.6 billion yen gain on sales

Net Sales



(Years ended March 31)

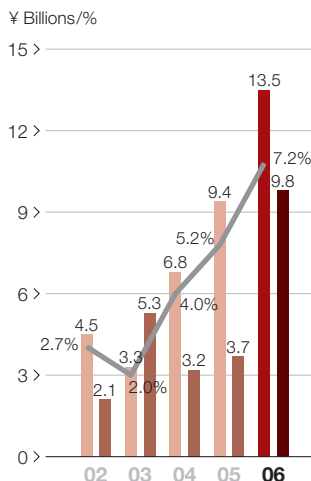
Cost of Sales/ Ratio to Net Sales



■ Cost of Sales
— Ratio to Net Sales

(Years ended March 31)

Operating Income/Net Income/ Operating Income to Net Sales



■ Operating Income
■ Net Income
— Operating Income to Net Sales

(Years ended March 31)

of property, plant and equipment due to the partial sale of land belonging to Yamatake's Tokyo office; a net 0.5 billion yen gain on sales of investment securities; and the absence of the loss on transfer of pension plans recorded in the previous fiscal year.

As a result of the above, income before income taxes and minority interests climbed 9.9 billion yen, or 171.3%, to 15.7 billion yen.

Income Taxes

Total income taxes increased 3.7 billion yen to 5.7 billion yen. The actual effective tax rate on income before income taxes and minority interests was 36.5%, increasing 2.6 percentage points from the previous fiscal year.

After minority interests in net income of 0.1 billion yen, consolidated net income for fiscal 2005 was 9.8 billion yen.

Financial Position

Assets

Total assets at March 31, 2006 stood at 217.9 billion yen, 45.3 billion yen higher than a year ago. While there was a 3.9 billion yen decline in cash and cash equivalents, trade notes and accounts receivable rose in line with higher sales, and there were increases in certain asset accounts due to the consolidation of Kimmon Manufacturing Co., Ltd. and that company's consolidated subsidiaries at the end of the fiscal year. The major changes were as follows:

Cash and cash equivalents: decreased 3.9 billion yen mainly due to the purchase of shares in Kimmon Manufacturing.

Trade notes and accounts receivable: increased 12.9 billion yen due to higher sales and the inclusion of Kimmon Manufacturing.

Property, plant and equipment: increased 15.9 billion yen due to the inclusion of Kimmon Manufacturing and the Technology Center (provisional name) under construction within Yamatake's Fujisawa factory.

Investment securities: increased 9.1 billion yen due to year-end fair

market valuations, in addition to investment securities of Kimmon Manufacturing.

Liabilities

Total liabilities increased 34.1 billion yen to 106.3 billion yen, chiefly reflecting higher trade notes and accounts payable and increases in certain accounts due to the consolidation of Kimmon Manufacturing and that company's consolidated subsidiaries at the end of the fiscal year. The major change was as follows:

Short-term borrowings and Long-term debt: increased 16.0 billion yen due to a 17.0 billion yen increase from the inclusion of Kimmon Manufacturing.

Shareholders' Equity

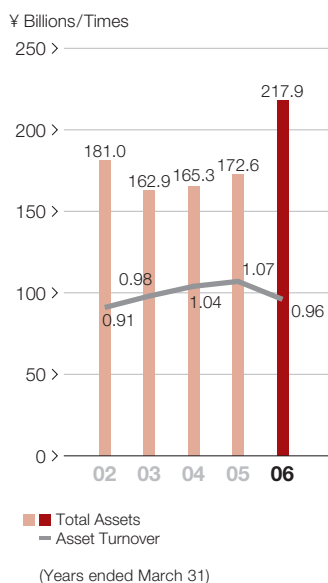
Total shareholders' equity at the end of the fiscal year increased 11.0 billion yen to 110.9 billion yen, due to net income and increase in unrealized gain on available-for-sale securities.

A comparison of asset performance indicators (average balances at beginning and end of the year) with the previous fiscal year is as follows;

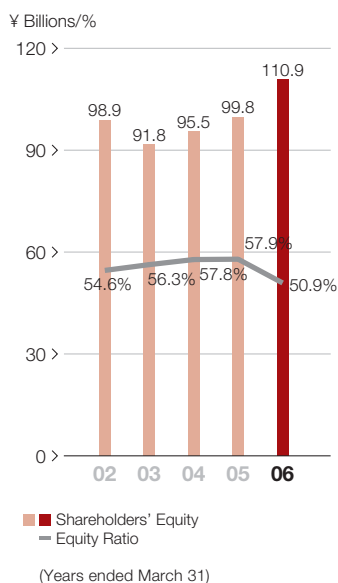
* Please note that only Kimmon Manufacturing and its consolidated subsidiaries' balance sheet was consolidated in Yamatake's consolidated balance sheet at March 31, 2006. To facilitate comparison with March 31, 2005, () represents figures excluding Kimmon Manufacturing and its consolidated subsidiaries.

- Receivables/Sales (days): increased 10 days to 141 days. (increased 4 days to 135 days)
- Inventories/Cost of sales (days): increased 6 days to 59 days. (53 days, no change from previous year)
- Asset turnover (times): decreased 0.11 to 0.96. (decreased 0.03 to 1.04)
- The ratio of shareholders' equity to total assets: decreased 7.0 points to 50.9%. (increased 0.9 points to 58.8%)

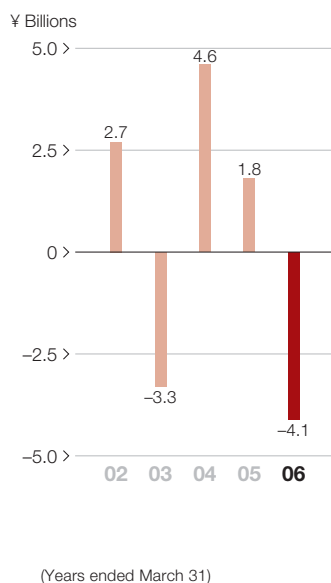
Total Assets/ Asset Turnover



Shareholders' Equity/ Equity Ratio



Cash Flows



Per Share Data

Net income per share increased 82.64 yen over the previous year to 132.52 yen. Shareholders' equity per share rose 149.60 yen to 1,506.25 yen.

Cash Flows

Net cash provided by operating activities declined 2.1 billion yen to 6.4 billion yen, mainly due to increases in notes and accounts receivable and income taxes paid.

Net cash used in investing activities increased 3.7 billion yen to 7.4 billion yen. The major outflows were for the purchase of shares in Kimmon Manufacturing and property, plant and equipment.

Net cash used in financing activities increased 0.4 billion yen to 3.3 billion yen, mainly due to an increase in dividends paid.

The year-end balance of cash and cash equivalents decreased 4.1 billion yen to 36.3 billion yen, despite 0.2 billion yen in cash and cash equivalents of newly consolidated subsidiaries.

Outlook for Fiscal 2006

For fiscal 2006, ending March 31, 2007, forecasts call for an increase in net sales of 22.1% to 230.0 billion yen, and an increase in operating income of 18.3% to 16.0 billion yen. Net income is projected to decline 8.1% to 9.0 billion yen.

Building Automation Business

Sales are expected to rise due to an increase in business in the market for new buildings, as well as growth of the international business and expansion of the value-added solutions business, which aims to help customers save energy, achieve safety and security, and reduce lifecycle costs. Amid downward pressure on prices and intensified price-based competition, operating income is expected to increase due to the implementation of cost-reduction initiatives and other measures.

Advanced Automation Business

The Group will advance further into new domains by stepping up close-contact sales activities and capturing synergies within the Yamatake Group.

Overseas, the Group aims to grow sales by focusing on expansion of its products business in Asia, especially China. This expansion of business both in Japan and overseas is forecast to generate higher sales and earnings.

Life Automation Business

Higher sales are projected in this business, centered on Kimmon Manufacturing, which was consolidated at the end of the past fiscal year.

Risk Management

The following are some of the risks that could affect the Yamatake Group's business results and financial position. Forward-looking statements are based on the Group's judgments when this annual report was produced.

(1) Impact of a Major Economic Downturn

Structural factors make both the Building Automation business and Advanced Automation business susceptible to fluctuations in the Japanese economy. In the Advanced Automation business, in particular, there is a risk of a major fluctuation in demand in the semiconductor, electric and electronics markets. Therefore, the Group's business results could be affected by unforeseen fluctuations.

(2) Effect of Changes in Operating Environments of Overseas Businesses

The Yamatake Group conducts business mainly in Asia. In the rapidly growing Chinese market, the Group manufactures and sells products, carries out instrumentation work and conducts other business locally through seven subsidiaries and affiliates. The Group has established manufacturing bases in Dalian and Shenzhen where products are manufactured for the Japanese market. While the Group will continue to expand its business overseas, unexpected changes in the political climate, legal and other reforms, natural disasters, terrorism, strikes and other developments in countries where it has advanced, could affect the Group's business results and financial position.

(3) Effect of Defects in Products, Systems or Services

The Group's products, systems and services are used for vital measurement and control systems related to safety and quality in a variety of plants and buildings. The Group has established a committee to oversee quality assurance and, through sharing and visualization of quality information, has a rigorous quality control system. Furthermore, the Group has taken out insurance policies, giving due consideration to damages for product liability. However, an incident caused by defects in the Group's products, systems and services could result in substantial costs and severely damage the Group's credibility with customers. This in turn could have an adverse impact on the Group's operations, business results and financial position.

(4) Effect of Earthquakes on Production Bases

The Group has taken various preemptive actions to mitigate the effects of earthquakes, including shifting production bases overseas, mainly to China; reinforcing buildings and other structures to minimize damage; establishing a business continuation plan to quickly return operations to normal; and taking out earthquake insurance. However, in the Building Automation and Advanced Automation businesses, four of the Group's five domestic production bases, including manufacturing subsidiaries, are concentrated in Kanagawa Prefecture. As a result, depending on its magnitude, an earthquake in the Tokyo metropolitan area could disrupt production for a certain period of time.

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.

Consolidated Balance Sheets

Yamatake Corporation and Consolidated Subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 36,303	¥ 40,250	\$ 310,282
Notes and accounts receivable:			
Trade	79,509	66,577	679,560
Other	935	723	7,989
Allowance for doubtful receivables	(430)	(398)	(3,673)
Inventories (Note 4)	21,248	16,416	181,608
Deferred tax assets (Note 9)	5,155	5,327	44,063
Prepaid expenses and other current assets	3,246	3,477	27,741
Total current assets	145,966	132,372	1,247,570
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5 and 6)	8,132	4,495	69,507
Buildings and structures (Note 6)	34,119	18,522	291,612
Machinery and equipment	20,173	10,083	172,417
Furniture and fixtures	19,147	16,332	163,649
Construction in progress	3,571	266	30,520
Total	85,142	49,698	727,705
Accumulated depreciation	(54,118)	(34,623)	(462,547)
Net property, plant and equipment	31,024	15,075	265,158
INVESTMENT AND OTHER ASSETS:			
Investment securities (Notes 3 and 6)	23,196	14,138	198,258
Investments in and advances to unconsolidated subsidiaries and associated companies	454	404	3,883
Goodwill	4,963		42,423
Deferred tax assets (Note 9)	964	4,161	8,241
Other assets	11,315	6,436	96,709
Total investment and other assets	40,892	25,139	349,514
TOTAL	¥217,882	¥172,586	\$1,862,242

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005	2006
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	¥ 11,757	¥ 3,161	\$ 100,488
Current portion of long-term debt (Note 6)	2,200	1,080	18,800
Notes and accounts payable:			
Trade	38,689	30,508	330,674
Other	3,341	1,032	28,560
Income taxes payable	4,527	3,389	38,690
Accrued bonuses	8,012	7,710	68,478
Other accrued expenses and current liabilities	11,377	11,198	97,239
Total current liabilities	79,903	58,078	682,929
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	7,913	1,590	67,637
Liabilities for retirement benefits (Note 7)	16,411	11,951	140,266
Deferred tax liabilities (Note 9)	1,320	21	11,280
Other long-term liabilities	794	588	6,789
Total long-term liabilities	26,438	14,150	225,972
MINORITY INTERESTS	682	510	5,832
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11, 12 and 13)			
SHAREHOLDERS' EQUITY (Notes 8 and 14):			
Common stock—authorized, 279,710,000 shares; issued, 73,576,256 shares	10,523	10,523	89,938
Capital surplus	12,648	12,648	108,099
Retained earnings	80,472	73,130	687,794
Unrealized gain on available-for-sale securities	7,164	3,639	61,237
Foreign currency translation adjustments	60	(85)	511
Total	110,867	99,855	947,579
Treasury stock—at cost, 7,721 shares in 2006 and 7,105 shares in 2005	(8)	(7)	(70)
Total shareholders' equity	110,859	99,848	947,509
TOTAL	¥217,882	¥172,586	\$1,862,242

Consolidated Statements of Income

Yamatake Corporation and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES	¥188,321	¥180,763	\$1,609,579
COST OF SALES	115,552	113,009	987,620
Gross profit	72,769	67,754	621,959
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	59,254	58,401	506,447
Operating income	13,515	9,353	115,512
OTHER INCOME (EXPENSES):			
Interest income	37	20	318
Dividend income	210	160	1,799
Interest expense	(98)	(121)	(840)
Foreign currency exchange gain	223	85	1,910
Gain (loss) on sales of property, plant and equipment—net	1,590	(257)	13,582
Gain on sales of investment securities—net	546	5	4,670
Loss on transfer of pension plans		(3,453)	
Loss on impairment of long-lived assets (Notes 2.g and 5)	(330)		(2,822)
Other—net	(43)	(23)	(367)
Other income (expenses)—net	2,135	(3,584)	18,250
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	15,650	5,769	133,762
INCOME TAXES (Note 9):			
Current	4,736	2,946	40,478
Deferred	969	(990)	8,286
Total income taxes	5,705	1,956	48,764
MINORITY INTERESTS IN NET INCOME	(150)	(104)	(1,278)
NET INCOME	¥ 9,795	¥ 3,709	\$ 83,720
		Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.p):			
Net income	¥ 132.52	¥ 49.88	\$ 1.13
Cash dividends applicable to the year	50.00	23.00	0.43

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Yamatake Corporation and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Thousands				Millions of Yen		
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2004	73,570	¥10,523	¥ 12,648	¥ 70,783	¥ 1,632	¥ (50)	¥ (6)
Net income				3,709			
Cash dividends, ¥23 per share				(1,324)			
Bonuses to directors				(38)			
Repurchase of treasury stock	(1)						(1)
Net increase in unrealized gain on available-for-sale securities					2,007		
Net change in foreign currency translation adjustments						(35)	
BALANCE, MARCH 31, 2005	73,569	10,523	12,648	73,130	3,639	(85)	(7)
Adjustment of retained earnings for newly consolidated subsidiaries				14			
Net income				9,795			
Cash dividends, ¥50 per share				(2,427)			
Bonuses to directors				(40)			
Repurchase of treasury stock							(1)
Net increase in unrealized gain on available-for-sale securities					3,525		
Net change in foreign currency translation adjustments						145	
BALANCE, MARCH 31, 2006	73,569	¥10,523	¥ 12,648	¥ 80,472	¥ 7,164	¥ 60	¥ (8)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2005	\$89,938	\$108,099	\$625,045	\$31,101	\$ (723)	\$(60)
Adjustment of retained earnings for newly consolidated subsidiaries			120			
Net income			83,720			
Cash dividends, \$0.43 per share			(20,750)			
Bonuses to directors			(341)			
Repurchase of treasury stock						(10)
Net increase in unrealized gain on available-for-sale securities				30,136		
Net change in foreign currency translation adjustments					1,234	
BALANCE, MARCH 31, 2006	\$89,938	\$108,099	\$687,794	\$61,237	\$ 511	\$(70)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Yamatake Corporation and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥15,650	¥ 5,769	\$133,762
Adjustments for:			
Income taxes—paid	(3,553)	(751)	(30,371)
Income taxes—refunded	7	2,079	64
Depreciation and amortization	2,352	2,291	20,098
Provision for doubtful receivables	199	143	1,697
Increase in accrued bonuses	46	1,894	396
(Gain) loss on sales of property, plant and equipment—net	(1,590)	257	(13,582)
Gain on sales of investment securities—net	(546)	(5)	(4,670)
Loss on impairment of long-lived assets	330		2,822
Increase in notes and accounts receivable	(6,971)	(3,263)	(59,577)
(Increase) decrease in inventories	(677)	207	(5,786)
Increase in notes and accounts payable	3,092	1,727	26,423
Increase (decrease) in liabilities for retirement benefits	301	(2,823)	2,569
Other—net	(2,254)	978	(19,261)
Total adjustments	(9,264)	2,734	(79,178)
Net cash provided by operating activities	6,386	8,503	54,584
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	2,845	210	24,314
Purchase of property, plant and equipment	(3,763)	(1,877)	(32,165)
Proceeds from sales of investment securities	592	21	5,061
Purchase of investment securities	(118)	(106)	(1,008)
Payment for purchase of Kimmon Manufacturing Co., LTD. net of cash acquired	(7,192)		(61,473)
Proceeds from sales of beneficiary securities of trust	4,544	999	38,837
Purchase of beneficiary securities of trust	(4,020)	(2,590)	(34,359)
Other—net	(293)	(364)	(2,490)
Net cash used in investing activities	(7,405)	(3,707)	(63,283)
FINANCING ACTIVITIES:			
Net increase in short-term borrowings	28	1,255	250
Proceeds from long-term debt	100	800	855
Repayment of long-term debt	(1,015)	(3,676)	(8,679)
Dividends paid	(2,427)	(1,324)	(20,747)
Other—net	(14)	23	(125)
Net cash used in financing activities	(3,328)	(2,922)	(28,446)
NET CASH PROVIDED BY (USED IN) TRANSLATION OF CASH AND CASH EQUIVALENTS			
	209	(25)	1,784
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR			
	191		1,629
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR			
	40,250	38,401	344,014
CASH AND CASH EQUIVALENTS, END OF YEAR			
	¥36,303	¥40,250	\$310,282
NONCASH INVESTING ACTIVITIES:			
Increase in assets and liabilities due to consolidation of subsidiaries previously unconsolidated (Note 2.a):			
Assets	¥ 137		\$ 1,168
Liabilities	40		341
Payment for purchase of Kimmon Manufacturing Co., LTD. (Note 2.a):			
Assets acquired	33,844		289,270
Liabilities assumed	29,314		250,550
Cash paid for the capital	9,493		81,143
Goodwill	4,963		42,423

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Yamatake Corporation and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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. In addition, certain reclassifications have been made in the 2005 consolidated financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamatake Corporation ("Yamatake") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117 to \$1, the approximate rate of exchange as of March 31, 2006. Such translation should not be construed as representation 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, 2006, include the accounts of Yamatake and its 38 significant (20 in 2005) 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.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill on acquisition of Kimmon Manufacturing Co., LTD. amounting to ¥4,963 million (\$42,423 thousand) is to be amortized over seven years.

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, beneficiary securities of trust under resale agreements and commercial paper, all of which mature or become due within three months of the date of acquisition.

c. Inventories — Inventories, other than raw materials, are principally stated at cost on the specific identification basis. Raw materials are principally 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 and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost, and (2) available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are principally 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, plant and equipment of Kimmon Manufacturing Co., LTD. and the portion of subsidiaries. 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. Long-lived Assets — In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

Yamatake Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

Yamatake Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥330 million (\$2,822 thousand).

h. Retirement and Pension Plans — Yamatake has a non-contributory funded pension plan and a defined contributory pension plan covering substantially all of its employees.

Most of the consolidated subsidiaries have non-contributory funded pension plans and unfunded retirement benefit plans.

The liability for employees' retirement benefits is provided at the amount based on the projected benefit obligation 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.

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

j. 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.

k. 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.

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

m. 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 statements of income to the extent that they are not hedged by forward exchange contracts.

n. 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 are 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.

o. 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 caps 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 with gains or losses on derivative transactions recognized in the consolidated statements of income. 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.

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 related to 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 caps are utilized to hedge interest rate exposures on long-term debt. These caps, 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.

p. Per Share Information — Net income per share is computed by dividing net income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period, retroactively adjusted for stock splits. The weighted-average

number of shares of common stock used in the computation was 73,568,744 shares for 2006 and 73,569,523 shares for 2005.

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.

q. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, “Accounting for Business Combinations,” and on December 27, 2005 the ASBJ issued “Accounting Standard for Business Separations” and ASBJ Guidance No. 10, “Guidance for Accounting Standard for Business Combinations and Business Separations.” These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- (a) the consideration for the business combination consists solely of shares of common stock with voting rights,
- (b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- (c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued “Accounting Standard for Stock Options” and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders’ equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, “Accounting Treatment for Bonuses to Directors and Corporate Auditors,” which encouraged companies to record bonuses to directors

and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The carrying amounts and aggregate fair values of investment securities as of March 31, 2006 and 2005, were as follows:

	Millions of Yen				Thousands of U.S. Dollars							
	2006				2005							
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value				
Securities classified as available-for-sale:												
Equity securities	¥5,569	¥14,363	¥11	¥19,921	¥5,057	¥6,102	¥3	¥11,156	\$47,596	\$122,766	\$95	\$170,267
Trust fund investments and other	650	4		654	750	8		758	5,557	34		5,591

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥1,530	¥1,125	\$13,073
Trust fund investments and other	1,091	1,099	9,327

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥592 million (\$5,061 thousand) and ¥21 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥546 million (\$4,670 thousand) and ¥6 million for the years ended March 31, 2006 and 2005, respectively.

4. INVENTORIES

Inventories as of March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
	Merchandise	¥ 1,736	¥ 1,304
Finished products	1,961	1,591	16,759
Work in process	11,472	9,563	98,055
Raw materials	6,079	3,958	51,960
Total	¥21,248	¥16,416	\$181,608

5. LONG-LIVED ASSETS

Yamatake Group reviewed its long-lived assets for impairment as of March 31, 2006 and recognized an impairment loss of ¥330 million (\$2,822 thousand). The carrying amount of certain idle land was written down to the net selling price at disposition.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-current:			
Marketable equity securities	¥21,451	¥12,281	\$183,341
Trust fund investments and other	1,745	1,857	14,917
Total	¥23,196	¥14,138	\$198,258

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2006 and 2005, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.4% to 5.4% as of March 31, 2006 and from 0.6% to 3.5% as of March 31, 2005.

Long-term debt as of March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Loans from banks and other financial institutions, due serially to 2026 with interest rates ranging from 0.5% to 2.7% in 2006 and from 0.6% to 5.1% in 2005:			
Collateralized	¥ 1,418	¥ 1,480	\$ 12,116
Unsecured	8,695	1,190	74,321
Total	10,113	2,670	86,437
Less current portion	(2,200)	(1,080)	(18,800)
Long-term debt, less current portion	¥ 7,913	¥ 1,590	\$ 67,637

As of March 31, 2006, Yamatake had an unused line of credit amounting to ¥30,000 million (\$256,410 thousand) of which ¥10,000 million (\$85,470 thousand) related to the unused portion of commitment lines with four banks and ¥20,000 million (\$170,940 thousand) related to medium term notes program.

Annual maturities of long-term debt as of March 31, 2006, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 2,200	\$18,800
2008	1,800	15,380
2009	1,895	16,199
2010	2,178	18,619
2011	1,775	15,170
2012 and thereafter	265	2,269
Total	¥10,113	\$86,437

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt as of March 31, 2006, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 40	\$ 342
Buildings and structures	261	2,227
Investment securities	3,857	32,967
Total	¥4,158	\$35,536

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 requests.

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 lump-sum severance payments 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, 2006 and 2005, were ¥141 million (\$1,210 thousand) and ¥457 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, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 47,671	¥ 40,235	\$ 407,443
Fair value of plan assets	(25,976)	(21,173)	(222,019)
Unrecognized prior service cost	2,939	3,163	25,121
Unrecognized actuarial loss	(8,463)	(10,829)	(72,338)
Prepaid pension expense	99	98	849
Net liability	¥ 16,270	¥ 11,494	\$ 139,056

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥1,793	¥2,004	\$15,329
Interest cost	794	867	6,788
Expected return on plan assets		(210)	
Amortization of prior service cost	(223)	(104)	(1,910)
Recognized actuarial loss	919	974	7,854
Payment for defined contribution pension plan and other	728	604	6,222
Net periodic benefit costs	4,011	4,135	34,283
Loss on transfer of pension plans		3,453	
Total	¥4,011	¥7,588	\$34,283

Assumptions used for the years ended March 31, 2006 and 2005, are set forth as follows:

	2006	2005
Discount rate	2.0%–2.2%	2.0%
Expected rate of return on plan assets	0.0%	1.0%
Amortization period of prior service cost	10–15 years	10–15 years
Recognition period of actuarial gain/loss	10–15 years	10–15 years

8. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued 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 are required to be presented 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 by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained

earnings available for dividends under the Code was ¥85,379 million (\$729,635 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of 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.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

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 40.4% for the years ended March 31, 2006 and 2005.

As March 31, 2006, certain domestic subsidiaries have tax loss carryforwards aggregating approximately ¥5,300 million (\$45,300 thousand) which are available to be offset against taxable income of such subsidiaries 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
2009	¥ 730	\$ 6,240
2010	1,840	15,726
2011	1,080	9,230
2012	1,650	14,104
Total	¥5,300	\$45,300

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2006 and 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Pension and severance costs	¥ 6,578	¥ 4,782	\$ 56,219
Accrued expenses	4,683	4,244	40,031
Depreciation	937	822	8,007
Loss on impairment of land	1,321	808	11,291
Allowance for doubtful receivables	1,199	219	10,246
Tax loss carryforwards	4,036	937	34,497
Others	1,942	1,523	16,599
Less valuation allowance	(8,449)	(936)	(72,215)
Total	12,247	12,399	104,675
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	5,799	2,467	49,566
Special advanced depreciation	1,295	468	11,073
Others	356		3,038
Total	7,450	2,935	63,677
Net deferred tax assets	¥ 4,797	¥ 9,464	\$ 40,998

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2006 and 2005, and the actual effective tax rate reflected in the accompanying consolidated statements of income is as follows:

	2006	2005
Normal effective statutory tax rate	40.4%	40.4%
Expenses not deductible for tax purposes	1.3	3.7
Per capita levy of inhabitant tax	1.0	2.3
Tax benefits for qualified expenses	(5.0)	(7.6)
Unrecognized tax effect for elimination of unrealized profit in inventories		(5.1)
Others—net	(1.2)	0.2
Actual effective tax rate	36.5%	33.9%

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,360 million (\$71,451 thousand) and ¥8,170 million for the years ended March 31, 2006 and 2005, 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, 2006 and 2005, were ¥4,819 million (\$41,191 thousand) and ¥4,755 million, respectively, including ¥449 million (\$3,841 thousand) and ¥507 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, 2006 and 2005, was as follows:

	2006				Millions of Yen 2005				Thousands of U.S. Dollars 2006			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥643	¥2,112	¥408	¥3,163	¥280	¥1,982	¥104	¥2,366	\$5,497	\$18,047	\$3,489	\$27,033
Accumulated depreciation	232	1,253	123	1,608	139	1,515	68	1,722	1,982	10,708	1,056	13,746
Net leased property	¥411	¥ 859	¥285	¥1,555	¥141	¥ 467	¥ 36	¥ 644	\$3,515	\$ 7,339	\$2,433	\$13,287

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 890	¥ 554	\$ 7,604
Due after one year	2,789	1,882	23,841
Total	¥3,679	¥2,436	\$31,445

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 ¥437 million (\$3,732 thousand) and ¥451 million for the years ended March 31, 2006 and 2005, respectively.

The minimum rental commitments under noncancelable operating leases as of March 31, 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 749		\$ 6,402
Due after one year	2,576		22,017
Total	¥3,325		\$28,419

(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, 2006 and 2005, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Receivables under finance leases:			
Due within one year	¥ 221	¥ 154	\$ 1,888
Due after one year	1,544	1,265	13,200
Total	¥1,765	¥1,419	\$15,088

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.

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 cap trading is subject to market risk, which is the exposure created by potential fluctuations in market conditions, including interest rates and credit risk.

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, 2006 and 2005, was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			2006		
	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Unrealized Loss	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)
Exchange contract:									
Sell Japanese yen	¥129	¥131	¥ 2	¥223	¥226	¥(3)	\$1,101	\$1,117	\$ 16
Buy Japanese yen	130	132	(2)	54	54		1,111	1,124	(13)

13. COMMITMENT AND CONTINGENT LIABILITIES

As of March 31, 2006, Yamatake Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted	¥1,020	\$8,715
Guarantees and similar items of loans	68	580

14. SUBSEQUENT EVENT

At the Yamatake's general shareholders meeting held on June 29, 2006, shareholders approved the following:

Appropriation of Retained Earnings as of March 31, 2006

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30.0 (\$0.26) per share	¥2,207	\$18,864
Bonuses to directors	46	393

15. SEGMENT INFORMATION

The Yamatake Group focuses on creating value through measurement and control technologies. The operating segments reported below are the segments of the Yamatake Group 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.

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen						Consolidated
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/Corporate	
Sales to customers	¥81,441	¥92,355	¥4,551	¥ 9,974	¥188,321		¥188,321
Intersegment sales	728	631	4	465	1,828	¥(1,828)	
Total sales	82,169	92,986	4,555	10,439	190,149	(1,828)	188,321
Operating expenses	75,707	85,502	5,248	10,228	176,685	(1,879)	174,806
Operating income (losses)	¥ 6,462	¥ 7,484	¥ (693)	¥ 211	¥ 13,464	¥ 51	¥ 13,515

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

The advanced automation segment designs, develops, manufactures, distributes and provides switches, sensors, controllers, valves, systems and software packages vital to the operation of industrial plants and factories as well as of engineering and maintenance services, for primarily such markets as petrochemical/chemical, water supply and sewerage, oil refining, electric power and gas, iron and steel, pulp and paper, shipping and marine, semiconductors, electrical/electronic components, machine tools, automobiles, pharmaceuticals, foods and beverages/packaging, furnace/oven/boiler manufacturing and residential/commercial buildings.

The Life Automation segment consists of various operating fields, such as "Lifeline Automation" "Life Assist Automation," and "Life Science Automation." These businesses draw on the technologies and know-how built up through many years of experience in the building and industrial automation markets. This expertise is applied to fields closely connected with daily life. The life automation covers a broad range of fields, from lifeline infrastructure—such as gas and water meters, sewage and waste disposal systems—to residential air conditioning, food safety, lifestyle support for the elderly, care services and products for biotechnology applications; to provide people from all walks of life with improved comfort and peace of mind.

The other segment consists of mainly the import of industrial machines and equipment.

Information about industry segments of Yamatake Group for the years ended March 31, 2006 and 2005, is as follows:

Millions of Yen							
2005							
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/Corporate	Consolidated
Sales to customers	¥81,806	¥83,738	¥ 4,471	¥10,748	¥180,763		¥180,763
Intersegment sales	792	579	5	301	1,677	¥(1,677)	
Total sales	82,598	84,317	4,476	11,049	182,440	(1,677)	180,763
Operating expenses	77,062	79,593	5,631	10,828	173,114	(1,704)	171,410
Operating income (losses)	¥ 5,536	¥ 4,724	¥(1,155)	¥ 221	¥ 9,326	¥ 27	¥ 9,353

Thousands of U.S. Dollars							
2006							
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/Corporate	Consolidated
Sales to customers	\$696,078	\$789,362	\$38,893	\$85,246	\$1,609,579		\$1,609,579
Intersegment sales	6,220	5,393	34	3,975	15,622	\$(15,622)	
Total sales	702,298	794,755	38,927	89,221	1,625,201	(15,622)	1,609,579
Operating expenses	647,068	730,791	44,852	87,418	1,510,129	(16,062)	1,494,067
Operating income (losses)	\$ 55,230	\$ 63,964	\$ (5,925)	\$ 1,803	\$ 115,072	\$ 440	\$ 115,512

b. Assets, Depreciation and Capital Expenditures

Millions of Yen							
2006							
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/Corporate	Consolidated
Assets	¥52,349	¥63,886	¥38,675	¥5,369	¥160,279	¥57,603	¥217,882
Depreciation	987	1,303	41	21	2,352		2,352
Capital expenditures	2,588	3,952	231	19	6,790		6,790

Millions of Yen							
2005							
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/Corporate	Consolidated
Assets	¥46,370	¥62,076	¥1,318	¥4,868	¥114,632	¥57,954	¥172,586
Depreciation	928	1,312	31	20	2,291		2,291
Capital expenditures	776	1,632	27	25	2,460		2,460

Thousands of U.S. Dollars							
2006							
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/Corporate	Consolidated
Assets	\$447,426	\$546,036	\$330,556	\$45,885	\$1,369,903	\$492,339	\$1,862,242
Depreciation	8,433	11,134	354	177	20,098		20,098
Capital expenditures	22,121	33,781	1,974	162	58,038		58,038

Note: Corporate assets of ¥58,192 million (\$497,365 thousand) and ¥58,472 million for the years ended March 31, 2006 and 2005, 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

Deloitte.

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MS Shibaura Building
4-13-23, Shibaura
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Japan

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www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Yamatake Corporation:

We have audited the accompanying consolidated balance sheets of Yamatake Corporation (the "Company") and consolidated subsidiaries (together, "Yamatake Group") as of March 31, 2006 and 2005, 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 generally accepted 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.g to the consolidated financial statements, Yamatake Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

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 Tohmatsu

June 29, 2006

Corporate Data

As of March 31, 2006

Company Name	Yamatake Corporation	Paid-in Capital	¥10,523 million
Headquarters	Tokyo Building 2-7-3 Marunouchi, Chiyoda-ku Tokyo 100-6419, Japan	Factories	Fujisawa, Shonan, Isehara
Founded	December 1, 1906	Employees	5,464
Incorporated	August 22, 1949	Contact	Tel: 81-3-6810-1010 Fax: 81-3-5220-7278
		Website	http://www.yamatake.com

Subsidiaries and Affiliates

Japan

Yamatake & Co., Ltd.*
Tokyo, Japan
Ownership 100%

Yamatake Control Products Co., Ltd.*
Kanagawa, Japan
Ownership 100%

Yamatake Expert Services Co., Ltd.
Tokyo, Japan
Ownership 100%

Yamatake Friendly Co., Ltd.
Kanagawa, Japan
Ownership 100%

Yamatake Care-Net Co., Ltd.*
Tokyo, Japan
Ownership 100%

Safety Service Center Co., Ltd.*
Tokyo, Japan
Ownership 100%

ESD Co., Ltd.
Tokyo, Japan
Ownership 51%

Kumamoto Safety Service Center Co., Ltd.*
Kumamoto, Japan
Ownership 100% owned by Safety Service Center Co., Ltd.

SecurityFriday Co., Ltd.
Kanagawa, Japan
Ownership 85%

Hara Engineering Co., Ltd.
Kanagawa, Japan
Ownership 100% owned by Yamatake & Co., Ltd.

Kimmon Manufacturing Co., Ltd.*
Tokyo, Japan
Voting right 43.3%

Aomori Manufacturing Co., Ltd.*
Aomori, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Wakayama Seiki Co., Ltd.*
Wakayama, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Sirakawa Seiki Co., Ltd.*
Fukushima, Japan
Ownership 85.42% owned by Kimmon Manufacturing Co., Ltd.

Kimmon Sirasawa Co., Ltd.*
Fukushima, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Kimmon Aizu Co., Ltd.*
Fukushima, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Kimmon Haramati Co., Ltd.*
Fukushima, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Kimmon Mizuho Co., Ltd.*
Kyoto, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Kimmon Karatu Co., Ltd.*
Saga, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Kimmon Iwase Co., Ltd.*
Fukushima, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Kimmon Environment Equipment Co., Ltd.*
Kanagawa, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Hokkaido Kimmon Construction Co., Ltd.*
Hokkaido, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Tohoku Kimmon Construction Co., Ltd.*
Fukushima, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Kimmon Kanri Co., Ltd.*
Tokyo, Japan
Ownership 100% owned by Kimmon Manufacturing Co., Ltd.

Taishin Co., Ltd.*
Nagano, Japan
Ownership 100%

Building Performance Consulting, Inc.
Tokyo, Japan
Ownership 45%

Tem-Tech Lab.
Tokyo, Japan
Ownership 25%

Overseas

Yamatake Korea Co., Ltd.*
Seoul, Korea
Ownership 100%

Yamatake Taiwan Co., Ltd.*
Taipei, Taiwan
Ownership 100%

Yamatake (Thailand) Co., Ltd.*
Bangkok, Thailand
Ownership 99.9%

Yamatake Philippines, Inc.*
Makati, Philippines
Ownership 99.9%

Yamatake Automation (M) Sdn. Bhd.*
Petaling Jaya, Malaysia
Ownership 100%

Yamatake Controls Singapore Pte. Ltd.*
Singapore
Ownership 100%

PT. Yamatake Berca Indonesia*
Jakarta, Indonesia
Ownership 55%

Dalian Yamatake Control Instruments Co., Ltd.*
Dalian, China
Ownership 100%

Yamatake Environmental Control Technology (Beijing) Co., Ltd.*
Beijing, China
Ownership 100%

Shanghai Yamatake-SIC Environmental Control Technology Co., Ltd.*
Shanghai, China
Ownership 60%

Shanghai Yamatake Automation Co., Ltd.*
Shanghai, China
Ownership 60%

Yamatake China Limited*
Hong Kong, China
Ownership 99.9%

Yamatake Automation Products Shanghai Co., Ltd.*
Shanghai, China
Ownership 100%

YCP Precision Hong Kong Limited
Hong Kong, China
Ownership 100% owned by Yamatake Control Products Co., Ltd.

Shanghai Hara Seiko Machinery Co., Ltd.
Shanghai, China
Ownership 25% owned by Yamatake & Co., Ltd.

Yamatake Sensing Control, Limited*
Santa Clara, CA, U.S.A.
Ownership 100%

Yamatake America, Inc.*
Phoenix, AZ, U.S.A.
Ownership 100%

Yamatake Europe N.V.*
Brussels, Belgium
Ownership 99.9%

SICAL Yamatake Ltd.
Chennai, India
Ownership 25%

* Consolidated subsidiaries

Stock Information

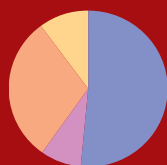
As of March 31, 2006

Total Number of Authorized Shares	279,710,000
Shares of Common Stock Issued	73,576,256
Shareholders	6,469
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

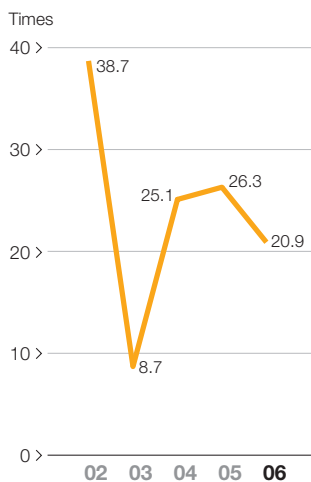
	Number of shares held (thousands)	Percentage of shares held (%)
Northern Trust Company (AVFC) Sub-account American Clients	10,133	13.77
Japan Trustee Services Bank, Ltd.	6,100	8.29
The Master Trust Bank of Japan, Ltd.	5,374	7.30
Meiji Yasuda Life Insurance Co.	5,214	7.08
Mizuho Corporate Bank, Ltd.	2,850	3.87
Nippon Life Insurance Co.	2,669	3.62
Mizuho Trust & Banking Co., Ltd.	2,301	3.12
Sompo Japan Insurance Inc.	2,000	2.71
Trust & Custody Services Bank, Ltd.	1,858	2.52
The Nomura Trust and Banking Co., Ltd.	1,272	1.72

Composition of Shareholders



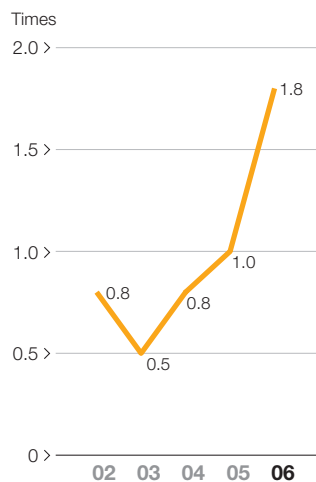
Japanese Financial Institutions	51.49%
Other Japanese Corporations	8.30%
Foreign Institutions and Individuals	30.06%
Japanese Individuals and Others	10.14%
Treasury Stock	0.01%

Price Earning Ratio



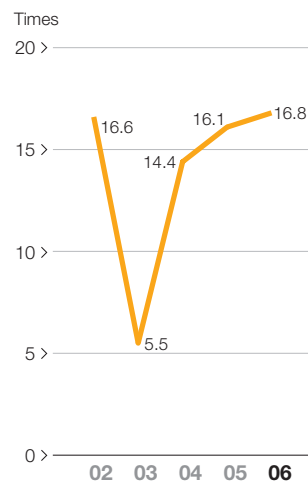
(Years ended March 31)

Price Book-value Ratio



(Years ended March 31)

Price Cash Flow Ratio



(Years ended March 31)

Note: Price Earning Ratio = Stock Price/Net Income per Share
 Price Book-value Ratio = Stock Price/Shareholders' Equity per Share
 Price Cash Flow Ratio = Stock Price/Cash Flow per Share
 Cash Flow = Net Income+Depreciation