



2007 Yamatake Group  
Corporate Sustainability Report



# azbil report 2007

Yamatake Corporation

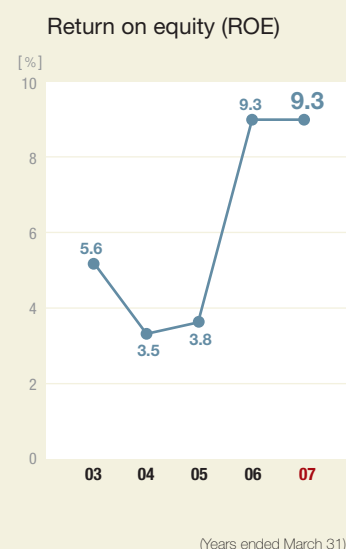
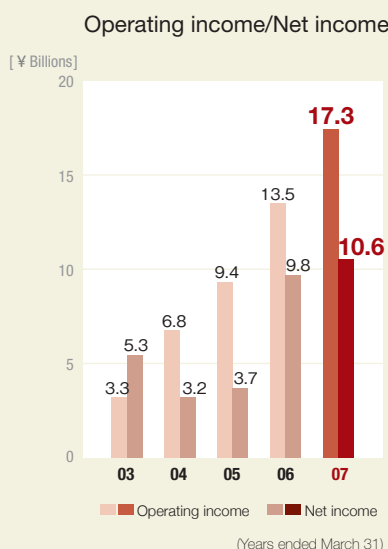
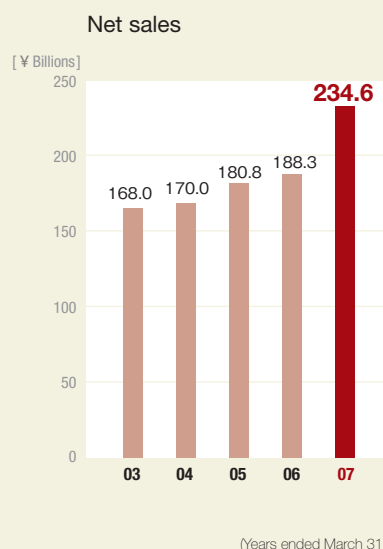
# Highlights

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

	Millions of Yen					Thousands of U.S. Dollars	
Years ended March 31	2002	2003	2004	2005	2006	2007	2007
<b>For the year :</b>							
Net sales	¥167,164	¥167,969	¥169,951	¥180,763	¥188,321	<b>¥234,572</b>	<b>\$1,987,902</b>
Operating income	4,527	3,275	6,820	9,353	13,515	<b>17,314</b>	<b>146,727</b>
Income before income taxes	4,345	11,235	6,493	5,769	15,650	<b>17,856</b>	<b>151,321</b>
Net income	2,121	5,308	3,241	3,709	9,795	<b>10,646</b>	<b>90,222</b>
Depreciation and amortization	2,809	2,655	2,346	2,291	2,352	<b>3,891</b>	<b>32,971</b>
R&D expenses	8,770	8,881	8,099	8,170	8,360	<b>8,776</b>	<b>74,375</b>
Capital expenditures	2,255	2,065	2,065	2,460	6,790	<b>5,273</b>	<b>44,683</b>
Return on equity (ROE) (%)	2.1	5.6	3.5	3.8	9.3	<b>9.3</b>	
<b>At year-end :</b>							
Total assets	¥180,958	¥162,919	¥165,264	¥172,586	¥217,882	<b>¥230,679</b>	<b>\$1,954,910</b>
Total equity	98,886	91,780	95,530	99,848	110,859	<b>118,967</b>	<b>1,008,193</b>
<b>Per share (in yen and U.S. dollars) :</b>							
Net income	¥ 25.09	¥ 68.65	¥ 43.51	¥ 49.88	¥ 132.52	<b>¥ 144.71</b>	<b>\$ 1.23</b>
Cash dividends	12.00	12.00	14.00	23.00	50.00	<b>50.00</b>	<b>0.42</b>
Total equity	1,169.39	1,247.07	1,297.95	1,356.65	1,506.25	<b>1,602.33</b>	<b>13.58</b>

\* The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118 to U.S.\$1, the approximate exchange rate as of March 31, 2007, as described in Note 1 of Notes to Consolidated Financial Statements.

	2002	2003	2004	2005	2006	2007
Employees (consolidated)	7,106	7,092	7,092	6,977	8,382	<b>8,192</b>
CO2 emissions (tons)	19,842	18,891	18,422	19,314	19,494	<b>19,908</b>
Total volume of waste generated (tons)	1,236	1,113	1,335	1,238	1,522	<b>1,573</b>
Rate of recycling (%)	81.3	88.4	94.8	96.9	98.4	<b>99.2</b>



## Fiscal 2006 Consolidated Performance Highlights

### Posted fourth straight year of higher sales and earnings

Far outperformed targets, achieved medium-term plan

Eclipsed initial targets set in 2004\*

Posted net sales of ¥**234.6** billion, operating income of ¥**17.3** billion and ROE of **9.3%**

\* Net sales of ¥200 billion, operating income of ¥13 billion and ROE of at least 7%

#### 【Consolidated Net Sales】

Rose **24.6%** to ¥**234.6** billion

#### 【Consolidated Operating Income】

Climbed **28.1%** to ¥**17.3** billion

#### 【Consolidated Net Income】

Increased **8.7%** year on year to ¥**10.6** billion  
due to higher earnings than the special gains booked in the previous fiscal year 2005.

#### 【Return on equity (ROE)】

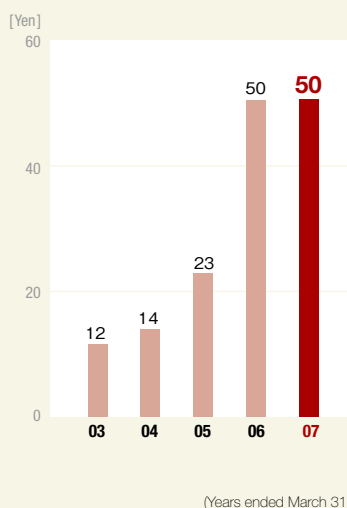
Maintained at **9.3%** on higher earnings that exceeded last fiscal year's special gains.

#### 【Annual Dividends per Share】

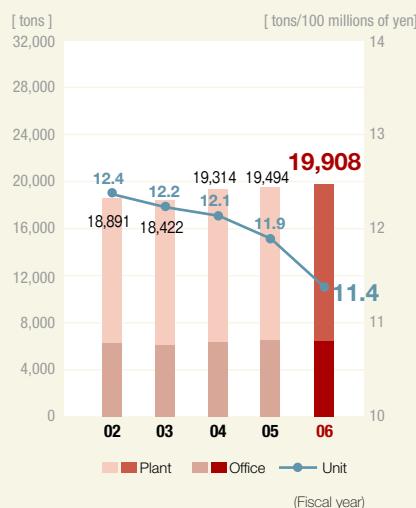
Raised the ordinary dividend by ¥**10** to ¥**50** per share

\*The annual dividend applicable to the previous fiscal year of ¥50 included a commemorative dividend of ¥10

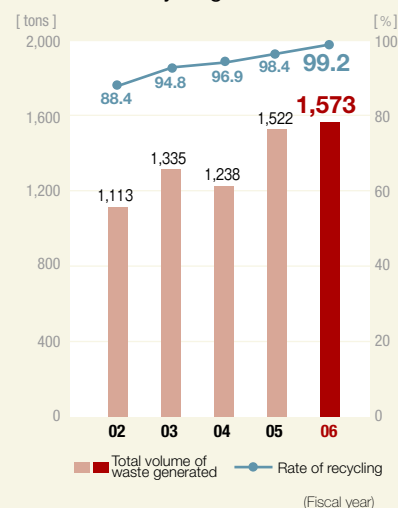
Cash Dividends per Share



CO<sub>2</sub> emissions/Unit



Total volume of waste generated/  
Rate of recycling







Right: Yoshiharu Sato, Chairman  
Left: Seiji Onoki, President and CEO

## To Our Stakeholders

# **We pursue “human-centered automation” in order to create new value, achieve growth, and contribute to the realization of a sustainable society.**

Yamatake has pursued “automation,” or measurement and control technologies, since its founding in 1906, developing its business on the strength of solutions unique to Yamatake. We have welcomed the changes that have occurred in the business environment in recent years, including transformation of the social structure, technological innovations, and growing calls for environmental preservation and energy efficiency, as new business opportunities in the building and industrial markets. In addition, we continue to respond to the needs of society through our activities in Life Automation, a new field.

Fiscal 2006—during which we celebrated the 100th anniversary of our founding—was the final year of our three-year, medium-term management plan. In the past fiscal year, we far outperformed the initial targets for the plan. We would like to offer our most sincere appreciation to our shareholders, customers, and all other stakeholders for their understanding and support.

As an even longer-term target, the Yamatake Group continues to pursue a 10-year business plan initiated in fiscal 2004, ended March 31, 2005. The goal of this

plan is to achieve consolidated operating income of at least 30 billion yen in fiscal 2013, the final year of the plan. As part of our efforts to meet this target, we revised our Group philosophy. Our new philosophy is: “To realize safety, comfort and fulfillment in people’s lives and contribute to the global environment through ‘human-centered automation.’” We also created a new Group symbol, *azbil* (Automation·Zone·Builder), which incorporates this meaning.

Everyone in the Yamatake Group will pull together as one with *azbil* as our watchword, utilizing the core measurement and control technologies and other resources we have garnered over the years to offer products and services that are safe and reliable, and of high quality and added value. We will also continue to look favorably on changes in demands from customers, communities, society and shareholders, and strive to provide new value. In this way, we will achieve sustainable growth for ourselves and also fulfill our role at the vanguard of creating a sustainable society through the pursuit of “human-centered automation.”

July 2007

  
Yoshiharu Sato, Chairman

  
Seiji Onoki, President and CEO

## Business Profile

The Yamatake Group was founded in 1906 and in the ensuing years has developed the Building Automation and the Advanced Automation businesses. Underpinned by our measurement and control technologies, these businesses target the building and industrial markets. The Yamatake Group has also gone on to leverage its measurement and control technologies acquired over the years to transcend its traditional business framework, resulting in the development of the Life Automation business, which includes biotechnology, environment-related businesses, and health and welfare businesses. These operations address new societal needs, including those related to a dwindling birthrate and an aging population.

### Control valves

These products are used in facilities such as industrial plants to measure and control the flow rates of various liquids.



### Gas flow meters

These meters control the flow rates of gas, oxygen and air.



### Monitoring and control systems

Based on advanced technologies and offering high reliability, these systems are deployed in facilities such as large-scale industrial plants to integrate the management of various data.

## Advanced Automation Business

**This business supports the resolution of issues related to energy conservation, safety, quality improvement and environmental consciousness in factories and plants, creating good working conditions in safe and comfortable environments.**

Yamatake develops, manufactures and sells switches, sensors, controllers, valves and system software packages vital to the operation of industrial plants and factories. We also provide consulting, instrumentation, engineering and maintenance services that support the optimal operation of facilities throughout their lifecycle. In this way, Yamatake helps customers raise their corporate value at their worksites.

## Building Automation Business

**Achieving the comfort, functionality, and energy conservation sought in a wide variety of buildings, this business provides comfortable living and working spaces**

Yamatake supplies building automation equipment and systems by integrating development, manufacturing, sales, installation, engineering, maintenance and management, which helps maintain and raise the value of customers' buildings through improvements in energy efficiency, resource conservation, comfort, safety and convenience.



### Building automation systems

Our building automation systems are used in the management of buildings and other structures. Based on advanced technologies and high reliability, these systems provide the integrated management of various data.

**azbil**  
[ ázbil ]

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

## Editorial Policy and Viewpoint

The Yamatake Group views this report as an important medium of communication with all of its stakeholders. This report comprises an annual report, and environmental and social reports and feature sections designed to enhance stakeholders' understanding of Yamatake's activities.

Our objective was to compile a report that is easy to read and comprehend so that readers may understand clearly our stance on the global environment and society, how these are promoted through our operations, and what our priority issues are.

In compiling this report, we used the following guidelines as references: Environmental Report Guidelines (FY2007 version) of the Ministry of the Environment, and Sustainability Reporting Guidelines (2006 version) of the Global Reporting Initiative (GRI).



#### Digital controllers

These products use information from various measurement devices to provide highly precise control of air and water flows.



#### Room temperature/humidity sensor (Neosensor™)

This sensor detects room temperature and humidity.

#### Town gas meters

These meters shut off the gas when there is an anomaly.



#### Residential central air-conditioning systems (Kikubari™)

We achieve comfortable living spaces using superior cooling, heating, and air cleaning systems.



#### Water meters

Aiming to create products that accurately meter precious tap water and that are safe and environment friendly, we have recently developed a lead-free, copper-alloy water meter.

## Life Automation Business

**This business utilizes measuring and control technologies to reduce energy consumption and to provide additional safety, security and comfort for people in their daily lives.**

Life Automation is a business that draws on technologies and expertise gained over many years in the building and industrial markets to contribute to people's safety, security and comfort. The business consists of three fields: Lifeline (related to gas, water and other vital lifelines), Life Assist (support for people's health and provision of lifestyles offering safety and peace of mind), and Life Science (including medical treatment, food products, the environment and other areas).



#### Senior group home Katakuri no Sato Rokugo

These homes provide day-care services, in-home care services and other related services.

#### [Next scheduled release]

August 2008

#### Cautionary Statement:

Statements made in this azbil 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.

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# Becoming a Group with a top-class global corporate structure

**We will push ahead with three creation concepts  
to lay a solid foundation for sustained growth.**

The Yamatake Group aims to become a top-class global corporate group as it pursues 10-year, long-term goals.

In this section, we ask President and CEO Seiji Onoki what sort of new medium-term management plan and business strategies Yamatake will adopt from fiscal 2007 based on the results of the past three years.



【Operating Results and Assessment of the Previous  
Three-Year Medium-term Management Plan】

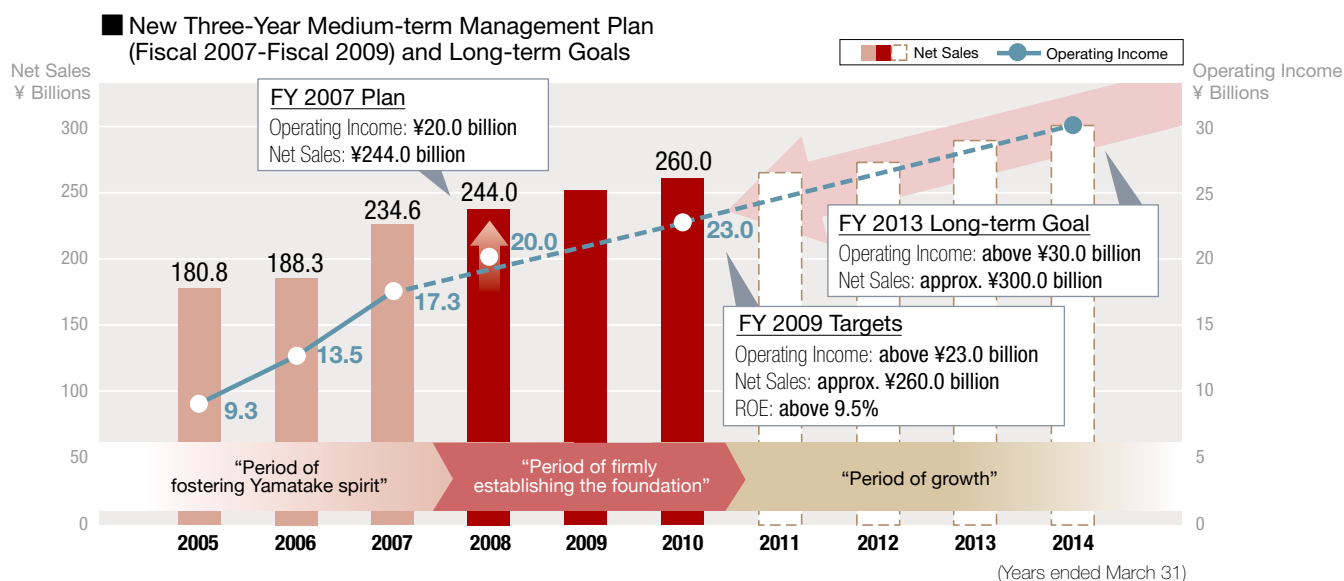
**Delivered results above targets, while expanding business and strengthening the management foundation**

— *How would you summarize the three-year medium-term management plan that ended in fiscal 2006?*

Our initial targets for the plan were consolidated net sales of 200 billion yen, consolidated operating income of 13 billion yen, and ROE of 7% or higher. We exceeded these targets by significant amounts. In fiscal 2006, we posted consolidated net sales of 234.6 billion yen, consolidated operating income of 17.3 billion yen, and consolidated ROE of 9.3%. We actually achieved the operating income target in fiscal 2005.

We implemented measures to drive our transformation based on three keywords during this three-year period ended in March 2007: 1) Creating a new business (business structural reform); 2) Creating a new work style (business operation reform); and 3) Building Yamatake spirit (creation of a new corporate culture). Through measures to realize these concepts, we worked to expand the business fields of Building Automation (BA) and





FY2009 performance targets are based on the Long-term Goal for operating income of above ¥30 billion. To achieve this target, deliberately ambitious performance targets have been set for FY2007, the first year of the new Medium-term Plan: ¥20 billion in operating income and ¥244 billion in sales.

Advanced Automation (AA), while laying the foundation for the new Life Automation (LA) field. In the course of this process, we made Kimmon Manufacturing Co., Ltd. and Royal Controls Co., Ltd. group companies and forged an equity-based business alliance with Tem-Tech Lab.

Going beyond simply implementing measures to meet our targets, we invested business resources in facilities and R&D, optimized the production framework, and took other steps focused on expanding and strengthening the foundations necessary for sustainable growth.

**[Long-term Goals and the New Three-year Medium-term Management Plan]**

**The new three-year medium-term management plan to strengthen the business foundations built on “human-centered automation”**

— *Yamatake has set 10-year goals with the aim of achieving sustainable growth over the long term. What steps has the Company taken toward achieving these goals? And what part does the new medium-term management plan have to play?*

**(Long-term goals)**

The Yamatake Group’s long-term goal is to **“Focus on the human, building a world of automation created through human ingenuity and technology to become a corporate group with a top-class global corporate structure that enhances the safety and security of its customers, helps to improve their corporate value, and contributes to solutions for global environmental issues.”** We used the occasion of our 100th anniversary in fiscal 2006 to revise our corporate philosophy with an eye toward success for the Group in the new century. We designated “azbil” as the new Group symbol and formulated this long-term goal.

We are currently pursuing growth strategies in line with our 10-year, long-term targets. We have set a target for achieving consolidated operating income of **30 billion yen or higher** on consolidated net sales in the 300 billion yen range, as a Group that develops business through “human-centered automation” unique to Yamatake, and with a top-class global corporate structure.

We will achieve these long-term goals through the following three steps.

**(Period of fostering Yamatake spirit)**

The first step, covering the three-year

period that has just concluded (April 2004 through March 2007), emphasized **fostering the proper stance from which to create a second century for Yamatake.** As described in the preceding section, we improved the earnings structure, expanded the business fields of Building Automation and Advanced Automation, and laid the foundation for Life Automation, the third business pillar. With “synergy” as the shared keyword for the Group, we strengthened cooperation along both vertical and horizontal axes of the Company, fostering a culture toward earnings and cooperation as a Group.

**(Period of firmly establishing the foundation)**

The new medium-term management plan begun in April 2007 (April 2007 through March 2010) is the step for solidifying foundations. Following the Yamatake corporate philosophy of “human-centered automation,” we will solidify our business foundations by remaining mindful of customer satisfaction and ensuring our distinctiveness as we execute the three creation concepts of “Creating a new business, creating a new work style, and building Yamatake spirit” by remaining mindful of customer satisfaction and Yamatake’s unique value. This will ensure that we maintain

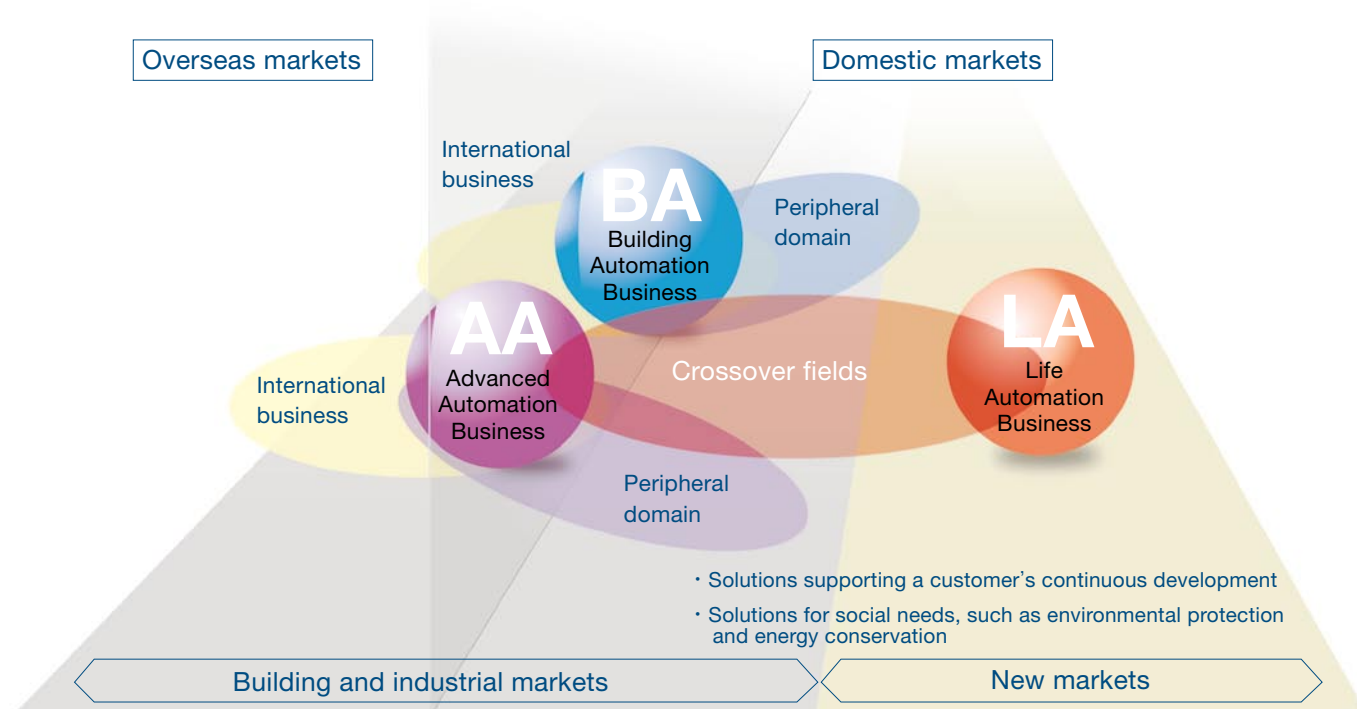
and drive growth. We will reform our three main business pillars (BA, AA and LA) into high-value-added business structures valued by customers. **Under the Group symbol “azbil,” we will strengthen cooperation among the entire Yamatake Group,** and implement measures to improve the business structure and earnings of Kimmon Manufacturing, the core company of the Life Automation business. As a group, we will also strengthen the international business, enhance sales cooperation and product development capabilities, and optimize the production framework both in Japan and overseas. As a result of implementing these measures, we expect to meet targets for the fiscal year to March 2010 of consolidated operating income of 23 billion yen or higher, net sales of the 260 billion yen level, and ROE of 9.5% or higher.

#### (Period of growth)

The period from April 2010 through March 2014 will be the growth phase. We plan to firmly establish businesses based on “human-centered automation” that is the corporate philosophy of the Yamatake Group, developing into a corporate group with a top-class global corporate structure. In doing so, we will leverage a cooperative Yamatake Group culture fostered through the two earlier periods—“Period of fostering Yamatake spirit” and “Period of firmly establishing the foundation”—and high added-value operations. Our goal for this phase, as stated previously, is transformation to an earnings and value-added structure able to generate consolidated operating income of at least 30 billion yen on net sales at the 300 billion yen level.

**azbil**  
human-centered automation

#### ■ Business Structural Reforms and Domain Expansion





We are strengthening our management foundation by promoting cooperation across the entire Yamatake Group under the Group symbol "azbil."

#### 【Reinforcing Kimmon Manufacturing】

### The "Kimmon-Yamatake Jump-up Plan" will generate synergistic benefits through Group collaboration.

— *Some concern has been expressed about the lackluster performance at Kimmon Manufacturing, which is expected to be the core of the Life Automation business.*

Currently, Kimmon Manufacturing's business development is being held back by rising prices for raw materials, a cyclical downturn in demand for city gas meters, and other factors that are making for a difficult business environment. However, we anticipate improvement in the business climate from fiscal 2008, with a recovery in demand for city gas meters, for example.

Of course, it is hardly necessary to point out that significant fluctuations in business results that mirror changes in the business climate is less than desirable in terms of business management. **In order to improve the business structure and earnings of Kimmon Manufacturing, therefore, we are currently implementing the "Kimmon-Yamatake Jump-up Plan," which will generate synergistic benefits through Group collaboration.** This plan involves coop-

eration with the Advanced Automation business such as in proposing solutions to major gas companies, and collaboration with the Building Automation business such as encouraging replacement of water meters that have reached the end of their certification period, to generate synergies with Kimmon Manufacturing in sales activities.

Through this plan, we are also seeking to achieve synergies in terms of production, mainly by producing Yamatake products at Kimmon Manufacturing facilities. We further hope to optimize the utilization and placement of personnel, reduce purchasing costs, make more effective use of operating sites, and otherwise utilize business resources on a Group-wide basis, which will lead to the efficient business development of Kimmon Manufacturing.

#### 【Strengthening Product Development】

### Product development "unique to Yamatake" that reflects the needs of customers' worksites

— *As a technology-oriented manufacturer, the development of products and services with features unique to Yamatake is a key factor for growth. What measures are you taking in this regard?*

The Yamatake Group, based on its integrated business structure ranging from product development through production, sales, installation and maintenance, has pursued a style of manufacturing "unique to Yamatake" that reflects the needs arising from customers' worksites in the development of products. To utilize this characteristic, provide for closer coordination in research, product development and engineering, and **further strengthen the manufacturing style "unique to Yamatake," in 2006 we consolidated relevant divisions into the Fujisawa Technology Center.** Bringing together product development and engineering personnel from the various Group businesses will allow us to enhance communication and synergies, significantly shortening the process from basic research to product development and engineering. We will thus be able to bring to market more quickly new products that meet market needs. We also plan to merge technology from the Building Automation and Advanced Automation businesses in order to enhance our capacity to provide one-stop solutions for resolving all issues facing factories, from HVAC (heating, ventilating and air conditioning) of factory buildings to control of production lines.

\* Please refer to pages 15 to 16 for a description of the Fujisawa Technology Center  
\* Please refer to pages 33 to 34 regarding R&D

【Targets for Fiscal 2007】

**We plan to bring forward increases in sales and income during fiscal 2007 to ensure that long-term targets are met**

— *What are your earnings forecasts for fiscal 2007?*

In the Building Automation business, we expect construction investment to be brisk, centered on large-scale redevelopment projects in the Tokyo metropolitan area and the manufacturing industry. We also anticipate growing demand for the refurbishment of existing buildings to meet the rising need for energy efficiency in order to achieve the reductions in CO<sub>2</sub> emissions mandated by the Kyoto Protocol. In the Advanced Automation business as well, with the global economy growing, we expect capital expenditures to remain firm both in Japan and overseas. With such a favorable business environment, we expect to realize both sales and income growth in both businesses by continually adapting our business reform activities. In the Life Automation business, we expect the

business environment to be difficult overall, but for income to remain stable through improved profitability.

As a result, for fiscal 2007, ending March 31, 2008, we forecast **net sales of 244.0 billion yen with operating income of 20.0 billion yen**. The earnings target is ambitious, representing a 2.6 billion yen increase over fiscal 2006. But we have set these targets in order to achieve our targets of at least 23 billion yen in operating income on sales at the 260 billion yen level for fiscal 2009—the final year of the new medium-term management plan that will guide us toward achieving our long-term goals. We are making a concerted effort to meet these targets.

【Policy on Returns to Shareholders】

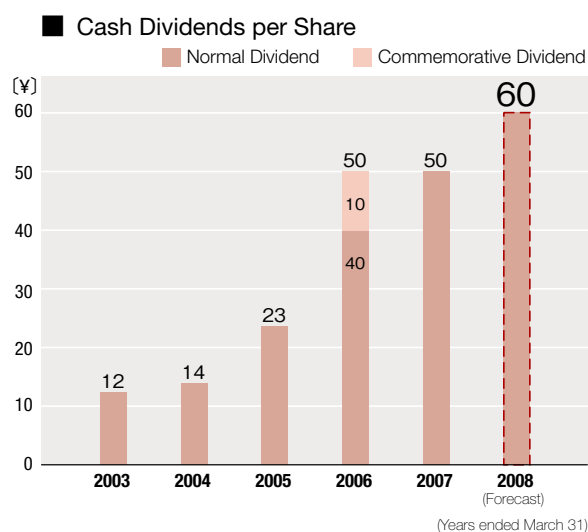
**We plan to increase dividends in fiscal 2007 to raise shareholder returns**

— *What is your basic policy on shareholder returns?*

The Yamatake Group recognizes that returning earnings to shareholders is an important management theme. Taking into account consolidated earnings, ROE (return on equity) and dividend on equity (DOE), and retained earnings necessary for future business development and strengthening the corporate structure, we will strive to maintain a stable dividend while making every effort to raise the level. In accordance with this policy, as previously announced, we paid a year-end dividend of 25 yen per share. Combined with our interim dividend of 25 yen per share, we paid a full-year dividend applicable to fiscal 2006 of 50 yen per share.

For fiscal 2007, considering that we anticipate benefits from strengthening the Group business structure and improved earnings, **we plan to increase the full-year dividend on common shares by 10 yen to 60 yen per share** to raise shareholder returns.

\* Please refer to pages 24 to 35 for an operational overview





【CSR and the Environment】

**CSR management targets have been incorporated into the three-year medium-term management plan**

— *A company's response to CSR and environmental issues has become an essential element in achieving sustainable growth. What efforts are you making in this area?*

As a company seeking to be the global standard for automation manufacturers, ensuring CSR management (consisting of social responsibility in business, legal compliance and business ethics, internal controls, and risk management) and being environmentally responsible are necessary conditions that we must of course fulfill. We have therefore set such targets in our three-year medium-term management plan, and are taking proactive steps to achieve them.

One of the characteristics of the Yamatake Group is that **we directly contribute to society through our automation business** by drawing on the core measurement and control tech-

nologies and resources we have established over the years. We are confident that the “human-centered automation” we strive to achieve is an important technology in harmony with the changing social structure, advances in production and research, and such societal values as environmental conservation and energy efficiency. It is also essential for us to adapt to the trend toward ISO certification related to social responsibility, enforcement of the Company Law, the Financial Instruments and Exchange Law and other regulations, and to make preparations against a variety of business risks. We have steadily implemented such measures as setting up frameworks for corporate governance, compliance and risk management, as well as establishing a dedicated department in charge to build and enhance operation of the internal control system. In other areas, we appointed a new external director in fiscal 2007 with the aim of further bolstering corporate governance.

To address environmental issues, the Yamatake Group is reducing the environ-

mental burden of its corporate activities, and utilizing its measurement and control technologies to help resolve the environmental and energy issues faced by its customers and society. Going forward, we will address environmental issues such as energy efficiency from a global perspective.

The Yamatake Group, seeking long-term growth, will in the course of its business activities, as well as its environmental conservation and social responsibility activities, endeavor to meet the expectations of shareholders, customers, and other stakeholders. We look forward to your understanding and support of Yamatake Corporation.

July 2007

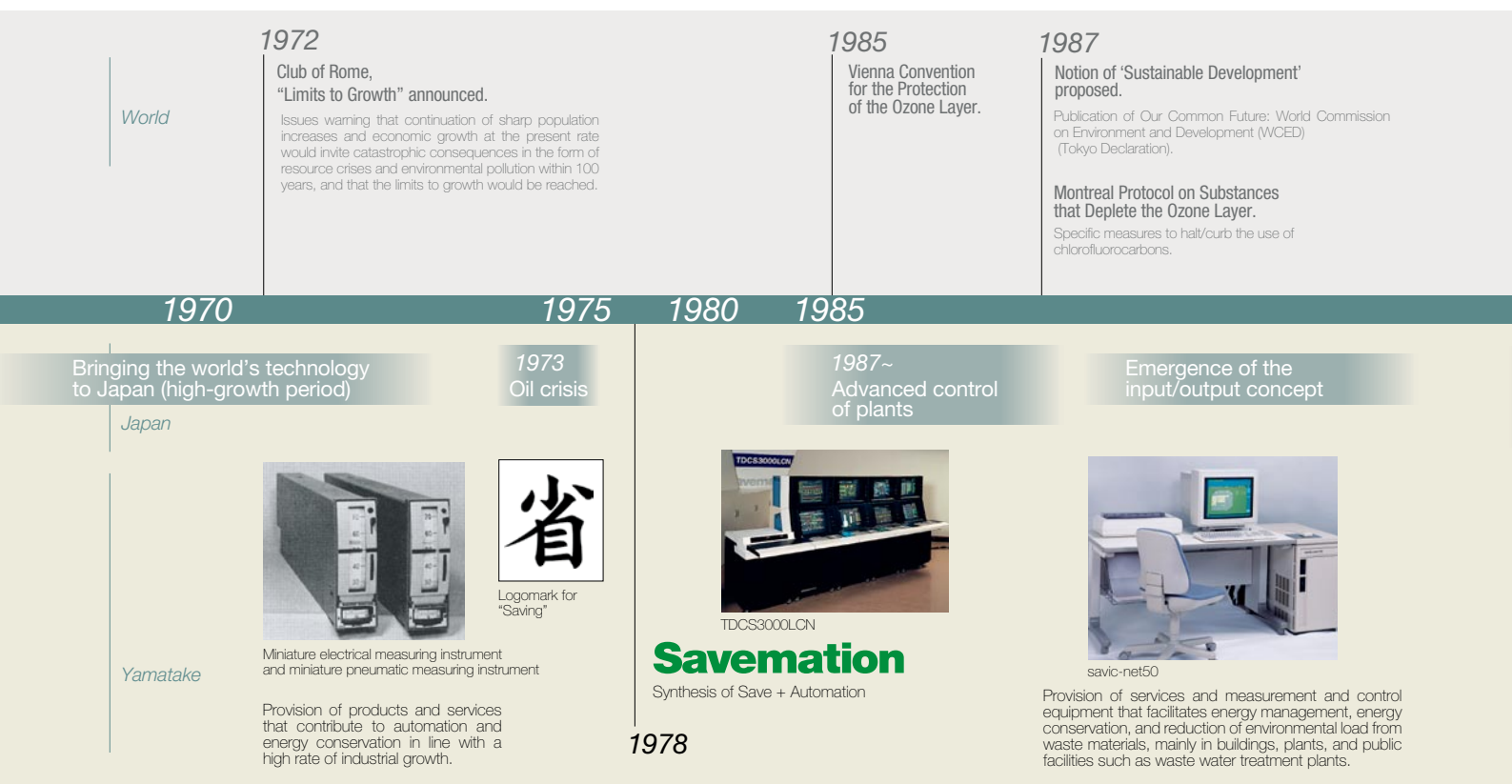


Seiji Onoki, President and CEO

\* Please refer to pages 36 to 59 regarding the Social Report.

**We will promote business based on “human-centered automation,” and contribute to society and the global environment through our business.**





## Shift to recycling-oriented society centered on people, from a 20th century-type consumption society

### Implementation of 'saving'-oriented activities in the spirit of the Kyoto Protocol

The Yamatake Group has continually focused on 'saving' through its measurement and control technologies. This is linked to the shift toward a recycling-oriented society. Today, as efforts are made worldwide to combat global warming, centered on the Kyoto Protocol, the Yamatake Group is responding through its own businesses aimed at the construction of a recycling-oriented society, based on the principle of 'saving,' which has been a part of the Group's philosophy since its foundation, and its more recent philosophy of "human-centered automation"

#### 'Saving,' 'Savemation,' and 'Human-centered Automation'

The Yamatake Group steadfastly adhered to its original corporate philosophy of 'saving' even in the era of mass production and mass consumption brought on by rapid economic growth. In 1978, the Yamatake Group formulated its conservation-driven philosophy

of 'Savemation,' and since then has developed businesses that strategically resolve customers' energy conservation-related issues, such as the reduction of energy costs for buildings, preservation of the environment, and stable operation of facilities. We forecasted from early on an end to the era of mass production and mass consumption.

In the second half of the 1980s, people all over the world finally began paying attention to the earth's limited resources, and the necessity of a recycling-oriented society gradually came into focus. In a sense, global moves finally came into line with the Yamatake Group's philosophy of 'saving.' Our 'saving' philosophy underlies activities to help construct a recycling-

1989

Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal and International Cooperation.

1991

Business Council for Sustainable Development (BCSD) requests standardization of environmental management systems (EMS) in ISO.

1992

Earth Summit: United Nations Conference on Environment and Development (UNCED).

United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro, with 172 nations participating  
 • Rio Declaration on Environment and Development  
 • Agenda 21  
 • Adoption of Forest Principles

First United Nations Framework Convention on Climate Change.

1996

International Organization for Standardization (ISO) issues Environmental Management System standards (ISO14001).

1997

Third United Nations Framework Convention on Climate Change.  
 Conference of the Parties (COP3) to the United Nations Framework Convention on Climate Change.

Kyoto

1990

Start of emission regulations. Obligation to measure and report on emissions, water and gas concentrations drives increased demand for analyzers and management systems



Harmonas

The application of databases for emissions management and reporting provides greater accuracy and higher labor efficiency.

1995

ISO 14001 certification received;  
 first in control instrument industry.

1996

1997

Protocol adopted

1997  
 Agency for Natural Resources and Energy  
 Implementation of energy service company (ESCO) projects

Establishment of environmental design guidelines.  
 1997

2000

ESCO business entry  
 TMS  
 ISO 9001.  
 Food industry (soil, residual agricultural chemicals)  
 Powerful Bactor (waste recycling)

1998

2005

Increase in energy conservation improvements, including plant facilities



Start of tours of a model factory for energy conservation.

2002

oriented society, while our newer philosophy of "human-centered automation" is being manifested in industry and people's everyday lives. The principles fostered by the Yamatake Group for more than 100 years are now being realized today.

### Start of the ESCO business; Creating new businesses in accordance with the mechanisms of the Kyoto Protocol

One of the driving forces behind the global movement toward a recycling-oriented society was the adoption of the Kyoto Protocol at COP3 in 1997. We took this as an opportunity to start earnestly addressing the issue of global warming, and to

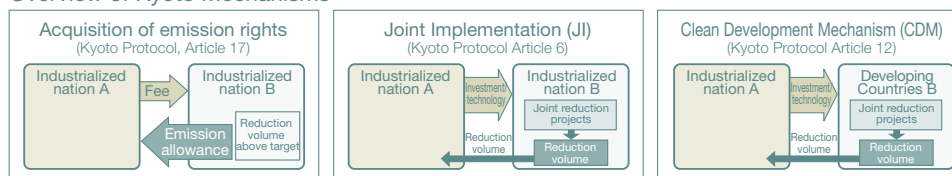
become conscious of what a recycling-oriented society fully means.

One of the methods attracting attention among these moves is the ESCO (Energy Service Company) business. The Ministry of International Trade and Industry's (now Ministry of Economy, Trade, and Industry) Agency for Natural Resources and Energy established the ESCO Study Committee, and in 1998, it inaugurated the ESCO Business Commission. The Yamatake Group has been involved in the ESCO business from its inception with the operation of tems (Total Energy Management Service). By providing a comprehensive package of services related to energy conservation at hospitals, hotels, and other facilities, the Yamatake Group has established a leading presence in the ESCO business.

Moreover, we have started new environmental businesses in accordance with Kyoto mechanisms\*. These mechanisms promote capital and technical cooperation of industrialized nations in third-party countries, as well as the sharing of energy-conserving technologies on an international scale, and this is broadening the energy conservation market globally. Earlier than the adoption of the Kyoto mechanisms, the Yamatake Group has been implementing energy conservation measures in the construction of new buildings and Japanese transplants, especially in Asia. We believe that these efforts will contribute to the construction of a recycling-oriented society on a worldwide scale.

\*Note: Supplementary measures for the achievement of the Kyoto Protocol, providing a framework that enables industrialized nations to count greenhouse gas emission reductions achieved in other countries toward their own reductions (see chart).

### Overview of Kyoto Mechanisms



# An R&D base that fuses comfort and energy conservation, driven by the concept of “human-centered automation.”

## Leveraging our track record in operations to provide customers with optimum know-how

Yamatake's Fujisawa Technology Center is an R&D complex that consolidates R&D and engineering functions. The No.100 building, which integrates the Yamatake Group's energy conservation and building automation technologies, seeks to achieve a work environment that imparts the sensations of safety and comfort, and also promotes the interaction of tenants. Data on the achievement of greater energy conservation is compiled and sensory tests are conducted using Yamatake employees themselves as tenants, and this accumulated know-how is provided to customers.

### Aiming for the ultimate energy conservation model on the basis of “human-centered automation”

Construction plans for the new research facility were started in autumn 2004, and the project team was assembled, centered on the Fujisawa Factory Environment and Safety Group (at that time). The aim was to achieve the ultimate energy conservation model simultaneously realizing energy conservation and comfort for tenants on the basis of “human-centered automation.” The design concept includes the effective use of natural energy, tenant participation-type operation and management, and harmony with the peripheral environment. This resulted in the acquisition of a Comprehensive Assessment System for Building

Environmental Efficiency (CASBEE)\* S ranking.

The challenge for new buildings is allowing for human intervention in energy conservation activities in the most appropriate manner. The Fujisawa Technology Center fosters a high degree of environmental consciousness by allowing for human participation in conservation schemes, including the manual introduction of outside air and the extinguishing of lights using cords.

Yamatake aims to amass data and know-how from the Fujisawa Technology Center and apply them to building maintenance and energy conservation plans. Going forward, we plan to continue disseminating ideas from the No.100 building, which seeks to achieve the ultimate balance in comfort and energy conservation.

### \*Earning the CASBEE Class S Rank.

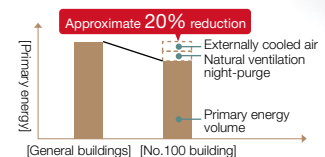
CASBEE has more aspects than simply reducing the burden on the environment. It provides a comprehensive evaluation and rating system for the environmental performance of buildings, including advances in environmental quality and performance. The Fujisawa Technology Center has earned an S (Superior) Rank, the highest in a five-stage evaluation standard, for environmental efficiency.

### 1. High-efficiency Heat Source Equipment and Ice Thermal Storage

As heat source equipment, high-efficiency air-cooling heat pump chillers and ice thermal storage are used with the aim of reducing running costs and conserving energy.

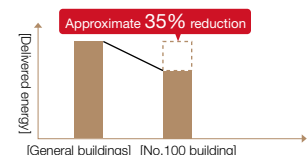
### 2. Utilization of Natural Energy

Natural ventilation is provided by ventilation panels on each floor and ventilation towers on the roof. The ventilation panels are equipped with micro-filters that prevent the infiltration of pollen and the intrusion of rainwater. Night-purges are also utilized. This system enables externally cooled air to be almost 100% used for air-conditioning airflow.



### 3. Reduction of Pump Fan Energy with Large Temperature Difference Air-Conditioning Systems Using VVW, VAV Control

- Temperature difference of conveyed water (temperature difference between inflow water and outflow water)  
[Normally a difference of 5°C (7-12°C)]  
⇒ 10°C difference (6-16°C)
- Conveyed air temperature difference (temperature difference between conveyed air and ventilated air)  
[Normally a difference of 10°C (16-26°C)]  
⇒ 14°C difference (12-26°C)
- VAV (Variable Air Volume) system, VVW (Variable Water Volume) system



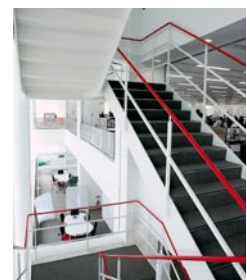
### A building that Enhance Communication and Synergies

Believing that there are limits to communication using IT, Yamatake designed the Fujisawa Technology Center as a research facility that emphasizes ideas born from person-to-person interaction. The Center combines previously dispersed development and engineering departments at a single location.

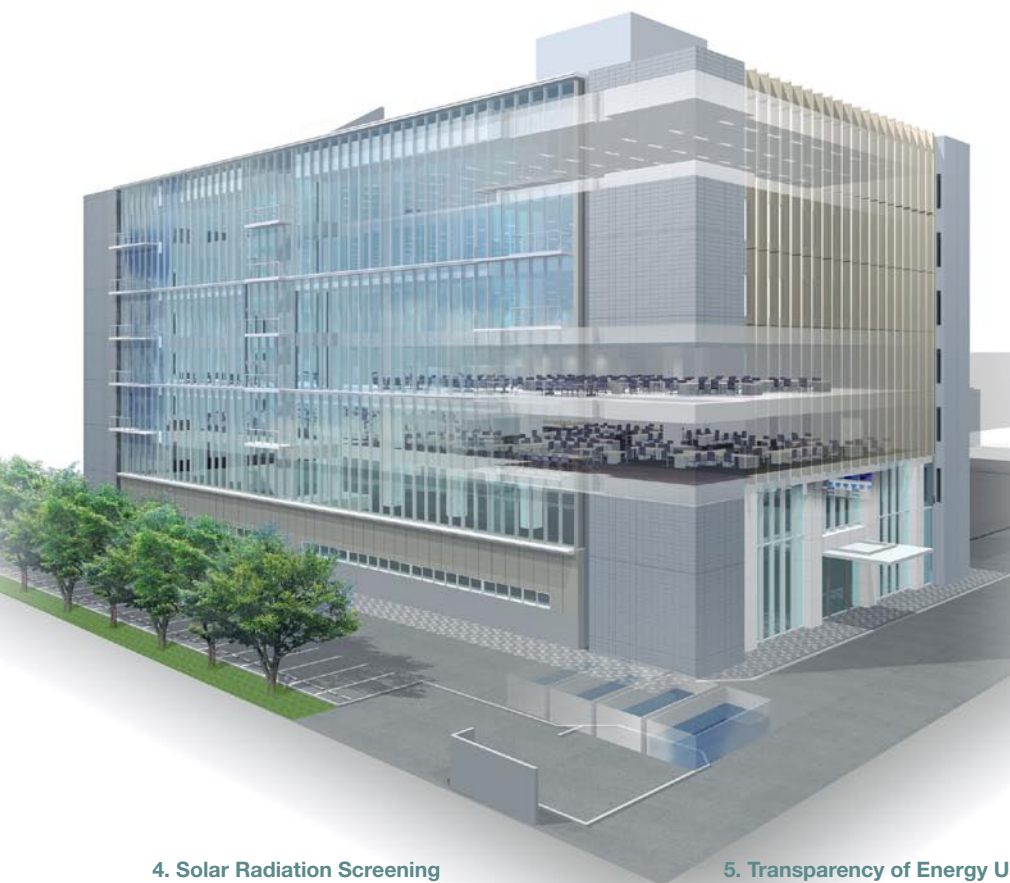
Implementation of a design that creates intra-Company synergies, it realizes a creative work environment that affords enhanced synergies and person-to-person communication. Communication stairs positioned in the atriums of the stairwells throughout the building serve as the source of ideas and synergies.

#### ■ Communication Stairs

To facilitate communication among research, development and engineering staff, communication stairs have been positioned in the stairwells up to the seventh floor.



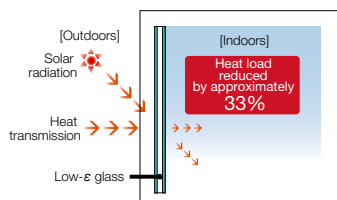




#### 4. Solar Radiation Screening

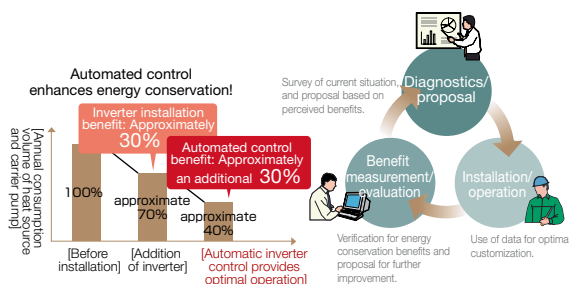
Uses high thermal barrier and high thermal insulation (Low- $\epsilon$ ) glass on all sides to shield against solar radiation during the summer. Reduces heat load within buildings by approximately 33%.

(PAL value:  $300\text{MJ}/\text{m}^2 \rightarrow 200\text{MJ}/\text{m}^2$ , 33% reduction)  
\*Perimeter annual load factor (PAL value):  
An index concerning the level of heat loss through outer walls, windows etc., of buildings in an area no more than 5 meters from the horizontal distance of the exterior wall.



#### 5. Transparency of Energy Usage

Yamatake has introduced a Building Energy Management System (BEMS). The system enables assessment and evaluation of operation through metering and measuring, with the aim of enhancing environmental performance through investigation and implementation of improvement methods.



#### 6. Lighting Control

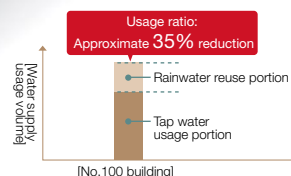
By using mainly highly efficient, long-life Hf fluorescent lights, compensation and control of initial lighting intensity using lightness sensors, control using daylight, and motion-sensor activated lighting, Yamatake aims to maintain the required brightness while conserving energy.

#### 7. Use of Rainwater and Water Conservation Equipment

Reduction of toilet flush water

Conservation of approximately 35% or more

- Reuse of rainwater using rainwater collection equipment
- Toilet basin flush volume: Reduced from 13 liters per time to 8 liters per time
- Installation of toilets equipped with artificial flushing sound in women's restrooms



#### 8. Permeable pavement

By using permeable pavement for the majority of off-site gutters, Yamatake aims to curb the discharge of rainwater to adjacent sites and to help improve the thermal environment.

#### 9. Hundred-Year Building

Durable life: Design for 100 years rather than the normal 60 years

- Extend lifespan by using eco-materials
- Provide leeway for floor height and floor load for flexible conversion in the future.
- Build facility balconies on each floor to facilitate placement of additional equipment and renovation.

### Key people involved with the new No.100 building

No.100 building:  
On-site energy  
conservation activities



**Takahiro Tsukakoshi**  
Deputy Chief  
Energy Management Officer  
(heat, electricity),  
Environment Counselor,  
Safety Sub-assessor  
Fujisawa Technology Center  
Yamatake Corporation

"We aimed for an energy-efficient building that emphasizes safety and comfort, by drawing on our accumulated expertise in energy conservation. We achieved pretty much the building we imagined. But we will continue to make improvements through close examination of the benefits from analyzing all sorts of data."

Heavy responsibility  
for acting  
on behalf of clients  
and high sense  
of achievement



**Hiroshi Tsuchida**  
Technical Division  
Construction Administration  
Department  
Assistant Manager  
JAPAN FACILITY SOLUTIONS, Inc.

"Understanding that the Technology Center signified the commemoration of 100 years of business, we were able to complete this high cost-performance building because of the high-level requests from Yamatake. The building is strongly imbued with synergies and simultaneously possesses a flexibility for the future."

Energy-conserving  
construction  
and design born  
from ingenious ideas



**Ken Yoshimura**  
Senior Architect,  
Design Section  
Architectural Design Department  
NIKKEN SEKKEI Ltd.

"The new No.100 Building is the result of a collaboration between Yamatake in energy conservation technologies and Nikken Sekkei in environmental design. The building features the application of many ingenious ideas, including overall building air-conditioning control through individual air-conditioning systems and the minimization of exposure to direct sunlight through the use of larger windows on the north side than the south side."

# Realizing high-precision measurement and stable gas supply; Best solutions through collaboration of Yamatake Corporation and Kimmon Manufacturing

**Extensive product lineup and technologies of Yamatake Corporation and Kimmon Manufacturing contribute to stable supply via industrial gas lines**

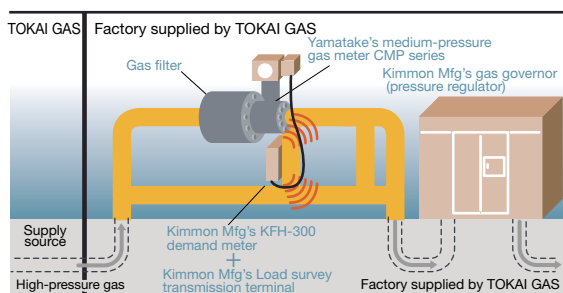
Yaizu City, Shizuoka Prefecture, has long flourished as an area connected with the marine industry. It is also known as a prime location for pharmaceutical and food production facilities because of the area's rich groundwater supplies. Based in Yaizu, TOKAI GAS supplies natural gas to various production facilities and private residences. Efforts to curb CO<sub>2</sub> and other greenhouse gases in line with the 2003 Kyoto Protocol have spurred a shift toward natural gas by large-lot industrial users (annual use of at least 100,000 cubic meters) as a source of thermal energy for production use. As a result of dedicated efforts, TOKAI GAS has approximately quadrupled its natural gas supply volume over this four-year period.

To efficiently supply large volumes of gas to the various production facilities of its customers, TOKAI GAS proposes the installation of gas governor stations to gas users to enable stable supply. The Yamatake Group widely proposes gas governor stations and gas-related equipment to gas suppliers, which are key to these businesses. The Yamatake Group is supporting TOKAI GAS in ensuring stable supplies of gas for industrial use, accurately managing gas usage volumes, and reducing the impact of industrial activity on the environment.



[Profile]  
 TOKAI GAS CORPORATION  
 URL: <http://www.tokaigas.co.jp/>  
 Address: 74-3, Shiotsu, Yaizu, Shizuoka Prefecture  
 Established: December 1966  
 Paid-in Capital: ¥750 million  
 Business: Supply of gas, sales of gas equipment and appliances, etc.





Natural gas supplied under high pressure to production facilities is measured by Yamatake's CMP series gas meters. Measurement data is sent to central PC servers within TOKAI GAS's offices, using load survey transmission terminals made by Kimmon Manufacturing. After passing through CMP meters, gas is regulated to the optimal pressure by a Kimmon Manufacturing-made governor on the client's premises for supply to equipment inside factories.



■ Pressure regulator (NAFV governor unit)

This product regulates the pressure of natural gas supplied at high pressure to production facilities. Kimmon Manufacturing's gas governor units are compact, which saves space.

## Users laud the reliability of the governor units and compact, high-precision gas meters

CMP series gas meters enable multiple units to be arrayed in tandem along customer gas pipes with virtually zero data error. The high precision of these meters almost defies conventional wisdom. CMP series meters are highly user friendly due to their broad measurement domains and ease of installation.

The stable and efficient delivery of high gas flow to the production lines of large-volume industrial users requires supply at high pressure, coupled with regulation to required pressure levels inside production facilities. Kimmon Manufacturing's compact gas governors (pressure regulators) save space with their small footprints and are appreciated for their low-noise operation and compatibility with high gas flow.

In addition to achieving highly precise measurement and having wide application, Yamatake's medium-pressure CMP series gas meters are compact and lightweight,

making installation easy. For these reasons, many units are expected to be installed in the future.

The comprehensive capabilities of the Yamatake Group support the trusted TOKAI GAS brand.

## Expecting synergies from cooperation with a pioneer in gas meters and a long-time player in the field of measurement and control technology

Kimmon Manufacturing, with its expertise in the gas business, and Yamatake, with its strength in measurement and control products and engineering, make a formidable combination. Plans call for product alliances, including the linkage of earthquake sensors and gas governor intercepts. We anticipate innovative proposals ahead.

One reason for this confidence is that Kimmon Manufacturing is a pioneer in the gas meter industry and commands a domestic market share of more than 60% for gas governors.



■ High-precision medium-pressure meter: CMP series

Compared with existing gas meters for high volume flows, the CMP series offers a high degree of precision in correcting temperature and pressure. The light weight and compactness of this series enhances ease of installation, which also helps to reduce installation costs.



■ Load survey transmission terminals

Flow volume data from gas meters are compiled every hour and sent to the central PC servers at TOKAI GAS once every 24 hours.

■ TOKAI GAS: Central PC servers

TOKAI GAS confirms data sent to PCs at its offices.



## TOPIC

### Kimmon Manufacturing and Yamatake Synergies

Kimmon Manufacturing has been a member of the Yamatake Group since January 2006, working under the Yamatake Group's symbol 'azbil.' Synergies generated between the two companies provide increased accuracy and safety through the combination of Yamatake-made digital mass flow controllers and earthquake sensors and Kimmon Manufacturing's gas governor stations. The two firms are also steadily establishing a track record through cooperative maintenance of Kimmon Manufacturing's meters, which are installed in a great number of buildings. Moving ahead, we will make more joint proposals and strive to increase the efficiency of production facilities and in other areas in the Yamatake Group.



Hideto Suzuki  
General Affairs Department,  
General Manager  
TOKAI GAS CORPORATION

"It is very attractive to be able to use Yamatake products through long-time partner Kimmon Manufacturing. This partnership also enables highly satisfactory responses in other respects as well, such as maintenance. I anticipate comprehensive proposals going forward."



Shinya Okubo  
Manager, Industrial Energy  
Department  
Special Demand Division  
TOKAI GAS CORPORATION

"A high degree of responsiveness on site is necessary in contributing to comfortable lifestyles. We make proposals from our customers' viewpoints."



Toshiaki Hasegawa  
Manager, Supply  
Management Department  
Supply Division  
TOKAI GAS CORPORATION

"We do our own welding and lay pipes for the installation of regulators at customers' production facilities. Kimmon Manufacturing's use of unit construction provides high reliability, easier inspections and troubleshooting, as well as greater maintainability."





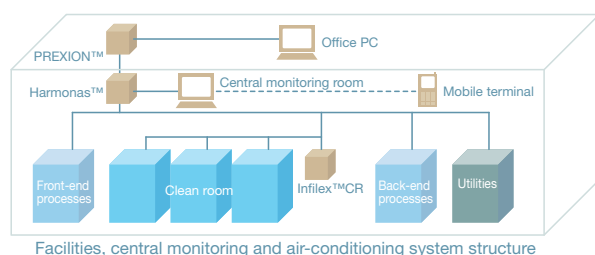
[Profile]  
 SUMCO TECHXIV CORPORATION  
 URL: <http://www.sumcotechxiv.com/>  
 Head Office: 1324-2 Masuragahara, Omura, Nagasaki  
 Established: April 1960  
 Business: Fabrication and sales of silicon wafers for semiconductor applications

## Operating Semiconductor Fabs That Support Global industry; Living Up to Corporate Social Responsibility

**Contributing to production safety management, energy conservation and zero emissions at semiconductor fabs that are rapidly expanding on a global scale.**

Headquartered in Nagasaki, SUMCO TECHXIV makes silicon wafers, which are indispensable to semiconductors. Since its original establishment in 1960 as Komatsu Electronic Metals Co., Ltd., this company has expanded globally and became a member of the SUMCO Group in 2006. It continues to grow as one of the world's leading companies in its field. Under its corporate philosophy of 'harmony with society,' SUMCO TECHXIV has from early on worked to address environmental issues. In 1998, it became one of the first wafer makers in the world to acquire ISO 14001 certification at its Nagasaki and Miyazaki factories. Moreover, it has sustained a high level of 99.9% in zero emission activities.

Reducing energy consumption and achieving a highly stable fabrication environment are major challenges in manufacturing silicon wafers. To help address such challenges, Yamatake provides SUMCO TECHXIV with solutions, such as production management, database-driven reporting and analysis, and new clean room HVAC control systems. These solutions contribute to yield improvements, energy conservation, labor saving, and cost reductions.





**Realizing greater operational efficiency overall through the integrated management of production history, environmental impact, and other control items; Dealing with increases in the number of control items due to such factors as fulfillment of CSR and capacity expansion, and the compilation of many reports, without adding staff**

To improve yields, SUMCO TECHXIV adopted the Harmonas™ as its central monitoring system in 2003, using it to monitor and control production facilities and to improve quality control and operational efficiency.

Additionally, SUMCO TECHXIV adopted Yamatake's PREXION™ manufacturing database management system. This system enables production and operations data to be processed by PCs, greatly simplifies report compilation and history analysis, and accommodates continual increases in capacity.

**Achieving substantial reductions in energy consumption in high-energy-consumption clean rooms using innovative control methods built on a host of technologies for energy conservation in buildings**

SUMCO TECHXIV is taking various steps to achieve its target of reducing energy consumption by 1% annually. The manufacture of large diameter silicon wafers requires precise control of temperature and humidity levels inside clean rooms, which consumes large amounts of energy. Up to now,

temperature and humidity levels have been separately controlled for each individual clean room. Moreover, responding to seasonal fluctuations has required manpower. The introduction of Yamatake's Inflex™CR energy-saving controller for clean rooms, however, has now enabled streamlined and automated air-conditioning control. The potential benefits are substantial, with recovery of investment expected to take only one-and-a-half years. Due to this result, SUMCO TECHXIV has decided to install the Inflex™CR on existing lines and in new factories.

**A partner with comprehensive capabilities that helps achieve higher efficiency and expand businesses**

Yamatake has strengthened its partnership with SUMCO TECHXIV in supporting greater production efficiency and facilities management of SUMCO TECHXIV, which is expanding production in step with rapid growth in demand. Yamatake can naturally help to improve yields and reduce costs through better control of production and utilities, but it is also capable of helping reduce environmental burden, which is a major issue, and providing comprehensive consulting services, including disclosure of data to local areas in relation to those efforts. Yamatake is also a partner that works with customers at their sites to implement responses to ongoing increases in output, capacity upgrades, and process improvements. Our customers evaluate and look toward Yamatake's accumulated expertise in building automation, factory automation, energy conservation, and engineering.



■ Inflex™CR

The air-conditioning control of clean rooms consumes large amounts of energy. However, introduction of mathematical programming-based model predictive control based on proprietary mathematical models, developed by Yamatake realized fast and precise control of temperature and humidity levels, reducing energy consumption by approximately 50%.



■ Harmonas™

Utilization of control, monitoring, and data processing technologies accumulated from process control yielded harmonized automation, that is, striking a balance between automation (processing using computers) and decision-making (decisions by humans).



■ PREXION™

PREXION™ automatically gathers data concerning manufacturing processes from various control systems that govern manufacturing facilities.

This data is accumulated and managed in a manufacturing history database over a long period of time. The system also facilitates various manufacturing-related work via PC networks.

Harmonas™ transmits warnings to the mobile phone e-mail addresses of supervisors, thereby enabling quicker responses wherever they are.

## TOPIC

### Leveraging synergies of expertise accumulated in the factory and building markets to offer more solutions

In recent years, from the perspectives of the environment and corporate social responsibility (CSR), manufacturers, public facilities operators and building owners have been put under a greater obligation to compile reports on their environmental impact, necessitating stepped-up efforts in this area. Yamatake has long been making proposals for energy conservation.

Yamatake makes proposals for greater efficiency through the control of utilities according to production loads at factories. By combining its expertise in the building market with that in the factory market, such as ESCO that secures energy conservation benefits in factories, access control in production areas and research facilities, and the monitoring of hazardous materials, Yamatake is able to provide more comprehensive solutions for energy conservation and safety management.



**Mitsuo Imai**  
Production Div.  
Nagasaki Plant  
General Manager  
DIS. Production Dept.  
SUMCO TECHXIV  
CORPORATION

"Greater productivity and cost reductions through energy conservation and labor saving are perennial themes. We hope to receive comprehensive and continual proposals from a different viewpoint to our own."



**Kiminori Nakata**  
Manager  
Utility Maintenance Sec.  
DIS Manufacturing Dept.  
Nagasaki, Production Div  
SUMCO TECHXIV  
CORPORATION

"Yamatake is the only firm that is capable of providing integrated consulting services extending from production lines to factory HVAC and utilities. Going forward, I am confident that we can comprehensively reduce energy consumption through total monitoring in association with Yamatake."



**Atsushi Miura**  
Utility Maintenance Sec.  
DIS Manufacturing Dept.  
Nagasaki, Production Div  
SUMCO TECHXIV  
CORPORATION

"The notification of irregularities to the mobile phones of supervisors has enabled us to respond quickly. This originated from a proposal by Yamatake based on its on-site observation of our operations."

# First Annual Shonan International Marathon Aiming for an environmentally-conscious event

## As runners, volunteers, and Environment Committee members

The first annual 2007 Shonan International Marathon was held on March 17 and 18, 2007. Embracing the event's aim of a race that increases the environmental awareness of participants, Yamatake supported the Shonan International Marathon not only as a corporate sponsor but also as a member of the Environment Committee, established by the event's organizing committee, providing across-the-board support for environmental activities. Leveraging its expertise in environmental conservation, environmental impact analysis, and recycling technologies, Yamatake carried out activities as only it could. Throughout the event, Yamatake employees supported the marathon in various ways, including as runners and volunteers.

### Partnering with the 2007 Shonan International Marathon as a leading company in the environment business

The 2007 Shonan International Marathon was held in the city of Shonan, which promotes many local endeavors, including beach cleaning activities. Finishing at the Enoshima section of Shonan Beach, the marathon was planned to promote environmental awareness. It was the first international full marathon to be held in the Shonan area.

Yamatake sponsored the event as part of its 100th anniversary commemorations. Moreover, Yamatake served as a member of the Environment Committee, providing support for all of the event's environmental activities from the planning stage. On the day of the event, approximately 70 Yamatake Group employees participated as runners, while more than 50 staff and family members took part in volunteer activities, including the staffing of reception and route support personnel stations as well as environmental awareness and recycling activities. Also, the Yamatake booth provided warm drinks to runners and spectators, and put on an environmental awareness display that was designed for even children to understand. Thus, the Yamatake Group as a whole supported the event both through participation in the race and through environmental activities that contributed to the local community.

#### ■Bringing home the message about the environmental benefits with a 'tree-planting marathon'

Yamatake was responsible for all aspects of recyclables separation within the event area. By staging a 'tree-planting marathon' on its own, Yamatake attempted to share the benefits to separate recyclables with all visitors to the event in a way that was easy to understand.

In separation and collection activities, special attention was placed on three categories of cans, glass bottles, and PET bottles, as all can be fully recycled.

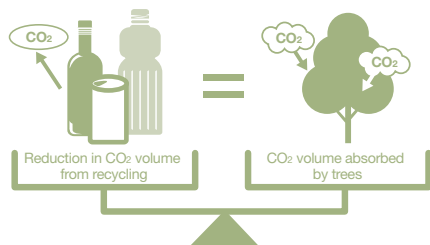
The 'tree-planting marathon' involved calculating the reduction in CO<sub>2</sub> from recycling and converting it into the number of trees that would be needed to absorb an equivalent amount of CO<sub>2</sub>, thereby presenting a solid sense of the results of the activities in an easy-to-understand manner. The tree-planting course was imagined to be an approximately 500-meter-long strip from Enoshima Bridge to the stage near the finish line. A tree-planting board was set up in front of Yamatake's booth on which trees were virtually planted one by one to provide a concrete image to all event visitors.

During the two days of the event, approximately 171kg of cans, 565kg of glass bottles, and 213kg of PET bottles were collected, for a reduction in CO<sub>2</sub> equivalent to the amount absorbed by 130 trees planted approximately 4 meters apart starting from Enoshima Bridge to the back of the event area.



#### ■The tree-planting marathon

Event visitors were alerted to the importance of recycling.







#### Waste processor proves its worth

A Yamatake 'Powerful Bactor' biodegrading waste processor was set up to dispose of refuse generated at the event grounds. As a result, all 289 kilograms of raw garbage generated during the event was turned into fertilizer. The approximately 30 kilograms of fertilizer was donated to an elementary school in the Shonan district, and plans are for use mainly at schools. With this, a small recycling circle has been established in the Shonan district.

#### Analysis of the environmental impact of the entire event

The total environmental impact of the event was analyzed from four perspectives—energy consumption, paper, transportation and waste—as the basis for environmental measures for the next race. As a result of this analysis, it was discovered that event circulars, posters and other materials had a high environmental impact. Learning from these results, consideration is being given to effective utilization of the Internet to promote the marathon, the purchase of "green electricity" and other initiatives to make the event even more environmentally-conscious from various angles.



#### eco Café provides a cupper and a chance to relax

The Yamatake booth operated an environment-themed café called eco Café, which provided free drinks—and a chance to take a breather. The eco Café was operated to provide a place for weary runners to relax and also for everyone enjoy the event. eco Café was staffed by Yamatake volunteers and proved very popular among both runners and volunteers.



#### Yamatake booth

Information about event-related environmental activities was on display



#### Eco-toys made from recycled waste

Discarded waste can be vastly transformed with little effort into fun toys using a bit of ingenuity. Eco-toys have recently been drawing attention for use in environmental education. The Yamatake booth handed out three types of eco-toys to children and conducted a workshop for making them.

## We Are Team azbil !

### Yamatake Group employees walk away with a sense of 'safe, comfort, achievement'

Many Yamatake Group employees took part in the Shonan International Marathon as runners, volunteers, route assistance personnel and sponsor, and walked away with a sense of 'safe, comfort, achievement'. Participation in the event helped build stronger bonds among Team azbil.

#### Yamatake Group employees 'ran' the event



Approximately 70 Yamatake Group employees participated as runners. Many employees wearing azbil t-shirts could be seen running along Shonan Beach.



Tomohiro Konda  
Research and Development  
Headquarters  
Yamatake Corporation

"I was happy to hear shouts of 'go azbil' along the route. It made me feel part of the azbil team. Although 10 kilometers seemed longer than I had imagined, I was exhilarated at finishing the race."



Tsubasa Kurosawa  
Application Engineering Department  
Protection Headquarters  
Building Systems Company  
Yamatake Corporation

"I was warmly encouraged by the many people lining the route, the friendly faces of local residents and colleagues, as well as the red azbil flags. This made the race enjoyable."

#### Yamatake employees supported the event's environmental activities as volunteers



Many Yamatake Group employees gave their time for the event's environmental activities, including refuse separation and manning the Yamatake booth.



Shirou Kanou  
Products Development Department  
Advanced Automation Company  
Yamatake Corporation

"This was a very significant and precious experience for me personally. I enjoyed hearing a hearty 'Thank you' and seeing smiling faces as I handed out warm soup to the exhausted runners who braved the cold weather."



Kumiko Abico  
Products Development Department  
Advanced Automation Company  
Yamatake Corporation

"For me, the best part about volunteering was meeting various people. Although it was a hard day, hearing the words 'Thank you' picked me up."

#### Route support personnel shouted encouragement to runners



Support along the route was a source of energy for the runners. People shouted encouragement to runners who were giving it their all during the race.



Shuuhei Satomura  
Environment & Standardization  
Promotion Department  
Yamatake Corporation

"I cheered along the course near Enoshima, and watched masses of runners pass before our position. I was energized by the vigor of the runners."

#### Yamatake served as a member of both the Environment Committee and Sponsor





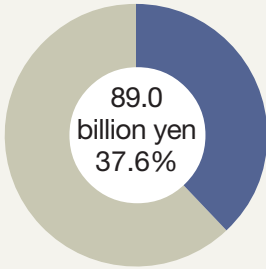


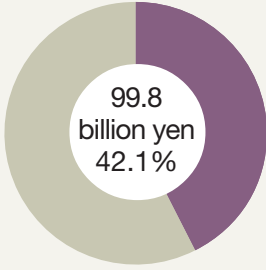


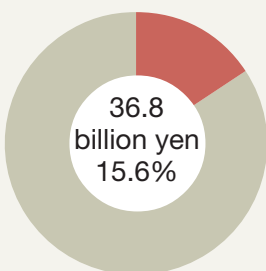


At times, Yamatake served in the capacity of an event organizer, and at other times as an event sponsor. Yamatake made strong efforts in an executive capacity through the day of the event.



The Shonan International Marathon marked the first time that Yamatake has sponsored a sports event. We consider participation in the event as 'azbil' Yamatake very significant, but it couldn't have been done without the efforts of event's organizer and Yamatake employees. The cooperation of many people further strengthened the team chemistry of azbil.



# Business Overview

	Business Outline	Net Sales by Business/ Share of Total Net Sales	Main Products and Services
<b>BA</b> <b>Building Automation Business</b> <b>P25</b>  	<p>Yamatake is one of Japan's largest suppliers of building automation equipment and systems, providing security systems, building management services, and total energy management services as well. Yamatake provides improvements in energy efficiency, comfort, safety, and convenience to customers through its systems and services.</p>	 <p>89.0 billion yen 37.6%</p>	<ul style="list-style-type: none"> <li>• Building automation systems</li> <li>• Controllers</li> <li>• Sensors</li> <li>• Valves</li> <li>• Actuators</li> <li>• Security systems</li> <li>• Building preventive maintenance services</li> <li>• Total energy management services</li> <li>• Building operation support services</li> </ul>
<b>AA</b> <b>Advanced Automation Business</b> <b>P27</b>  	<p>Yamatake provides seamless solutions for automation in production sites, starting with consulting and the supply of control equipment, on through to engineering and maintenance services, for a broad array of customers, ranging from the materials industry to the assembly industry.</p>	 <p>99.8 billion yen 42.1%</p>	<ul style="list-style-type: none"> <li>• Distributed control systems</li> <li>• Solution packages</li> <li>• Field instruments (pressure transmitters and flowmeters etc.)</li> <li>• Control valves</li> <li>• Facility diagnosis equipment</li> <li>• Digital indicating controllers</li> <li>• Recorders</li> <li>• Combustion control equipment</li> <li>• Photoelectric sensors etc.</li> <li>• Industrial Services Operation Program (ISOP™)</li> </ul>
<b>LA</b> <b>Life Automation Business</b> <b>P29</b>  	<p>This business leverages automation technologies to provide solutions that address social needs, such as realizing safety, security, environmental protection and energy efficiency in the domains of Lifeline (energy and utilities), Life Assist (health and welfare), and Life Science (bioscience).</p>	 <p>36.8 billion yen 15.6%</p>	<ul style="list-style-type: none"> <li>• Various gas meters, safety equipment, regulators, various water meters, flowmeters, etc.</li> <li>• Commercial-use waste processor, etc.</li> <li>• Kikubari™ central air-conditioning system</li> <li>• Care services, including emergency dispatch services, health consultation hotline, mental healthcare, nursing care prevention services, lifestyle disease prevention services, in-home care services, the sale and rental of nursing care equipment, elderly group home, etc.</li> <li>• DNA chips gemkey™</li> </ul>
<b>International Business</b> <b>P31</b> 	<p>Drawing on technologies and expertise gained in Japan, Yamatake is developing its Building Automation and Advanced Automation businesses on a global scale.</p>		
<b>Research &amp; Development/ Intellectual Property</b> <b>P33</b> 	<p>The Yamatake Group leverages its collective strengths to conduct R&amp;D into new products and services aimed at satisfying customers and as a consequence ensure its continuous growth.</p>		

\* Segmental sales include intersegment sales. Intersegment sales eliminations were 2.1 billion yen.

International Business sales are included in the sales of BA, AA, and LA businesses.

\* ISOP, Kikubari, and gemkey are trademarks of Yamatake Corporation in Japan and other countries.

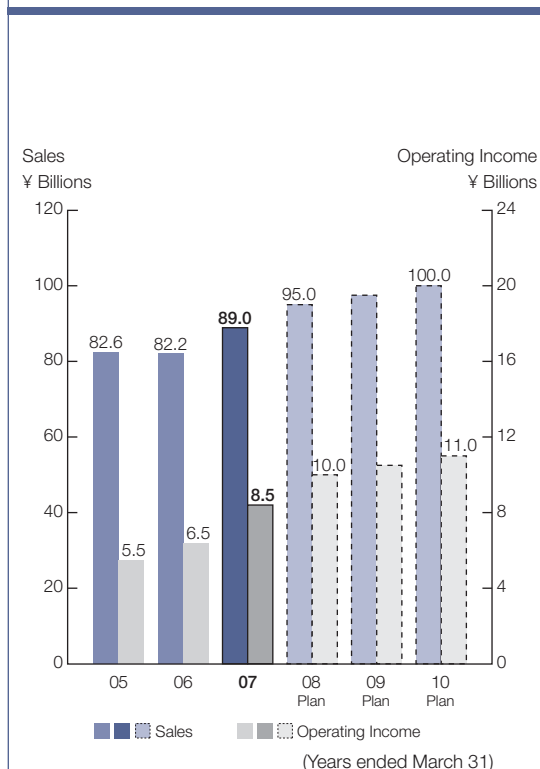
# BA Building Automation Business

Sales expanded in all markets—new buildings, existing buildings, and maintenance services—and operating income increased around 31%. We are realizing business growth and generating income by developing a distinctive comprehensive solutions business that spans building lifecycles, including new needs such as CO<sub>2</sub> reduction, safety, and information security.



**Kiyofumi Saito**  
Executive Director  
Senior Managing Executive Officer  
Building Systems Company President

## Sales and Operating Income (results and plan)



## Business Environment and Direction

Currently, the market for new buildings in Japan is active, and large-scale redevelopment projects continue to be planned in the Tokyo metropolitan area. The market for factory HVAC is also growing steadily in step with rising capital expenditures. While seizing these business opportunities, given major fluctuations in demand in the market for new buildings, we are working to expand our existing building and maintenance service businesses to realize continuous sales and income growth. Additionally, we are cultivating business in new fields such as the security business and the international business.

## Fiscal 2006 Performance

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. The industry is also seeing active construction investment centered on large-scale urban redevelopment projects and the manufacturing sector. For Yamatake, although conditions remain harsh on the price front, we are taking advantage of the favorable business environment to achieve solid sales growth, while expanding income by launching high-functionality products with high profitability.

Yamatake was quick to respond to customer needs and strengthened its framework for resolving issues in the market for new buildings, and in the factory HVAC field, we made progress collaborating with the Advanced Automation Company. In the market for existing buildings, against a backdrop of growing needs for energy conservation, we achieved business growth by making proposals based on

## Markets

- Offices
- Manufacturing facilities
- Research facilities
- Hospitals
- Government and institutional buildings
- Schools
- Hotels
- Department stores
- Shopping centers

SELVA shopping center



The University of Kitakyushu



olinas  
AIG Global Real Estate Asia Pacific Inc.  
Tokyo Tatemono Co., Ltd.

\* Shown here are some examples of completed orders showcased in Yamatake's public relations brochure. They are presented here with the consent of customers.

know-how and data accumulated over many years. The ESCO business or tems™: Total Energy Management Service, a comprehensive energy service for conserving energy in entire buildings, also saw strong orders. The maintenance service business posted higher sales due to an increase in the number of contracts associated with an increase in new buildings, expansion of the services lineup, and additional contracts under the Specified Manager System, a relatively new undertaking for Yamatake. Additionally, the security business grew amid rising needs for building safety and security, and information leakage prevention services. In the international business, sales expanded on progress developing markets in China and elsewhere in the Asian region.

As a result of the above and other factors, Building Automation business orders rose 10.1% to 94.7 billion yen. Sales increased 8.3% to 89.0 billion yen and operating income rose 30.9% to 8.5 billion yen.

## Business Plan and Outlook

Business targeted at new buildings is increasing due to urban redevelopment projects, mainly in the Tokyo metropolitan area, and because of active investment in the construction of plants and factories by the manufacturing industry. In the markets for existing buildings and maintenance services too, amid debate on establishing CO<sub>2</sub> reduction obligations as a means of combating global warming, there are emerging new needs in the form of energy conservation and responding to regulations and

tax credits related to environmental conservation. The security business is also seeing growth in the market for building safety and security and for measures to prevent information leaks. Overseas, the factory HVAC business plans expansion in light of growing capital investment, mainly in the Asian region.

Under this business environment, for fiscal 2007, ending March 31, 2008, we are projecting a 6.0 billion yen, or 6.8%, increase in sales to 95.0 billion yen and, despite the expected continuation of harsh price competition, we are projecting a 1.5 billion yen, or 18.2%, increase in operating income to 10.0 billion yen, based on expectations of benefits from cost reductions and the launch of high-value-added products.

Additionally, the Building Automation business targets sales of more than 100.0 billion yen and operating income of 11.0 billion yen or more as business objectives in the final year of the new medium-term management plan (fiscal 2007 through fiscal 2009). To take advantage of the aforementioned changes in the business environment and tie them to the achievement of these business objectives, Yamatake is reinforcing its framework for quickly and accurately responding to increased needs for energy conservation due to moves to establish targets for CO<sub>2</sub> reduction, and also for responding better in areas where investments are expected to increase, such as in hospitals, laboratories and factories, and overseas markets. Toward this end, we are implementing various measures, including the development and launch of high-performance, high-margin products, such as intelligent components and wireless products.

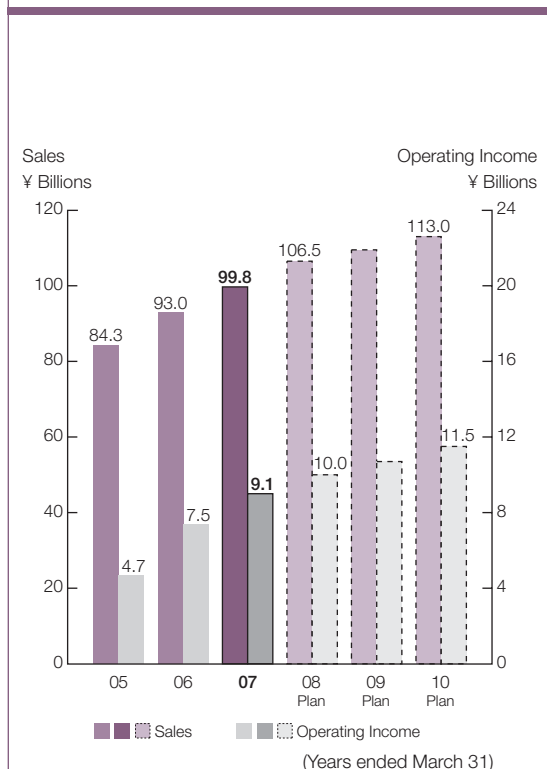
# AA Advanced Automation Business



The product business grew substantially both in Japan and overseas, and the solutions service business recorded improved income. As a result of these and other factors, operating income rose 21 % to 9.1 billion yen. Looking ahead, we are determined to sustain growth by developing businesses that capitalize on Yamatake's unique technologies and frontline problem-solving capabilities in the measurement and control fields.

**Kanichiro Shimoda**  
Managing Executive Officer  
Advanced Automation Company President

## Sales and Operating Income (results and plan)



## Business Environment and Direction

Despite a mixed picture by industry, domestic capital expenditures are relatively high. Overseas, further market expansion is forecast in Asia, especially in China. Buoyed by these favorable markets, Yamatake is committed to quickly capturing increasingly sophisticated and complex customer needs, and addressing them with distinctive solutions to achieve ongoing business growth.

A feature of the Advanced Automation business is that we form long-term relationships with customers that last throughout the lifecycle of their plant facilities and equipment through consulting, the provision of products, systems engineering, and maintenance services. Because of this, it is vital to build relationships of trust and have the ability as a business partner to provide optimal solutions that address customers' frontline issues. We pursue business growth as only Yamatake can—by providing high-value-added engineering underpinned by a high degree of specialization, coupled with products and solutions born from advanced technology and rigorous quality assurance.



DENSO CORPORATION, Nishio Plant

Tosoh Corporation,  
Yokkaichi Manufacturing Complex

## Markets

- Petrochemical/chemical
- Water supply and sewerage
- Oil refining
- Electric power and gas
- Iron and steel
- Pulp and paper
- Shipping and marine
- Semiconductor/  
semiconductor manufacturing equipment
- Electrical/  
electronic components
- Machine tools
- Automobiles
- Pharmaceuticals
- Foods and beverages/  
packaging
- Furnace/oven/  
boiler manufacturing
- Residential and commercial  
buildings, etc.



Miyazakiken Noukyokajyu K.K.

\* Shown here are some examples of completed orders showcased in Yamatake's public relations brochure. They are presented here with the consent of customers.

## Fiscal 2006 Performance

In the domestic manufacturing industry, solid growth in capital investment was supported by increased demand alongside improved corporate cash flow and global economic growth. Overseas, investment activity was brisk in Asian regions outside of Japan, particularly in China. Against the backdrop of favorable domestic and overseas business environments, in Japan we accurately grasped and addressed customer needs for improving product quality, and ensuring safe operation and energy conservation. These efforts resulted in higher sales and income for the products business. Meanwhile, the solutions service business achieved improved profitability. Overseas, in addition to business expansion driven by aggressive capital expenditures in Asian regions, including China, South Korea, and Taiwan, sales expanded in Europe and the Americas, especially in North America, where we have reorganized our operations. Moreover, we worked to break into new business domains in collaboration with Kimmon Manufacturing Co., Ltd. and Tem-Tech Lab.

As a result of the above and other factors, Advanced Automation sales increased 7.3% to 99.8 billion yen, and operating income rose 21.2% to 9.1 billion yen.

## Business Plan and Outlook

The Advanced Automation business is expected to remain strong amid expansion of the global economy and underlying strength in capital expenditures both in Japan and overseas. In Japan, Yamatake plans to strengthen sales activities in close contact with customers and thereby provide solutions to issues at customers' production sites. In the international business, we aim to expand sales in the product business, with a focus on China, South Korea, and Southeast Asia. Through expansion both in Japan and overseas, we are targeting a 6.7 billion yen, or 6.8%, year-on-year increase in sales to 106.5 billion yen and a 0.9 billion yen, or 10.3%, increase in operating income for fiscal 2007, ending March 31, 2008, to 10.0 billion yen.

Through the further development of optimal solutions that only Yamatake can provide, the Advanced Automation business targets sales of more than 113.0 billion yen and operating income of at least 11.5 billion yen in fiscal 2009, ending March 31, 2010, the final year of the new medium-term management plan.

# LA Life Automation Business

Sales jumped 32.2 billion yen, or 708%, to 36.8 billion yen, reflecting significant expansion of the business domain in the Lifeline field due to the consolidation of Kimmon Manufacturing. Moving forward, we are committed to improving income by strengthening the business foundation, centered on Kimmon Manufacturing.



**Hirokazu Sekine**

President  
Yamatake Care-Net Co., Ltd./  
Safety Service Center Co., Ltd.

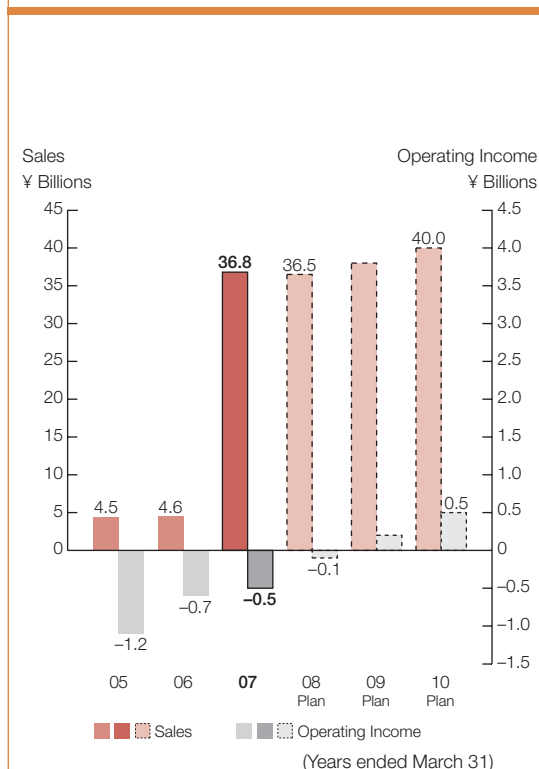
**Masaaki Iwai**

President  
Kimmon Manufacturing  
Co., Ltd.

**Sadachika Ogawa**

Executive Officer  
Yamatake Corporation

## Sales and Operating Income (results and plan)



## Business Environment and Direction

Social structural shifts and increasing requests for safety, security, environmental preservation, and energy conservation are creating domains for the use of automation in lifestyle and utilities, health and welfare and life science fields. Capitalizing on these changes in the business environment, Yamatake has developed the Life Automation business, which has three fields: Lifeline, Life Assist, and Life Science. It is positioned as a third core business alongside Building Automation and Advanced Automation. We aim to grow this business by leveraging the inherent strengths in the technologies and expertise we have gained in our Building Automation and Advanced Automation businesses.

### The Three Fields of Life Automation

#### • Lifeline Automation

These businesses are involved in measurement, metering, control, and safety management of utilities such as for gas and water supply that are indispensable to our lives

#### • Life Assist Automation

This business helps people lead healthy lives in safety and security.

#### • Life Science Automation

Includes businesses that use automation to support life science-related businesses that bring about vast improvement in fields deeply related to peoples' lives, including medical care, food, and environmental preservation.

## Markets

### Lifeline Automation

- Measurement/metering equipment such as gas and water meters and measurement and instrumentation systems
- Commercial-use waste processors: markets connected with food production and retailing as well as foodservice
- Individual residential homes

### Life Assist Automation

- Elderly nursing care services (preventive care) market
- Lifestyle support for the elderly
- Lifestyle disease prevention for the middle-aged and elderly

### Life Science Automation

- Molecular biology, clinical medicine

The University of Tokyo  
(water meter/interval camera)



Yamatake Care-Net Co., Ltd.  
(Senior group home "Katakuri no Sato Rokugo")



MALera mall Gifu  
(biodegrading waste processors)

\* Shown here are some examples of completed orders showcased in Yamatake's public relations brochure. They are presented here with the consent of customers.

## Fiscal 2006 Performance

In the Lifeline field, we faced a generally harsh business environment due to price competition, weak demand, and sharply higher raw materials costs. Under these conditions, Kimmon Manufacturing, which plays a central role in the Lifeline field, faced weak demand in the town gas equipment business. However, it introduced new products in the LP gas equipment business, where demand is growing. Simultaneously, in the water meter business, Kimmon Manufacturing worked to develop new demand in the private sector, where margins are relatively high. Additionally, with a view toward expanding the business domain of the Yamatake Group as a whole, we collaborated with the Building Automation and Advanced Automation businesses, and started working together on the production side. In the Life Assist field, budget cuts of regional governments and revisions to the Nursing Care Insurance Law made for a challenging business environment. Under these conditions, we achieved steady business growth by securing demand for emergency dispatch services and nursing care services, while moving forward with our new elderly group home business. In the Life Science field, our R&D efforts culminated in the development of optimal, on-demand customized DNA chips (gemkey) for use ranging from basic to applied research. We are now shipping samples for evaluation.

As a result, the Life Automation business posted sales of 36.8 billion yen, up 708.1%, and an operating loss of 0.5 billion yen, an improvement of 170 million yen from the previous fiscal year (in fiscal 2005, sales totaled 4.6 billion yen and the operating loss amounted to 0.7 billion yen due to the non-inclusion of the results of Kimmon Manufacturing).

## Business Plan and Outlook

In the Life Assist field, Yamatake is expanding its existing operations while working to improve business efficiency. In the Lifeline field, core company Kimmon Manufacturing is likely to face lower sales due to slowing demand for town gas meters, caused by a change in regulations delaying equipment replacement. Nevertheless, it will achieve the same operating income as the previous fiscal year. Based on this, Yamatake is forecasting sales of 36.5 billion yen, down 0.3 billion yen, or 0.8%, year on year, but a 0.4 billion yen improvement to an operating loss of only 0.1 billion yen.

Looking at the business environment for the Life Automation business, conditions in its constituent fields remain harsh. However, to establish the Life Automation business as a third core business, we are focusing on actions aimed at enhancing the business and improving the income of Kimmon Manufacturing. We are also working to achieve further expansion in such business fields as lifestyle disease prevention, in response to changes in Japan's medical system and revisions to the Health Insurance Law. Another area that we are emphasizing is the environmental recycling business (garbage recycling solutions), which is expected to see growth. Based on this, we are targeting sales of 40.0 billion yen and operating income of at least 0.5 billion yen in the final year of the new medium-term management plan (from fiscal 2007 through fiscal 2009).

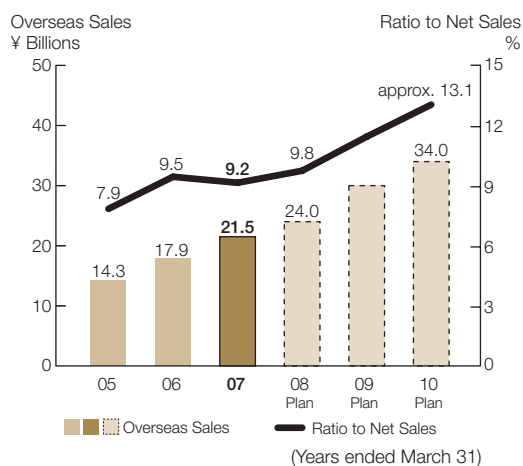
# International Business



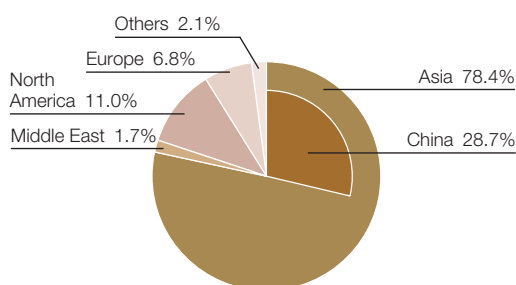
Yamatake significantly expanded its business in China, South Korea, Taiwan and other Asian regions. Business results also increased in North America. As a result, international business sales increased 20% to 21.5 billion yen, exceeding 20.0 billion yen, the target for fiscal 2006. We intend to achieve the target of 34.0 billion yen in sales in fiscal 2009 by further enhancing and expanding our sales network and our production framework.

**Jun Kawachi**  
Executive Director  
Managing Executive Officer

## Overseas Sales/Ratio to Net Sales (results and targets)



## Overseas Sales by Region (2007)



## Business Environment and Direction

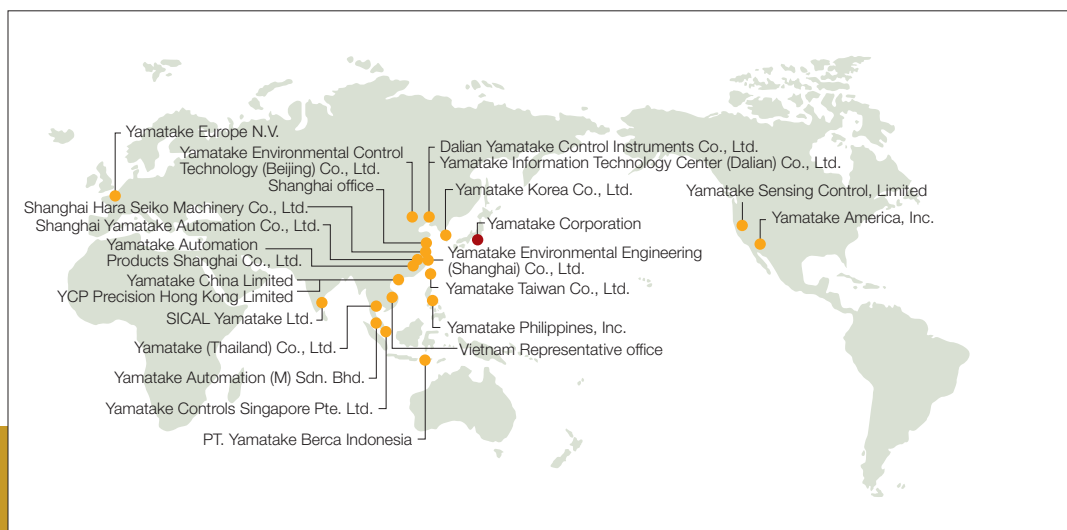
Yamatake is developing its international business, which is centered on the product solution business. At the core of this business lie products such as various types of sensors, valves and positioners that utilize Yamatake's unique technologies and expertise. Our efforts are focused mainly on China and other Asian countries, where both economic growth and capital investment are strong. Currently, Yamatake has overseas subsidiaries and affiliates, overseas offices and manufacturing facilities in 23 locations in 14 countries, mainly in Asia.

Yamatake has a track record of more than 30 years in international business. We have earned a reputation for supplying optimal solutions for the differing issues and needs of customers in each region around the world.

In fiscal 2006, despite concerns of a slowdown, the U.S. economy exhibited underlying strength, while the economies of Europe and Asia, mainly China, continued to expand. Under these generally strong conditions in our business environment, we achieved solid growth, with sales reaching 21.5 billion yen.

Looking toward achievement of the international business's final-year sales target of 34.0 billion yen under the new medium-term management plan, the Building Automation business is focusing on sales of various products and sales for factory HVAC for Japanese companies with operations in Asia. It is also eyeing expansion in the Middle East and other regions where construction investment is high. Meanwhile, in the Advanced Automation business, we will further expand sales of distinctively Yamatake products—various sensors and valves. Toward this end, we are continually upgrading our training programs at local subsidiaries, enhancing and expanding our sales office and agency networks, upgrading our overseas production framework, introducing new products, and cultivating markets in regions that are expected to show growth.





Yamatake Information Technology Center (Dalian) Co., Ltd.



The 9th International Industrial Control and Automation Technology Exhibition (Indonesia)

## Business Performance by Region

### China/Other Areas of Asia

The Building Automation business achieved higher sales by developing markets in Asia. The Advanced Automation business grew sales in a wide range of areas; extending from products for the process industry, including petrochemicals, mainly in China, South Korea and Taiwan, where capital investment is high, to products for the processing and assembly industry, including various sensors and gas flow meters. As a result, sales in China increased 30% to 6.2 billion yen and sales in other parts of Asia rose 13% to 10.7 billion yen.

In fiscal 2006, aiming to achieve further business expansion in these key markets, we upgraded and expanded Yamatake China Limited's Shenzhen factory in November 2006. This followed capacity expansion at Dalian Yamatake Control Instruments Co., Ltd. in November 2005. We also established Yamatake Information Technology Center (Dalian) Co., Ltd. as a software development base in January 2007.

We are working to expand both the Building Automation and Advanced Automation businesses by targeting markets expected to see ongoing capital expenditures, namely petrochemical, automotive, semiconductors and electric/electronics markets.

### Europe

In fiscal 2006, sales in the European market increased 0.1 billion yen to 1.5 billion yen. In this market, we have developed business by focusing on certain products and promoting cooperation with partner companies. While continuing to strengthen our business framework through this cooperation, we aim to grow business by expanding sales in regions like Eastern Europe where industrialized nations and Japanese companies are carrying out substantial capital expenditures.

### North America

In fiscal 2006, reflecting business reorganization, sales in the North American market rose 0.7 billion yen year on year to 2.4 billion yen. Looking ahead, we aim to further expand operations through the steady implementation of various measures, including the broadening of our customer coverage.

### Topics

#### • Establishment of Software Development Base in China

In January 2007, Yamatake established and started operations at Yamatake Information Technology Center (Dalian) Co., Ltd. as its first software development base in China. In addition to developing software embedded in Yamatake products, the center develops information infrastructure for sales, production, service, and customer support within the Yamatake Group. Additionally, alongside the Yamatake Group's business expansion in the Chinese market, it develops and operates information infrastructure related to products and services, and is expanding its supply of products and services.

#### • Exhibitions/Seminars

Yamatake participates in exhibitions and various seminars in many countries to increase its visibility overseas. Yamatake was an exhibitor at the China Refrigeration 2006 held in Shanghai in April 2006, and exhibited at MICONEX2006, Asia's biggest exhibition for measurement and instrumentation equipment, in Beijing in September of the same year. Yamatake was also an exhibitor at The 9th International Industrial Control and Automation Technology Exhibition held in Jakarta, Indonesia, in December 2006.

# Research and Development

The achievement of ongoing growth requires accurately grasping customer needs and swiftly responding to them with technological development that is highly synergistic. To achieve this, information is meticulously shared and smoothly disseminated among business divisions within the in-house companies and Yamatake Group companies. In this way, we are able to provide customers with attractive products and services in a timely fashion, and thereby contribute to society.

## Research and Development

### Business Structure and Direction of R&D Strategy

Growth-oriented, broad-scale technological development is carried out to support the Yamatake's core businesses of Advanced Automation and Building Automation. In addition to mining technologies that the Company already possesses, we strategically engage in basic research for new products and new businesses for next-generation automation.

Additionally, although our business thus far has largely been confined to the industrial and building fields, the automation needs of customers are becoming more diverse, thus requiring greater flexibility than before in our responses. Consequently, we have established fields in which both businesses have strong contact points as crossover fields, and are taking steps to more swiftly address customer needs by tapping into both synergies. To accommodate this business structure, we are broadening our development domain to encompass not only the development of individual technologies but also the development of technologies that bundle elemental technologies (complex technologies).

In pursuing the Life Automation business, established as our third business domain, we have recaptured the concept of automation and are focusing on the development of technologies for human-centered automation systems that respond flexibly to changes in social systems.

### R&D Framework and Function

The Company's R&D departments encompass three organizational functions by field, and mainly support the strengthening of the technology development function for the company as a whole. The R&D Headquarters conducts R&D on measurement and control technologies and systems, while the Development Department focuses on the development of Micro Electro Mechanical Systems (MEMS) and high-performance sensor chips, and the Production Technology Development Department Engineering Center works in the field of R&D for new production systems. Each R&D department is organizationally on the same level as the in-house companies to facilitate smooth communication with the in-house companies' marketing and technology departments and to promote the early commercialization of new technologies. This horizontal framework provides the basis for the rapid sharing of technical information and customer needs.

### R&D Investment and Core Technology Domains

Total spending on R&D in fiscal 2006 amounted to ¥8.8 billion, equivalent to 3.7% of sales (Yamatake Corporation). From a strategic perspective, we invest heavily in growth fields, carrying it out in a well-controlled manner.

Yamatake carries out focused investment based on two basic axes. The first is the development of technologies aimed at strengthening the core business domains of Advanced Automation and Building Automation. The second is the development of new technologies oriented toward expansion of the Life Automation business.

Specifically, for development themes that require close collaboration among the in-house companies and Group companies, crossover projects are inaugurated, and efficiently managed by an exchange of personnel and the sharing of technology assets.

The company's core technologies are presented below.

#### 1. *Microsystem Technologies*

Yamatake continually leads the industry in micro device technologies, including Microflow™ sensor and sapphire-based sensor. Moving forward, Yamatake is committed to playing the leading role in the development of new micro devices, microsystems, biochips, and other such technologies.

#### 2. *Measurement and Control Technologies*

Yamatake has played a pioneering role in technologies for measuring and controlling temperature, and for measuring and controlling fluids. The company intends to continue to improve these technologies moving forward. Specifically, in the pressure sensor field, through an alliance with Tem-Tech Lab, which is strong in technologies used in oil-less pressure sensors and anti-corrosive pressure sensors, we are working to combine both companies' technologies, enhance their complementary effects, and further promote them, all in an effort to expand this field.

#### 3. *Measurement Data Processing Technologies (Prediction and Visualization Technologies)*

In future industrial society, technology that helps humans make decisions by making predictions and determinations of future conditions based on measurement data, and presenting these trends in visual form, will be highly important.

Yamatake is contributing to the advancement of automation technologies through TCBM, RSM-S, Wave Doctor and other unique technologies.

#### 4. Next-generation Automation System Technologies

Yamatake has been quick to incorporate advanced network technologies, such as IP-v6, open-platform technologies, including Linux, database technologies, wireless technologies, and high-reliability technologies, into its automation technologies. Looking ahead, to realize next-generation automation systems, we intend to recast existing production and manufacturing systems from the perspective of human-centered automation and develop technologies for new solutions that are shaped around collaboration between humans and systems.

#### 5. Biotechnologies

Yamatake has teamed up with Leti, a French public research organization, to develop unique DNA chips and technologies for their manufacture.

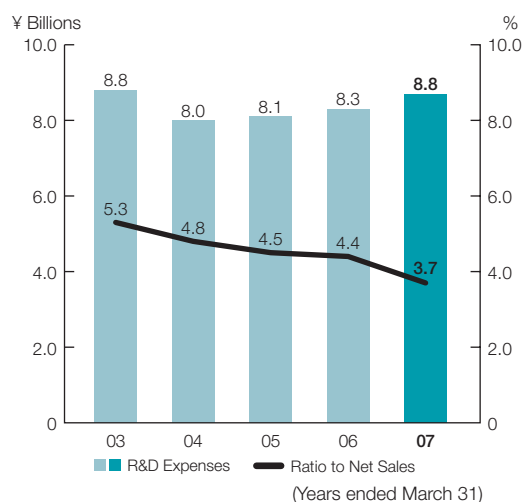
#### 6. Micromachining Technologies

We have developed a variety of precision jointing technologies as well as micromachining technologies for a range of difficult-to-machine materials such as sapphire, stainless steel, silicon and glass, which are used in a wide variety of high-performance sensors.

#### 7. Composite Technologies in the Measuring and Metering Field

To increase the supply of stable lifelines, Yamatake is working to expand its lineup of more sophisticated products by integrating its own measurement and control technologies with proprietary household gas meter and water meter technologies cultivated over many years by Kimmon Manufacturing.

#### R&D Expenses & Ratio to Net Sales



# Intellectual Property

## Intellectual Property

Yamatake recognizes intellectual property as an important business resource and has positioned an intellectual property strategy as one of its business strategies. This intellectual property strategy is pursued through three-pronged strategic activities in coordination with the business strategy and the R&D strategy. Execution of the intellectual property strategy is focused on building patent portfolios encompassing key products and technologies and the management of the risk of infringing another company's patent rights.

### Application Strategy

The basis of intellectual property rights is individual patent applications. Yamatake is working to increase the quality and number of its patent and design applications. Additionally, patents are evaluated as intellectual property rights of product and technology groups, followed by their visualization and management. The results are appropriately fed back to business units and research and development departments, with an emphasis on utilization in new business strategies and development strategies.

Yamatake is committed to the effective implementation of this method of patent portfolio management.

### Risk Management

Business activities carry the risk of infringing on the intellectual property rights of a third party. By continually and accurately monitoring the rights of third parties and, if there is a possibility of an infringement, implementing swift and appropriate responses, business risk can be reduced and a certain degree of freedom in R&D can be secured.

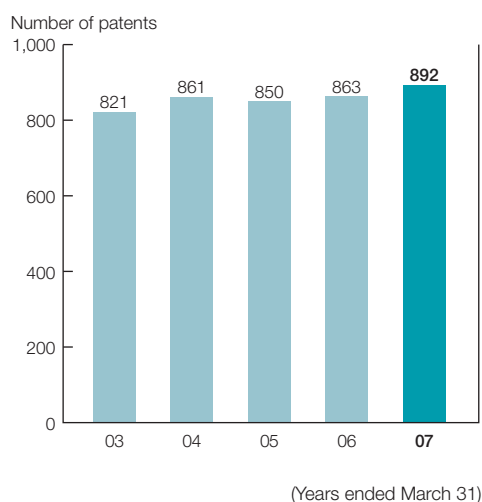
Additionally, the existence of imitation goods outside of Japan is an issue that cannot be ignored. Yamatake strives to protect its intellectual property rights through responses that conform to the circumstances of each nation.

### Status of intellectual property rights

The number of patents that Yamatake holds in Japan ranges from 820 to nearly 900 each year, and the value of these patents is appropriately managed. Meanwhile, it is of the utmost importance to avoid infringing on the rights of existing third parties when participating in new businesses. In expanding into the new field of Life Automation, Yamatake has researched the intellectual property rights of third parties and taken steps to avoid infringement.

Additionally, the Company intends to aggressively add to its patent portfolio in this field going forward. Meanwhile, although the number of patents held overseas declined in fiscal 2006, the overall trend is upward, as we are responding to the globalization of business. Specifically, the number of patents that we hold in the Asia region has increased markedly. The holding of patents in Asia has proved effective in combating imitation goods, and we plan to reinforce our efforts going forward.

### Number of patents held



## Intellectual Property Management

### Control Practices

Patent portfolio management has become an increasingly integral part of managing intellectual property. Due to the necessity of managing the assessment of individual inventions based on product and technology groups, the upgrade of invention assessment databases has become critical. In conjunction, we are shifting to a paperless system for the effective management of patents. To implement these across the board, we are reconstructing our intellectual property management system as an infrastructure required for a paperless system.

### Imitation Goods Countermeasures

The greatest impetus for our enhancement of intellectual property in the Asian region was the appearance of imitation Yamatake products. After the appearance of imitation products in China in 2004, we formulated countermeasures based on intellectual property rights by 2006. We are currently filing patent, design and trademark applications in individual countries and working to strengthen our responses to infringements.

### Rules Pertaining to Employee Inventions

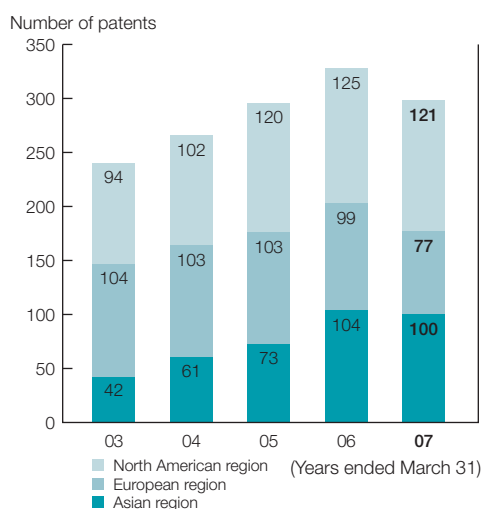
Yamatake revised its rules pertaining to employee inventions on January 1, 2006. With the aim of increasing the motivation of inventors, and in consideration of the amended Patent Law of Japan, we have adopted a system that strengthens the company's intellectual property rights. Additionally, bonuses were paid to inventors based on these rules for the first time.

### Brand Strategy

Brand power is one of the most important business resources for a company. Firms strive to enhance this brand power. Yamatake is no exception, working to strengthen its brand power from the perspective of intellectual property.

In the 100th year of its founding, Yamatake adopted azbil as its new group symbol. In the process of determining the name, Yamatake researched and filed applications for rights in individual nations.

### Number of patents held overseas





During the centennial year of Yamatake's establishment, we formulated a new philosophy regarding corporate social responsibility (CSR) in line with our values as a company. This new stance was aimed at supporting the sustained growth of Yamatake over the next century. With the objective of establishing "CSR management," we continue to integrate and reinforce our efforts in related areas ranging from compliance, internal control and risk management to quality control, the environmental preservation, and occupational safety and health (OSH).

## 1. CSR

We aim to establish CSR management at Yamatake by creating a structure for CSR-related activities and by defining a clear positioning and related targets for such initiatives.

➤➤➤ [Go to P37](#)

## 2. Corporate Governance

We aim to promote sustained growth in the value of the company by fulfilling our corporate social responsibility to observe laws, regulations and business ethics and by establishing social contribution as management policy.

➤➤➤ [Go to P39](#)

## 3. Risk Management

We work to reduce risk by broadening the scope of the internal control that applies to risk management and to legal and regulatory compliance.

➤➤➤ [Go to P40](#)

## 4. Compliance

To promote sound and ethical business activities, we work to ensure that every officer and employee understands and implements our policy of compliance with all relevant laws, regulations and internal rules.

➤➤➤ [Go to P41](#)

## 5. For Employees

We aim to promote greater dynamism in the workforce and within the company by emphasizing links between employees as well as the connections between employees, the company and society in general.

➤➤➤ [Go to P43](#)

## 6. For Local Communities

Recognizing our role in society, we actively develop social contribution activities to try to make a better contribution to society as a corporate citizen.

➤➤➤ [Go to P45](#)

## 7. Quality

Our quality promotion program rests on three pillars consisting of activities to prevent serious defects, to improve quality and to boost quality-related transparency.

➤➤➤ [Go to P47](#)

# Establishment of CSR Management

Promotion of “CSR management” across the entire Yamatake Group is a key element of our three-year medium-term management plan that began in April 2007. We aim to earn society’s trust through scrupulous implementation of CSR-related initiatives in areas ranging from compliance, internal controls and risk management to quality control, environmental preservation and OSH. We recognize this as the basis for sustaining the growth of our business over the long term.

## Strategic Bearings for Establishment of CSR Management

We have instituted core objectives to guide our progress as we aim to establish CSR as the fundamental basis of management.

### Core Objectives

We shall establish and implement CSR management as a world-class manufacturer of a comprehensive range of automation products.

- 1) In CSR-related areas fundamental to corporate existence (“basic CSR”), we shall reinforce and integrate related structures across the Yamatake Group at the Headquarters,

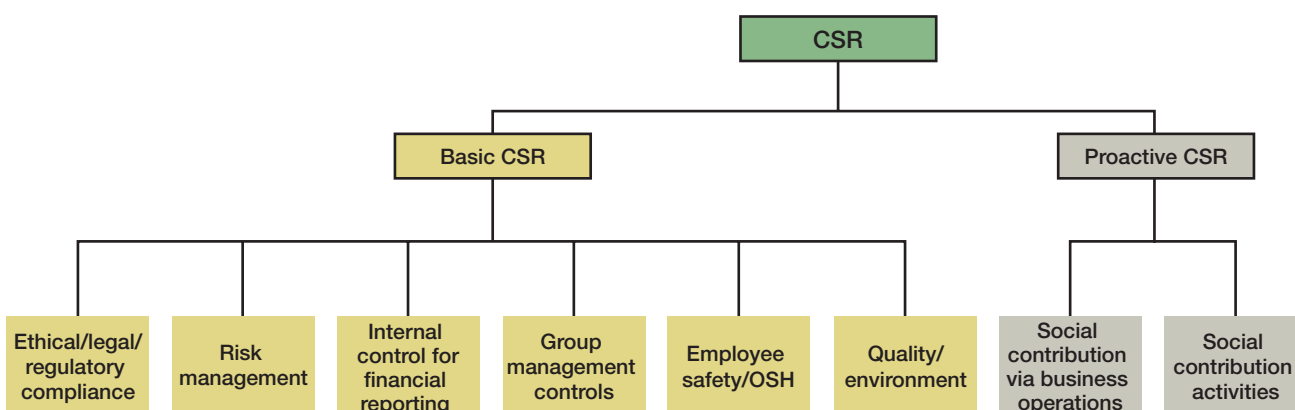
in-house companies and Group companies and cultivate a corporate culture that is conducive to full legal and regulatory compliance.

- 2) While strengthening preparations against risks, we shall develop and establish a framework to respond to and manage emergency situations so that neither public trust nor the value of the company are compromised in the event of any crisis.
- 3) With the aim of building corporate value over the long term, we shall establish and implement goals and promotion methods for “proactive” CSR-related initiatives across the Yamatake Group with regards to CSR in business operations and social contribution activities.

## Domains of CSR-related Initiatives

Based on the core objectives of the three-year medium-term management plan, we considered how to promote key CSR-related measures while moving the Yamatake Group along a common vector in this field. We decided to split related activities into the two areas of “basic CSR” and “proactive CSR.” We identified six key domains within the area of “basic CSR” (see chart below). In each of these domains, we defined key themes for activities. In the area of “proactive CSR,” we defined the two major domains as social contribution activities and CSR promotion within business operations.

We aim to pursue CSR-related activities in a way that is unique to Yamatake by constructing an overall structure for such activities based on the above thinking.



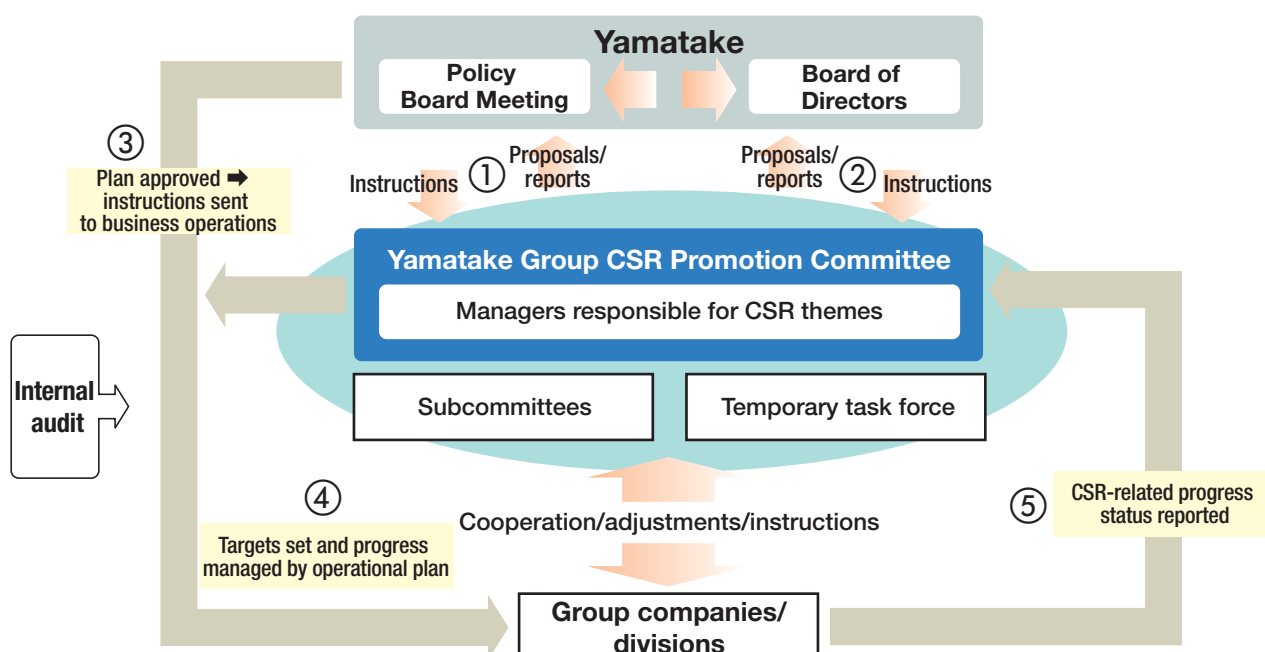
## CSR Promotion Framework

We created the Yamatake Group CSR Promotion Committee to oversee development and management of PDCA cycles for promoting the above broadly targeted activities. Consisting of the senior managers with CSR responsibility at each major company in the Group, this committee meets every other month.

Efforts are underway to build a comprehensive and effective CSR promotion framework. In addition, we are making progress refining internal controls to comply with the Company Law and to ensure the reliability of financial reporting in terms of the Financial Instruments and Exchange Law (FIEL: the Japanese version of Sarbanes-Oxley).

## CSR Promotion Framework

Spearheaded by the Yamatake Group CSR Promotion Committee, we are formulating, executing, evaluating and reporting on plans relating to CSR initiatives.



## Implementation of CSR-related Measures During Fiscal 2006

### Construction and Full-scale Operation of CSR Promotion Framework Group-wide and at Each Company

- 1) Full-scale Group-wide efforts initiated, led by Yamatake Group CSR Promotion Committee
- 2) Creation of promotion systems matched to the circumstances at in-house companies and Group companies in Japan (appointment of managers at each firm with responsibility for CSR promotion as well as persons responsible for individual issues)
- 3) Started with Group companies in Japan. Plan to start initiatives at overseas affiliates in 2007

### Construction of Risk Management System

- Risk management teams appointed to handle quality defect problems or other regulatory compliance issues; development of Group-wide framework ongoing

### Response Capabilities Related to Important or Urgent Issues

- Group-wide educational activities undertaken as required, based on serious compliance-related issues arising at other companies

### Preparations for 3-Year Plan Implementation

- Linkage of performance targets on key issues initiated at each in-house company and Group company in Japan
- Fiscal 2007 operational plans compiled by each in-house company and Group company in Japan for Group-wide activities (enforcing corporate ethics, risk management, etc.)

## Future CSR-related Initiatives

1) Follow-up for Group-wide activities	1. Reinforce implementation of Group-wide activities (enforcing corporate ethics, risk management, etc.) through vertical (business divisions) and horizontal (CSR promotion committees) follow-up.
2) Activities based on fiscal 2006 lessons	1. Reduce risk by broadening scope of risk management and regulatory compliance. 2. Bolster assistance given to overseas subsidiaries. 3. Develop monitoring framework for implementing and instilling compliance mindset by installing internal checking functions and audits by the Internal Audit Office.
3) Proactive CSR activities via business operations	1. Define rationale, scope and policies for Yamatake Group CSR-related activities via business operations. 2. Strengthen social contribution activities on an ongoing basis while taking measures to raise related internal awareness.



# Corporate Governance

As part of ongoing efforts to improve corporate governance, Yamatake has introduced an executive officer system to separate decision-making from operational execution functions at the senior management level, thus ensuring the prompt implementation of business decisions. The Board of Directors and Board of Corporate Auditors provide oversight and audit functions relating to the execution of duties by executive officers.

## Basic Stance on Corporate Governance

Yamatake's stance on corporate governance extends beyond legal and regulatory compliance to encompass fulfillment of business ethics-based social responsibilities as well as social contribution. Yamatake aims to deliver sustained growth in corporate value for all stakeholders through highly efficient, fair and transparent management practices.

## Corporate Governance Framework

### Board of Directors and Executive Officer System

The Board of Directors is responsible for determining basic business policies, for decisions relating to statutory items and other important matters, and for overseeing the status of business execution. To promote swift implementation of Board decisions, the responsibility for business execution and operations is a separate function based on the executive officer system. The Board of Directors meets once a month as a rule. Appointments of external directors and other actions serve to reinforce management and the oversight of business execution functions. Convening twice a month, the Policy Board Meeting includes representatives from the Board of Corporate Auditors and executive officers also serving in senior director roles.

### Corporate Auditor System and Internal Audits

Yamatake employs the corporate auditor system. There were five corporate auditors as of July 1, 2007, including three external auditors; three auditors serve on a full-time basis. Besides attending meetings of the Board of Directors, the Policy Board Meeting and other key internal forums, to assess the status of the business corporate auditors also conduct audits of business sites, including Group companies, and interviews regarding the status of business execution at business divisions with personnel at operating sites. Another role of the corporate auditors is to apply strict auditing procedures to the business and policy decisions taken by directors and executive officers from a legal compliance perspective.

With a staff of seven, the Internal Audit Office conducts regular internal audits of management controls, operational systems, task execution, risk management and other compliance issues. Internal audits cover central functions and divisions as well as the operations of each business division. The Internal Audit Office also provides specific advice and proposals on monitoring or improvement of business operations.

### Independent Directors

Yamatake's Board of Directors had eight members as of July 1, 2007. Three members (including one external director) are directors with dedicated oversight roles but no day-to-day management or operational functions. These independent directors provide management oversight from a broader and more detached standpoint.

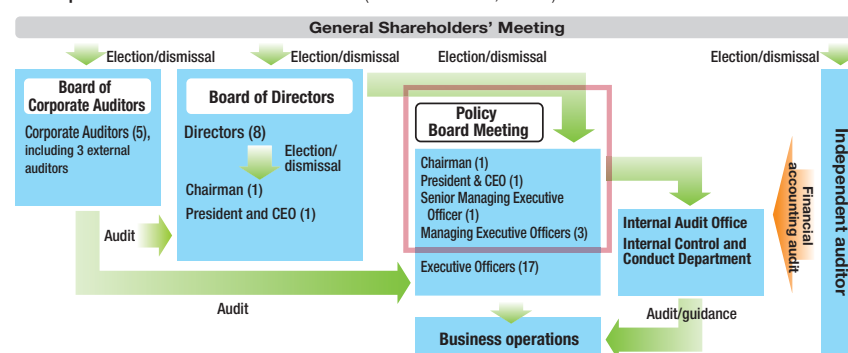
### Remuneration of Directors and Corporate Auditors

Yamatake discloses total remuneration for directors and corporate auditors. Total remuneration paid to eight directors in fiscal 2006 amounted to 324 million yen (compared with a total remuneration ceiling for directors of 450 million yen). For the four corporate auditors, total remuneration in fiscal 2006 amounted to 76 million yen (compared with a ceiling of 80 million yen).

### Internal Control System

As part of compliance efforts relating to the Company Law that came into force in May 2006 and to the Financial Instruments and Exchange Law (FIEL), which is due to come into effect in April 2008, Yamatake is formulating and implementing action plans relating to any points requiring reinforcement or improvement based on a clear identification of current status and related issues. Current plans provide for the precise implementation of internal controls systems and measures. The Board of Corporate Auditors is responsible for confirming the overall functioning of these systems, while the Internal Audit Office monitors the effectiveness of specific measures introduced.

<< Corporate Governance Framework (As of June 28, 2007) >>



# Risk Management

Risk management to assess the risks of various losses and to institute preventive and loss-mitigating measures on a Group-wide basis is critical to ensure stable, sustained growth for the Yamatake Group. We continue to try to reduce risk by broadening the scope of the internal control applicable to management of risks and compliance with relevant laws and regulations.

## Enterprise Risk Management

To date, we have identified specific important risks such as earthquakes, quality and product liability and prioritized resources toward the development of systems to manage them. Going forward, we plan to overlay this approach with a more comprehensive framework to manage internal and external business-related risks from an enterprise standpoint. In fiscal 2006, we compiled basic risk management regulations and began undertaking related management programs coordinated by risk-specific committees and working groups established under the Yamatake Group CSR Promotion Committee. In fiscal 2007, we plan to establish an enterprise risk management framework. This involves constructing systems to identify business-related risks that affect the Yamatake Group, to designate those risks requiring active management or controls, to prioritize response measures and to make overall assessments of the status of such controls.

## Earthquake-related Measures

In 2003, we compiled the Yamatake Group Emergency Response Manual to establish rapid information transmission mechanisms and to define command hierarchies in the event of emergencies, along with the composition of any response groups. In 2004, we updated and expanded the Yamatake Earthquake Emergency Procedure Manual, which was produced originally in 1996 following the Kobe earthquake. In 2005, we upgraded our system for confirming the safety of employees and family members. Using e-mail as well as voice communications, the new system can transmit greater quantities of information more accurately.

In 2006, recognizing that certain regions of Japan where large earthquakes had been thought unlikely to occur are vulnerable to seismic activity, we decided to institute response measures for major earthquakes across all Yamatake Group sites in Japan. Hazard maps detailing the locations of equipment prone to toppling or areas at risk from falling objects have been compiled for

each site, and programs are underway to reduce the number of hazardous on-site areas. Other measures have included making stockpiles of emergency provisions and implementing strategies for identifying employees who could have difficulty returning home or safe routes home in an emergency.

Yamatake has also put into operation at the Shonan factory and Isehara factory an in-house earthquake early warning system that uses real-time seismic bulletins to issue site warnings prior to the arrival of seismic waves. The aim of the system is to provide workers with sufficient time (from several to 30–40 seconds) before shaking begins to reach safe areas. Both sites are undertaking regular evacuation drills based on this system.

## Business Continuity Plans (BCPs)

Yamatake began preparing business continuity plans in 2005 based on the assumption of a major earthquake affecting the Tokai or Kanto regions. In 2006, we undertook business impact analysis for our main businesses, information communication systems and production infrastructure and began implementing advanced proactive programs. We compiled an emergency program and recovery program. We also conducted general earthquake drills at three major sites and drills to confirm the effectiveness of plans based on projected damage scenarios.

## Information Security

In conjunction with the enforcement of privacy legislation in Japan, we have developed and upgraded our management systems for ensuring the security of important information. We have also instituted and revised internal regulations in this area to guard against information security risks. We introduced IC card-based access control systems at the Headquarters and Shinagawa office in 2005, extending the system to major production and development sites in 2006.



Earthquake training drill (Headquarters)



BCP-related drill (Isehara Factory)

# Compliance

Yamatake recognizes that compliance is not just a matter of observing relevant laws, regulations and internal rules, but also requires officers and employees to understand and implement related policies so that sound and ethical business activities across the Yamatake Group earn the trust and respect of society, thus promoting the continued survival and growth of the company.

## Development and Revision of Business Conduct Standards

### Business Conduct Policy

Based on the company philosophy at that time, we formulated and implemented the Business Conduct Policy in 1993 to define standards of business conduct for officers and employees. The policy covers five areas: the public and social responsibilities of the company; compliance with antitrust and other fair trading legislation; respect for human rights; management and use of company property; and promoting environmental protection. We revised the policy in fiscal 2006 to coincide with Yamatake's 100th anniversary and based on our new company philosophy. Copies of the revised policy were displayed across Yamatake Group operating sites and factories in October 2006. The revised policy has also been translated into English and certain other languages for the benefit of overseas affiliates.

### Revised Business Conduct Guidelines

In 2000, based on legal/regulatory compliance and ethical perspectives as well as the Business Conduct Policy, Yamatake formulated a set of business conduct guidelines covering 43 items relating to general operating activities. Since that time, the advent of globalization has helped transform society in Japan, resulting in a much greater emphasis on the fairness, ethicality and transparency of market mechanisms. To reflect such changes, in October 2006 we revised the business conduct guidelines to cover 50 items. The revisions incorporated a number of changes: a more internationalized selection of items; a more proactive underlying stance; use of a declarative format rather than prohibitive

expressions; and the shift to a more results-oriented perspective based on results from compliance monitorings.

Besides distributing copies of the new guidelines to all officers and employees, we organized seminars at Yamatake Group sites across Japan to enable compliance managers to explain the changes to staff. We also incorporated the revised guidelines into training for new recruits and organized training meetings at overseas affiliates. Following this revision, we also aim to expand the application of the code of conduct to include all Yamatake Group companies and other business partners. In other moves, we have published the revised guidelines on our web site and have distributed portable card-size versions of both the Business Conduct Policy and the business conduct guidelines to Group companies and business partners. We are currently in the process of producing localized versions of these materials in English, Chinese and Korean.



Business conduct guidelines



Portable card-size version

## Seminars for Revised Business Conduct Guidelines

From December 2006, we began visiting sales offices and other Yamatake Group operating sites across Japan to explain the background to the revision of the business conduct guidelines, the new compliance framework, legal systems and the need for following the guidelines as the fundamental requirement for business strategy. We organized around 40 seminars across Japan. One thing that did come out of the seminars was the importance of such activities, with many attendees saying that this kind of systematic program of explanatory events should become a regular fixture. One of our main objectives is to get the message about the revised conduct guidelines out to every part of the Yamatake Group, including operations outside Japan. We are developing various measures to accomplish this so that we can play a valuable role in helping all the people working on the frontline. (from interview conducted on February 1, 2007)



Minoru Komiya  
Business Conduct Officer  
Yamatake Corporation



Fumio Shindo  
Business Conduct Officer  
Yamatake Corporation



Seminars for revised business conduct guidelines

## Compliance Promotion Framework

### Corporate Ethics Committee

We established the Yamatake Group Corporate Ethics Committee in February 2000 to oversee promotion of compliance and ethics-related practices on a Group-wide basis. Chaired by the CSR Management Officer, this committee meets every six months. In 2006, new members joined the committee to represent the Yamatake Group companies Kimmon Manufacturing and Royal Controls.

### Internal Control and Conduct Department

Since its establishment in March 2003, the Business Conduct Office has been working to promote and upgrade compliance practices while also working to educate Group employees and to conduct public relations in this area. The department was given a broader mandate and renamed the Internal Control and Conduct Department in March 2007. Efforts continue to improve compliance practices, including programs designed to explain the revised business conduct guidelines, to monitor compliance status, to hold educational seminars on compliance-related issues, and to discuss such issues and related topics using in-house publications.

Besides being the secretariat for the Yamatake Group Corporate Ethics Committee, the department is also involved in the planning and promotion of activities related to CSR, social contribution, total risk management and the FIEL. Ongoing initiatives include development of compliance programs within Yamatake Group companies, preparation of non-Japanese versions of business conduct and ethics guidelines, and the development of activities aimed at overseas affiliates.

### Compliance Promotion Leadership System

In October 2006, Yamatake established a new organizational network of compliance leaders to aid in the development of compliance promotion activities on a Group-wide basis. Under the new system, Compliance Leaders adopt a substantial frontline role in promoting compliance practices and providing relevant guidance (including the development of educational and other activities relating to Yamatake's corporate philosophy, Business Conduct Policy and business conduct guidelines).

Leaders also assume responsibility for the development and operation of specific business conduct guidelines at the workplace and for identifying and reporting related risks. Compliance Leaders are thus responsible for correct communication of Yamatake's management thinking to other workers, with a suitable emphasis placed on the importance of business ethics, and for taking the lead in creating a good example by upholding the company's business conduct guidelines. As a key link between management and the workplace, Compliance Leaders are expected to communicate repeatedly the importance of business ethics to employees at each workplace. At the same time, leaders can develop sensitivity to any compliance-related problems through ordinary communication with subordinates, allowing Yamatake to take swift action if any issues are uncovered.

### In-house Company Compliance Promotion Framework

In line with recent legislative developments in the area, we have undertaken a number of organizational initiatives in an effort to ensure reliability across the Yamatake Group in terms of internal control and financial reporting. These include the CSR Promotion Committee, the Corporate Ethics Committee and the compliance promotion system based on Compliance Leaders. Yamatake in-house companies have also established their own CSR and compliance promotion committees. Under the leadership of top management at each in-house company, these committees provide guidance and seek to raise awareness with the overall aim of promoting compliance with laws relating to business activities, including legislation governing exports and the construction industry, with which Yamatake is deeply involved, as well as antitrust laws. Meetings have been held at sales offices and other operating sites in Japan to explain compliance efforts in these areas.

### Compliance Education

Training for new recruits covers Yamatake's corporate philosophy, Business Conduct Policy and business conduct guidelines, as well as ethics training based on case studies. We have also been organizing online compliance training courses for employees in stages. Most managers and mid-level Yamatake Group employees have now completed this training. The presidents and general managers of overseas affiliates are also receiving compliance training twice a year.

### Internal Whistle-blowing System

In October 2003, we introduced a hotline called "Voice of Conscience" as a channel for whistle-blowers to report compliance issues and to provide a consultation system for employees on such issues. Besides reducing compliance risk, the system's aim is to provide a self-correcting mechanism to aid in the cultivation of a highly ethical corporate culture at Yamatake. From October 2006, the scope of the system was widened beyond the Yamatake Group to include inquiries from employees of business partners and other firms. The whistle-blowing system has both an internal component as well as an external hotline that is operated under contract by a neutral, third-party organization.

We instituted internal regulations on system operation after new Japanese legislation to protect whistle-blowers came into force in April 2006. The results of compliance monitoring in fiscal 2005, and questionnaires conducted as part of the seminars on the revised business conduct guidelines in fiscal 2006, alerted us to the fact that many employees still do not understand that there is a whistle-blowing system or its significance. Numbers of inquiries have been increasing since we began discussing the system as a regular part of business conduct training seminars.



# For Employees

For over 100 years Yamatake has consistently treated employees as “a valuable asset, the source of corporate cultural renewal and the creative fount of corporate value.” Our challenge remains to develop people capable of making a broad contribution to society. Our overall aim is to promote greater dynamism in the workforce and within the company by emphasizing the links between employees, as well as the connections between employees, the company and society in general.

## New Resolve in Centennial Celebration

Based on the concept of “a second century of broader connections,” we organized a major event for employees on November 2, 2006 to celebrate the 100th anniversary of the Yamatake Group. Approximately 8,000 people from Group firms based in Japan and overseas gathered at 9 locations across Japan that were connected using video links. This provided a unique opportunity for many people from Group companies to meet and mingle.

Employees played a leading role in planning these celebrations. In addition, original project ideas from employees included the creation of a centennial *manga* to introduce the history of the Yamatake Group and describe the remarkable work of Yamatake, and the introduction of a new company uniform.

At Yamatake, we believe that links between employees lead to new ideas and plans, which in turn help to reinforce dynamism and creativity throughout the workforce.



An expression of determination by Yamatake Group representatives

## Flexible Re-employment of Retirees

Responding to the enactment of revised legislation in Japan to promote the stable employment of senior citizens, we have expanded and upgraded an existing internal system for post-retirement re-employment. In April 2007, we improved the system to make it more flexible. Provided retirees are healthy and keen to work, this system recognizes the value of the continued front-line employment of people who have reached traditional retirement age because they keep high levels of skills and knowledge. It also affords people the opportunity to utilize their broad experience and to continue demonstrating leadership abilities.

Previously, less than half of those retiring from Yamatake took up re-employment opportunities with the company through the existing system. Since 2006, however, the proportion of retirees opting to play a continued role within the Yamatake Group has increased to more than 70%.

## More Internationally Diverse Workforce

Yamatake has 21 overseas subsidiaries and affiliates based in China, Southeast Asia and other parts of the world. Further expansion of overseas operations requires the development of a more internationally capable workforce. We actively visit university campuses as part of our recruitment efforts, in particular

using special presentations on Yamatake to target exchange students. We also offer 12-month internships to overseas students. This is not only beneficial to the students, but also helps to enhance greater cultural and international awareness among employees through daily workplace interactions. Elsewhere, as part of employee development programs, we are upgrading efforts to cultivate people with global skills through language and cross-cultural training. In 2005, we began providing lessons in basic Chinese after work.

## Promoting Increased Female Participation

Globalization, business diversification and changes in the workplace environment are creating more opportunities for women in the workforce. Yamatake has expanded and upgraded systems offering maternity and childcare leave. As of March 2007, women accounted for 18.3% of Yamatake employees and average length of service among female employees was 16.7 years and rising. We now employ women in many jobs such as in development, sales, systems engineering and customer services, as well as in manufacturing—an area where few women traditionally worked. The April 2007 graduate intake also included women, who were assigned to a wide variety of positions.

## Employment of People with Mental Disabilities

Yamatake Friendly Co., Ltd., a special subsidiary of Yamatake, was set up in 1998 to provide employment opportunities only for people with mental disabilities. Work tasks are designed to help each employee play an active role at the company and within society. While activities provide peripheral support to Yamatake Group businesses, in recent years the volume of externally sourced contract work has also been growing.

With the hiring in April 2007 of three new employees, Yamatake Friendly now has a workforce of 20 people, double the original number at the time of its establishment. Besides employing the mentally disabled, the company also tries to promote greater employment of such people by organizing visits and accepting trainees. As of April 2007, Yamatake Friendly had provided assistance in the establishment of 25 special-purpose corporate subsidiaries with similar missions. Going forward, the goal is to promote the development of workplaces that permit the employment of disabled people without segregation so that more people with various disabilities can attain self-fulfillment and share the joy of work with others.

Company visits and people accepted as trainees (1998–2006)

- Company tours: 2,408 people (in 368 groups)
- Numbers of trainees: 122 (total days: 854)

## Occupational Safety and Health (OSH)

### Mental Health Maintenance

Yamatake has been implementing a Group-wide activity program "to create healthy workplaces" since fiscal 2005. The main emphasis in fiscal 2006 was put on trying to improve workplace environments by conducting management-led discussions with all employees. Industrial OSH counselors have been assigned to all major operating sites. A system is in place to implement any measures that are required for the safety and security of employees, based on the guidance of mental health specialists. A network counseling service is also available to employees for casual consultations. In addition, "stress checks" are conducted on employees periodically to assess stress levels among the workforce and to help raise awareness of the need to maintain good mental health.

### Prevention of Work-related Injuries

Yamatake regards maintenance of employee safety and health as essential for continuous corporate activity. Company policy is to promote activities to ensure the provision of safe and comfortable working environments and to maintain individual health. Site safety patrols are conducted each month. Each operating site also has a dedicated committee to oversee OSH issues by organizing meetings along with a program of other site-based activities. Yamatake factories are especially highly committed to maintaining a record of zero absences from work due to work-related accidents. The Fujisawa Technology Center has even received official Class 5 certification for its continuous record as an accident-free workplace.

### Introduction of Access Management Systems

As part of the drive "to create healthy workplaces," we are developing systems that will provide objective measures of time spent at work. Using the security systems supplied by the Building Systems Company, we introduced an access management system at the Fujisawa Technology Center in November 2006 to provide an automatic record of access times by employees. A similar system was installed in March 2007 at the Shonan Factory, and plans call for further installations during fiscal 2007 at the Isehara Factory, the Headquarters and other Group sites.

We have also begun operating a more advanced system of working records. Covering overtime and holidays, the new web-based system allows employees to apply for and receive approval in advance. It went into operation at Yamatake Group sites in western Japan from October 2006 before going nationwide in April 2007.



This site access reader "guards" the entrance to the Fujisawa Technology Center.

The combined use of these systems will give managers better knowledge of who is on site at any given time while also providing a tool for enhanced compliance with Article 36 of the Labor Standards Law governing overtime and holiday work and other laws.

### Overseas Exchange for Employees' Children

Since 1991, we have been working in conjunction with Youth For Understanding International Exchange to enable the children of Yamatake Group employees to visit the United States for a year. Through fiscal 2006, a total of 22 children from Japan had received the benefit of this valuable overseas experience.

In 2007, several Japanese female high school students will live with the families of teachers at the Weirton Madonna High School in West Virginia, USA, on an extended home stay basis and get the chance to attend this school to study and join in sporting activities.



The Japanese student with a student from Germany studying in the U.S. in front of the White House

### Occupational Skills Development

Yamatake organizes training programs as part of human resources development, with a special emphasis placed on occupational skills training. In the building systems field, the HR Development Promotion Committee has established five sub-committees to oversee efforts in particular areas of occupational skills training. Both internal and external training resources are utilized to help employees gain various official qualifications, based on internally compiled skill maps. In 2006, more than 50 occupational skills training programs were conducted for over 900 participants. In addition, over 3,000 participants took various e-learning courses. Combining these figures, each Yamatake employee attended more than 1.5 courses per year on average.

### Labor-management Relations

Yamatake adopted a labor accord in June 1978 that was based on a "joint productivity declaration." The spirit of this agreement underpins Yamatake labor-management relations to this day, which are primarily focused on efforts to boost productivity amid rapid change in the business environment due to globalization.

Recently, the labor-management committee, a two-way communications forum, has taken up the additional challenge of reforming Yamatake's personnel and welfare systems based on the concepts of work-life balance and diversity.

Our aim remains to cultivate a harmonious balance between the organization and the needs of the individual, based on the core "human-centered" concept and the existing labor accords.

# For Local Communities

Based on the “human-centered” concept and other ideas embedded in the Yamatake Group symbol **azbil**, we are highly conscious of the role that is expected of us as a good corporate citizen in trying to improve society and enrich individual lives while helping to protect the global environment. We continue to work on developing unique social contribution activities to play an active role in areas such as the environment, education, welfare and other community-oriented initiatives.

## Social Contribution Activities

We undertook a comprehensive review of social contribution activities as part of the formulation of the Yamatake Group philosophy in fiscal 2006. This review confirmed our focus on developing unique social contribution activities to respond to social issues such as environmental preservation in a “human-centered” fashion, based on the concepts embedded in the Yamatake Group symbol **azbil**. The promotion of social contribution activities as a matter of company policy also recognizes our important role as a corporate citizen in actively realizing CSR-related initiatives.

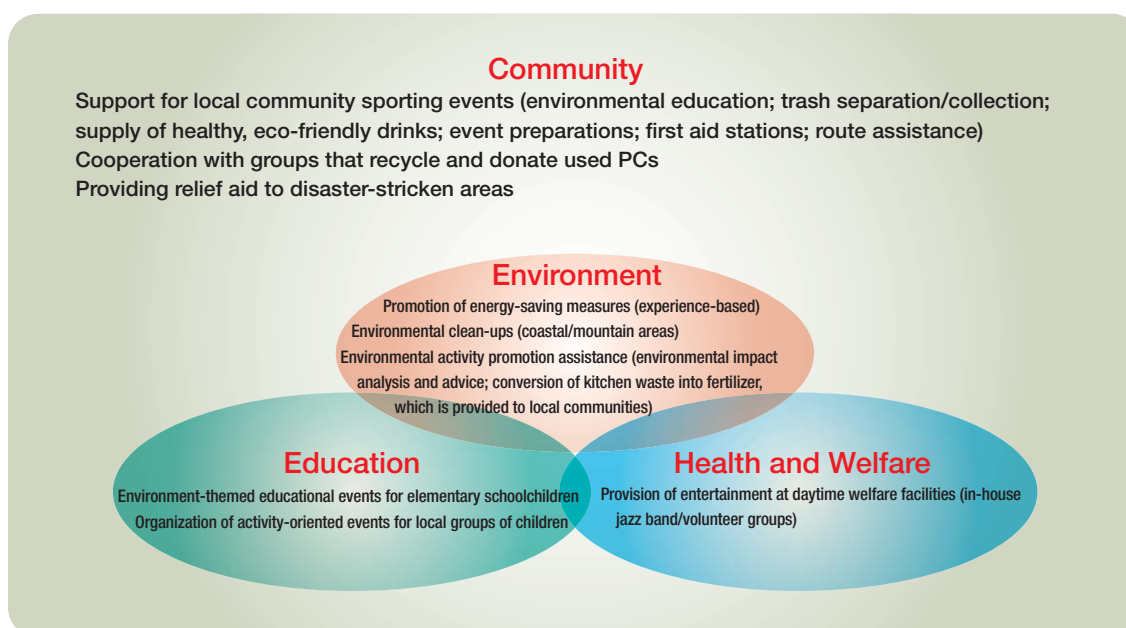
Yamatake Group social contribution activities often have a highly local flavor. For instance, as part of helping the local community in Shonan, the location of a major operating site, we provided assistance in supporting the environmental activities of the Shonan International Marathon (Please refer to the Feature on p. 21–23 for more details.)

## Yamatake’s Stance on Social Contribution Activities

- ◆ Undertake meaningful, human-centered activities that realize safety, comfort and fulfillment in people’s lives
- ◆ Implement activities that are mutually beneficial to our stakeholders and us, in respecting various stakeholders
- ◆ Promote activities in which employees will participate on an ongoing basis and that will become a core part of our corporate culture

## Major Areas of Social Contribution Activities

We consider our strengths and characteristics as a company before deciding where to focus our efforts. The four main areas where Yamatake was actively involved in social contribution activities in fiscal 2006 were the environment, education, health and welfare, and community initiatives. Activities in these areas are outlined below.



## Environmental Activities

### Nationwide Clean-up Activities

Each year, employees working at the Yamatake production and technology facilities in Fujisawa, Shonan and Isehara take part in clean-up activities. In fiscal 2006, over 300 people and their family members participated. Sales offices and other operating sites around Japan also organize local clean-up activities. These events place a strong emphasis on improving links between employees and family members with local communities.



<< Clean-up Activities Undertaken at Advanced Automation Company >>

Shizuoka office	Participation in river clean-up environmental program
Fuji sales office	Sweeping of streets around site every Monday morning
Kansai branch	Participation in Clean Osaka 2006 event
	Monthly activities (Sakura-no-miya Park, Genpachi Bridge)
Chugoku branch	Participation in zero-waste and clean-up activities
Iwakuni office	Cleaning of gutters and area around site

## Voluntary Social Welfare Activities

### Voluntary Social Welfare Activities by Employees

Originally formed in 1962, the *Koguma-kai* is a group of Yamatake employees that organizes volunteer activities for the benefit of Shinwa Gakuen, a local institution for the mentally disabled in Kanagawa Prefecture, Japan. Group members have now been helping this institution for 45 years, including organizing 33 excursions to climb Mt. Fuji and other peaks and 22 soccer matches (now a regular fixture). The group focuses mainly on physical events in which everyone can participate. Although most are now retired employees, several current employees are also group members. The group also tries to use its activities to span the generational divide.



## Education

### "Ueno Eco-Kids Expedition"

The Social Contribution Promotion Office and Environmental Promotion Office help to organize this unique program jointly with staff at the Social Education Center of Taito Ward, Tokyo. The approach taken is to explain local history and culture from an environmental angle. Working in collaboration with university and other local groups, four expeditions were organized in fiscal 2006. Besides helping the center achieve its stated mission of "enlivening the local community," these activities also provide a way for Yamatake employees to contribute to society.



## Community

### "Earth Day Tokyo 2006"

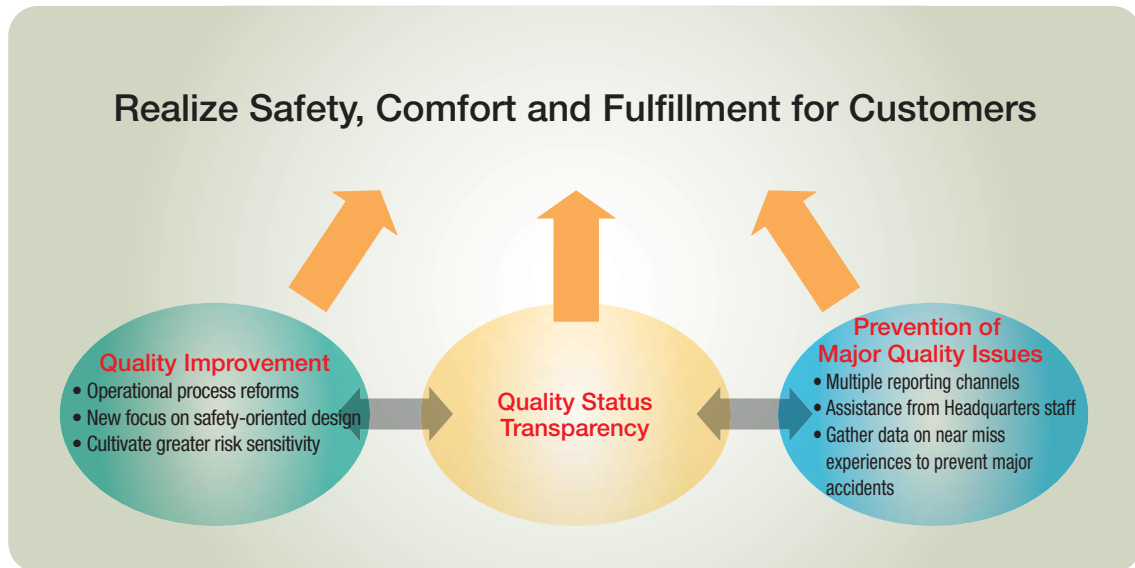
Yamatake was a sponsor of "Earth Day Tokyo 2006," a local event to promote greater environmental awareness. We installed our industrial kitchen waste processor on the event site to recycle the wastes generated on-site into fertilizer for use in various local greenery activities in Shibuya Ward, Tokyo, including a flower-planting project. This contributed to local recycling efforts. We also helped organizers in calculating the reduction in environmental impact from the event. This will help in staging "Earth Day Tokyo 2007" as well.





# Quality

Through the products and services of the Yamatake Group we strive to realize safety, comfort and fulfillment in people's lives. We started a new company-wide program in April 2007 aimed at improving quality and safety. The program's three policies focus on accident prevention, quality improvement and quality status transparency.



## Activities to Prevent Serious Accidents

Just one mistake in responding to an accident could mean major business losses for us or for our customers. To prevent this, we have developed multiple reporting systems to ensure that information is accurately conveyed in the event of an accident, along with systems to enable Headquarters staff to provide assistance in responding to any incident. These measures help minimize the related effects and contain problems. They also ensure that any quality issue does not compromise trust in the quality of Yamatake as a whole.

Secondly, we are increasing the sensitivity of staff to risk during training. For instance, training courses include case study-based exercises to simulate scenarios involving serious incidents.

Third, responding to increased interest in product safety in Japan, we have established a new corporate safety design department to be responsible for promoting safety-oriented design. This group is working to enhance product safety from the design stage.

## Quality Improvement Activities

Our activities aimed at improving quality focus on reducing the incidence of defective products at all stages from production and design to after-sales service and systems engineering. To this end, we have upgraded our approach to emphasize the need to determine the precise causes and consequences of any defective occurrences. At the same time, we are also focusing on promoting operational process reforms so that we can identify and correct any fundamental causes of defective products.











## Activities to Enhance Quality Status Transparency

The principal aim of Yamatake's business activities is to help realize safety, comfort and fulfillment in people's lives. We are using questionnaire-based surveys to assess whether quality improvement reforms translate into increased customer satisfaction with the quality of Yamatake products and services. Another aim of this research is to establish whether our efforts to promote the **azbil** brand are helping to raise awareness and to enhance brand value perception among customers.

We have created various internal indicators to measure levels of customer satisfaction and to assess quality defects in products and services on site. Using the survey results, we plan to gauge whether our quality-related programs are helping to improve quality and raise customer satisfaction.

# Environmental Report

The Yamatake Group has designated its environmental management strategy as an integral part of its management plan. Setting environmental goals, the Group works toward them using the PDCA (Plan, Do, Check, Act) cycle. The Group is advancing environmental preservation activities under three principal categories: Eco Management, Eco Products and Eco Services, and Eco Factories and Eco Offices.

Self-assessment grading:  Goals achieved  Goals partially achieved  Goals not achieved			
	Fiscal 2006 Environmental Highlights	Self-assessment	Page
Eco Management	<ul style="list-style-type: none"> <li>Implemented revision of environmental management system (EMS) organization along with reorganization of production and operating sites</li> <li>Yamatake Korea acquired ISO 14001 environmental management certification</li> <li>Trial introduction of environmental efficiency indicator—Yamatake Corporation's environmental efficiency up 5.0%</li> </ul>		51–54
Eco Products and Eco Services	<ul style="list-style-type: none"> <li>Established system for managing chemical substances regarding RoHS Directive-restricted substances</li> </ul>		55–56
	<ul style="list-style-type: none"> <li>A total of 24 suppliers have completed setting up their environmental management systems and registering under the Yamatake Eco Program (YEP)</li> <li>Proportion of products earning Yamatake Group Environmental Label certification was 90%</li> <li>Life cycle assessment (LCA) implementation rate was 20%</li> </ul>		
Eco Factories and Eco Offices	<ul style="list-style-type: none"> <li>CO<sub>2</sub> emissions per unit of sales at Yamatake Corporation improved by 3.7%</li> <li>Responded to new shipper requirements under the revised Law Concerning the Rational Use of Energy</li> </ul>		57–59
	<ul style="list-style-type: none"> <li>Zero emission status was maintained at all factories of Yamatake Corp. Recycling rate for waste was 99.2%</li> <li>Yamatake Control Products Co., Ltd. achieved zero emissions</li> <li>Reduced volume of paper purchased for printing and copying by 6.3% per unit of sales</li> </ul>		
	<ul style="list-style-type: none"> <li>Completed implementing measures against airborne asbestos emissions</li> </ul>		
	<ul style="list-style-type: none"> <li>Yamatake Corporation's Shonan factory completed substitution for 23% of its dichloromethane usage</li> </ul>		

\* Scope of report: Yamatake Group

In particular, main operating sites of Yamatake Corporation (Fujisawa Technology Center, Shonan factory and Isehara factory), Yamatake Control Products Co., Ltd., and Taishin Co., Ltd.

# Environmental Impact Throughout Our Business Activities

The Yamatake Group conducts a variety of environmental preservation activities throughout the lifecycle of a product, from development and design, to use, disposal and recycling. The Group quantitatively assesses the environmental impact of its business activities and undertakes environmental protection activities to prevent global warming, promote environmentally-conscious design, reduce waste, and conserve resources.

Scope: Yamatake Corporation's Fujisawa Technology Center, Shonan factory and Isehara factory  
Yamatake Control Products Co., Ltd., and Taishin Co., Ltd.

■ Electricity	32.0 million kWh	■ LNG	212,000 m <sup>3</sup>
■ Heavy oil* <sup>1</sup>	0.0 kl	■ Water	98,000 m <sup>3</sup>
■ Kerosene	28.0 kl	■ Paper	17.4 million sheets
■ LPG	133,000 m <sup>3</sup>	■ Natural energy* <sup>2</sup>	0.2 million kWh

## INPUT

### Development



- ◆ Environmentally-conscious design
- ◆ Chemical substances measures

P.55–56

Based on its environmental design guidelines, which were drafted in 1997, the Yamatake Group assesses the design of products from the point of view of the environment for all stages of their lifecycle. Products that pass this assessment earn a Yamatake Group environmental label.

### Procurement



- ◆ Green procurement

P.56

The Group has strengthened its measures for the management of chemical substances in its products. In addition, the Group continues to expand its Yamatake Eco Program, which supports the environmental activities of its suppliers.

### Production



- ◆ Global warming countermeasures
- ◆ Waste reduction
- ◆ Resource conservation

P.57–59

The Group is promoting the reduction of CO<sub>2</sub> emissions from energy use. In waste reduction, Yamatake Corporation achieved zero emissions at all its factories in fiscal 2005.

## OUTPUT

■ Greenhouse gas (CO <sub>2</sub> ) emissions	13,451.4 tons	■ Chemical substance airborne emissions	2.2 tons
■ Total discharge of waste	1,573.1 tons	■ SOx emissions	11.8 tons
■ Waste for final disposal	11.8 tons	■ NOx emissions	9.3 tons

\*<sup>1</sup> There has been no use of heavy oil since fiscal 2005.

\*<sup>2</sup> Since natural energy is clean energy, it is deemed to have no environmental impact.

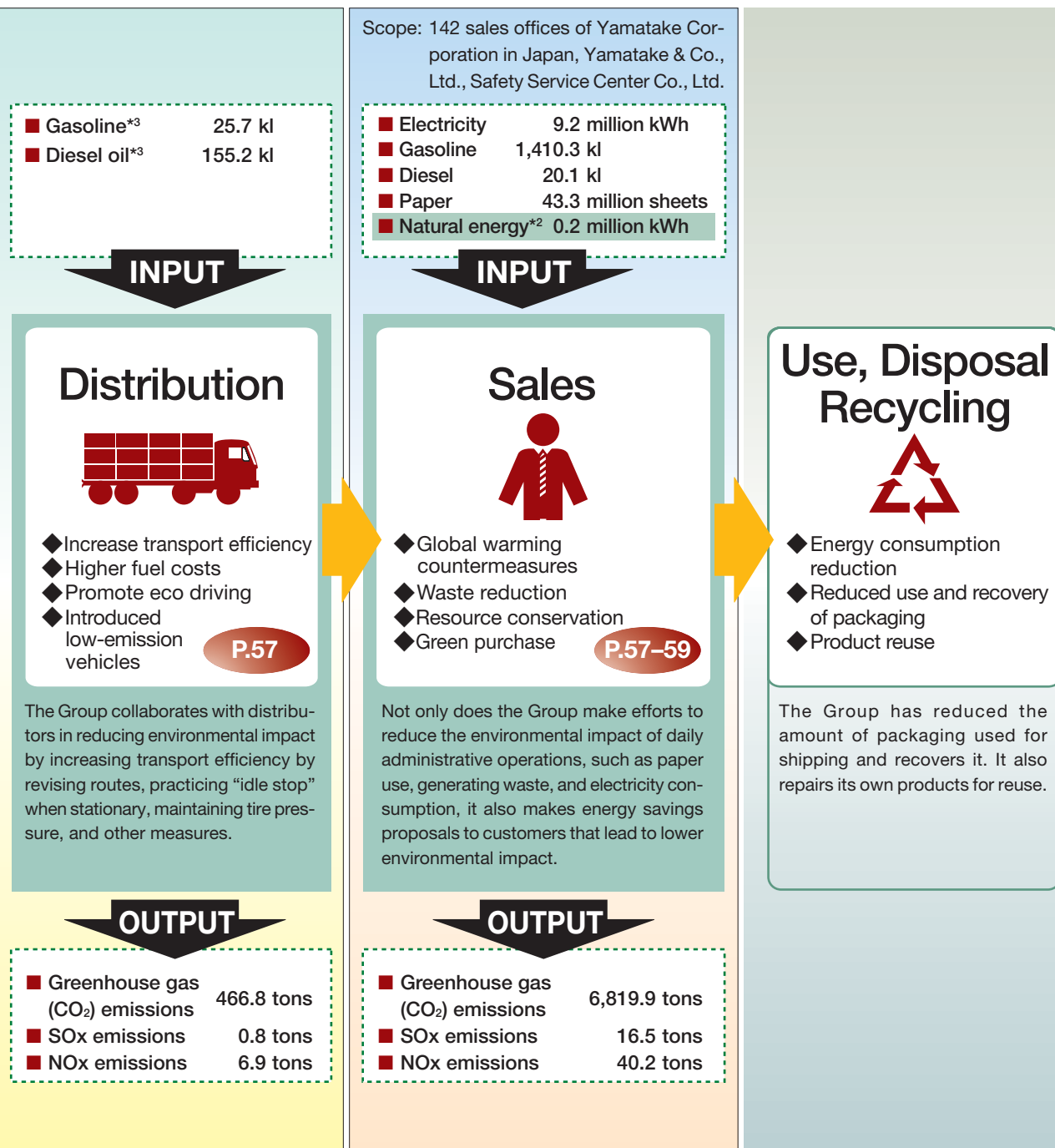
## Yamatake Group's fiscal 2007 objectives

Contribute to improving the global environment by reducing CO<sub>2</sub> emissions in operations and improving environmental efficiency.

Heading toward 2008, the start of the first commitment period under the Kyoto Protocol, the Yamatake Group has positioned the prevention of global warming as one of its top priorities, and is thus working on a Group-wide basis to reduce CO<sub>2</sub> emissions. Furthermore, the Group is endeavoring to increase its operating efficiency and improve the level of environmental management to support the sustainable growth of society.

Item	Objectives for Fiscal 2007
CO <sub>2</sub> emission reduction	<b>-1% reduction year on year</b> Implement energy conservation measures at all operating sites. Launch the energy conservation task, set concrete targets, and formulate reduction and capital investment plans. In addition, aggressively introduce substitutes for fossil fuels.
Improve environmental efficiency indicator*	<b>-4% improvement from a year earlier</b> Endeavor to improve environmental efficiency, actively reducing environmental impact by revising business processes, reducing energy use, and conserving resources.

\* Environmental efficiency indicator = Net sales ÷ Environmental impact



\*<sup>2</sup> Since natural energy is clean energy, it is deemed to have no environmental impact.

\*<sup>3</sup> Charter services and services by commissioned transport companies are not included.



# Management System

Yamatake conducts environmental activities on a Group-wide basis based on its environmental charter and environmental policy. Based on the PDCA (Plan, Do, Check, Act) cycle, the Group continuously endeavors to improve its activities aimed at reducing or preventing the environmental impact and risk of its corporate activities.

## Environmental Charter and Policy

In the philosophy underlying the new Group symbol azbil (Automation-Zone-Builder) created in fiscal 2006, the Yamatake Group has declared environmental preservation to be a top-priority management issue. Acting on that commitment, the Group is developing ongoing environmental preservation activities that contribute to creation of a recycling-oriented economic society capable of sustainable growth. The spirit behind these activities has been consolidated in the Yamatake Group Environmental Charter. Based on the charter, individual Group companies have formed and pursue their own environmental policies.

### Yamatake Group Environmental Charter

The Yamatake Group is committed to realizing its Group philosophy under its Group symbol, azbil. Addressing environmental issues is one of our most pressing management tasks. Our progressive attitude towards the environment, reflected in our operations both in Japan and abroad, demonstrates our commitment to the formation of a sustainable, recycling-oriented economic society, and our desire to become an environmentally-committed company.

1. We will comply with all domestic and international environmental regulations.
2. We will ensure that consideration for the environment is reflected in all of our operations by working to prevent pollution, conserve energy and resources, reduce industrial waste, and promote recycling.
3. We will develop environmentally-conscious products and services.
4. We will promote the purchase of materials and equipment that minimize environmental impact.
5. We will actively provide products, services and solutions that support measures to improve the environment.
6. We will sponsor education programs to increase awareness of environmental issues, and conduct activities designed to encourage all people to take responsibility for protecting the environment.
7. We will fully disclose information about our environmental activities and promote communication with society.

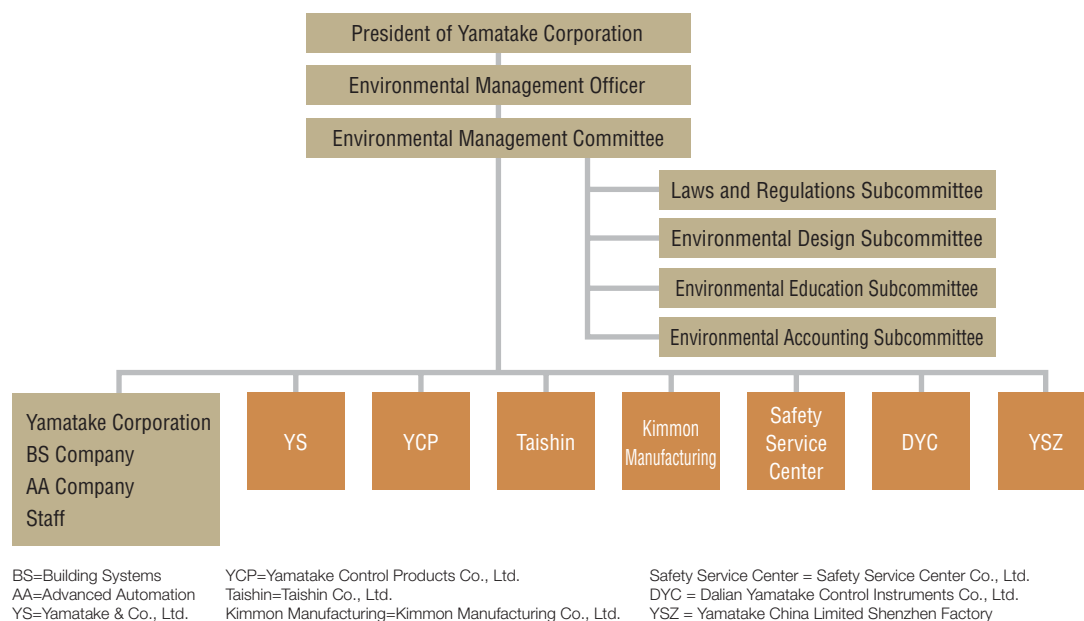
For details of the environmental policies of Group companies, please see our website (Japanese only).

(<http://www.yamatake.com/csr/eco/index.html>)

## Structure for Promoting Environmental Activities

Yamatake has an organizational structure encompassing the whole Group for promoting environmental preservation activities on a Group-wide basis. The Environmental Management Officer, who plays a central role in these activities, reports directly to the President of Yamatake Corporation. This officer oversees all environmental preservation activities and assists the President. The Environmental Management Committee is positioned as a body for overseeing the environmental management of the Group. It discusses and reviews all environmental management issues and plans. Attached to this committee are several subcommittees, which examine environmental themes common to the whole company as well as specific environmental issues.

### << Environmental Promotion Structure >>



## ISO 14001 Certification

In 1996, the Yamatake Group was the first in the control instrument industry in Japan to obtain ISO 14001 certification. Since then, we have been progressively acquiring ISO 14001 certification for all our bases. Among other achievements, we qualitatively upgraded our management level in February 2004, integrating the environmental management system of Yamatake Corporation with the aim of increasing the efficiency of ongoing management. In fiscal 2005, Yamatake extended the scope of the environmental management system to all sales offices and operating sites in Japan. Overseas, the Group continues to make progress with obtaining certification.

### << ISO 14001 Certification History >>

Aug. 1996	Yamatake Corporation
Sept. 1997	Yamatake Control Products Co., Ltd.
Oct. 1997	Kimmon Manufacturing Co., Ltd.
July 2000	Taishin Co., Ltd.
Dec. 2001	Dalian Yamatake Control Instruments Co., Ltd.
Feb. 2004	Yamatake & Co., Ltd.
June 2004	Yamatake Corp. certification integrated
June 2006	Yamatake Korea Co., Ltd.

\* The certifying bodies were as follows: Yamatake Corporation (Lloyd's Register Quality Assurance Limited), Kimmon Manufacturing Co., Ltd. (Japanese Standards Association (JSA)), Dalian Yamatake Control Instruments (China Quality Certification Centre), Yamatake & Co., Ltd. (The High Pressure Gas Safety Institute of Japan), Yamatake Korea Co., Ltd. (DAS Korea International Certification Co., Ltd.), and for others the SGS Japan Inc.

### First ISO 14001 certification of overseas sales subsidiary

In June 2006, Yamatake Korea (YKC) became the first overseas sales subsidiary to obtain ISO 14001 certification. YKC made thorough efforts to improve environmental measures at its head office, which houses the sales, technology, and administration divisions. The head office reduced the use of paper, cut lighting and heating expenses through improved work efficiency, introduced environmentally friendly packaging, and took other steps. In the current fiscal year, the subsidiary is considering new measures to continue to put its EMS to good use.



## Environmental Auditing

To verify that the environmental management system (EMS) is continuing to be effective, we conduct internal audits twice annually and an external audit is also conducted once a year. The internal audits check not only the state of the EMS in each division, but also whether the EMS Promotion Division is effectively operating the EMS. The fiscal 2006 external audit found no problems with the EMS. As items for improvement, the external audit indicated that the waste agreements of some operating sites did not suffice. In response, we implemented measures to strengthen the education of employees in charge of waste management to ensure thorough compliance with all requirements stipulated by legal regulations.

## Environmental Education

The Yamatake Group considers environmental conservation to be one of its most important issues, and keeps environmental conservation constantly in mind in pursuing its business activities. To increase individual awareness of environmental issues and promote an understanding of its environmental activities with the EMS, the Group conducts educational courses by employee position (Please refer to table below). The Group also runs an internal auditor training course—an original Yamatake course—which was completed by a total of 122 employees in fiscal 2006. Because the Group also has environmental activity programs overseas, it provides environmental training for employees in Japan before transferring them overseas. Through these measures, the Group is steadily expanding its environmental preservation activities network.

### << Environmental Education Record >>

	Course content	Total no. of participants	Total no. of hours spent
Employment stage	New employee training, mid-level employee courses	166	713
Experts	Internal auditor training, management and monitor courses	181	2,311
Factory training	General environmental courses	12,569	3,793

\* Records of Yamatake Corporation's Fujisawa Technology Center; Shonan and Isehara factories; and Yamatake Control Products Co., Ltd.

\* In fiscal 2006, one environmental session was held for the environmental officer of an overseas sales subsidiary (Taiwan) and 21 employees received environmental training before being transferred to overseas operations.

# Environmental Accounting

The Group uses environmental accounting to quantify the costs of its environmental activities and their economic and environmental benefit to enable the continued and efficient pursuit of those activities. We introduced environmental accounting in fiscal 1999 and are steadily revising and expanding the scope of the accounting system.

## Trial of Environmental Management Indicator

To enable sustained progress in activities to improve the environment, we introduced an environmental efficiency goal as an environmental management indicator on a trial basis from fiscal 2006, augmenting the previously used total volume reduction goal. With the introduction of this indicator, environmental preservation activities are now linked with business activities. In addition, the indicator supports our goal of carrying out business operations that are efficient and have as little environmental impact as possible. In the first fiscal year of its use, we concentrated mainly on office-related operating sites, targeting and achieving a 5% improvement over the previous fiscal year.

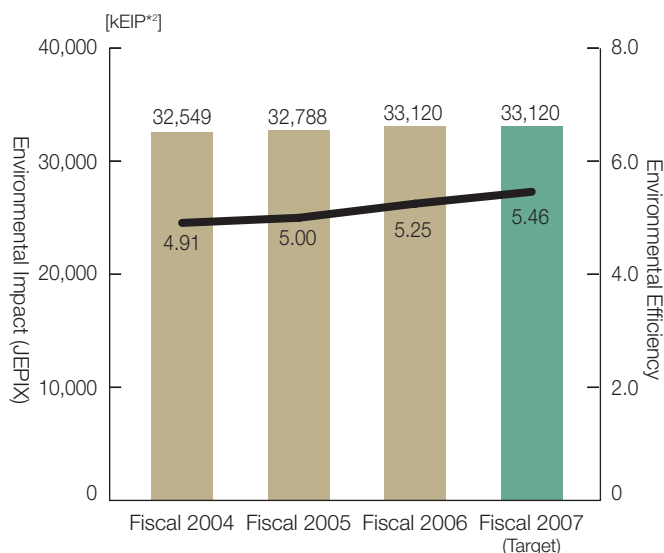
In fiscal 2007, we are expanding the use of the indicator. We are also continuing its use on a trial basis to further the ongoing debate for using it effectively as an environmental management indicator.

$$\text{Environmental efficiency} = \frac{\text{Net sales}}{\text{Environmental impact (JEPIX*)}}$$

\*1 JEPIX: Environmental Policy Priorities Index for Japan  
(Reference URL: <http://www.jepix.org/>)

\*2 EIP: Environmental Indicator Point

<< Environmental Impact and Environmental Efficiency >>



## Example of Trial Basis Introduction of Environmental Efficiency: Yamatake Corporation, Building Systems Company, Nagano Office



Sachiyo Murakami  
Nagano Office  
Building Systems Company  
Yamatake Corporation

For the Nagano Office, we began by analyzing the environmental impact of the office. We discovered that our use of gasoline accounted for about 65% of our environmental impact. Targeting improvement in our environmental efficiency, we made sure that all office employees consciously tried to reduce their use of gasoline. Given that automobiles are the only way to get around in Nagano, every day was a process of trial and error. In other areas, we determined that reductions in the use of paper or in waste did not contribute much to improving the environmental efficiency. Therefore, we need new measures to keep up our motivation. Going forward, I intend to continue the process and deal with the issues, working toward improvement in environmental efficiency.



Hideyuki Yamawaki  
Environmental Protection Section  
Environment & Standardization  
Promotion Department  
Yamatake Corporation

To continuously improve the environmental efficiency, you must, of course, increase the efficiency of your work. But you also need to change your thinking from the traditional business mode. The use of gasoline, electricity and air conditioning, which accounts for most of the environmental impact, is linked to a certain extent to the amount of work done. This tradeoff makes it difficult to set environmental goals. To address this problem, we distributed simulation software to all offices. Using the software, offices can freely set their own reductions of environmental impact, enabling them to more simply target improvement in their environmental efficiency. This new tool afforded each office an opportunity to think about balancing work and environmental impact.

## Results of Environmental Accounting

During fiscal 2006, we made capital expenditures totaling approximately 282.8 million yen, up 149.7 million yen from a year earlier. These expenditures were allotted to the relocation of facilities due to reorganization of operating sites, construction of new buildings, the upgrading of the energy-use reduction devices in existing facilities, and other capital investments. Environmental protection expenditures rose especially because of the Group's promotion of the installation of energy-use reduction facilities in light of the top priority given to preventing global warming. However, pollution prevention costs declined because of a pause in recent efforts to improve harmful chemical substance-related measures. Total environmental expenditures rose 80.4 million yen, to 979.5 million yen, driven up by the increase in global warming prevention expenditures, as with capital expenditures. Furthermore, research and development expenses increased due to active R&D on reducing energy use.

Target period

Fiscal 2005: April 1, 2005 to March 31, 2006

Fiscal 2006: April 1, 2006 to March 31, 2007

### << Environmental Conservation Cost >>

(Millions of yen)

Category	Key activity and the outcome	Investment			Cost		
		Fiscal 2005	Fiscal 2006	Change	Fiscal 2005	Fiscal 2006	Change
(1) Environmental conservation cost to control environmental impacts which result from key business operations within the business area (Business area cost)	1. Pollution prevention cost	84.7	38.1	-46.6	85.1	24.1	-61.0
	2. Global environmental conservation cost	47.7	225.2	177.5	28.3	102.4	74.1
	3. Resource circulation cost	0.7	10.5	9.8	71.8	68.0	-3.8
	<b>Total of above</b>	<b>133.1</b>	<b>273.8</b>	<b>140.7</b>	<b>185.2</b>	<b>194.5</b>	<b>9.3</b>
(2) Environmental conservation cost to control environmental impacts which result from key business operations upstream or downstream (Upstream/downstream cost)	—	0.0	0.0	0.0	0.4	0.4	0.0
(3) Environmental conservation cost stemming from administrative activities (Administration cost)	Maintaining ISO 14001 certification, environmental information disclosure, environmental advertising, environmental education, greening and beautification of offices, etc.	0.0	0.0	0.0	167.5	191.8	24.3
(4) Environmental conservation cost stemming from R&D activities (R&D cost)	R&D in such fields as the environment and alternative energy	0.0	0.0	0.0	544.7	591.6	46.9
(5) Environmental conservation cost stemming from social activities (Social activity cost)	Cleaning rivers, waterfront, and other areas	0.0	9.0	9.0	1.3	1.2	-0.1
(6) Cost incurred for dealing with environmental degradation (Environmental remediation cost)	—	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>		<b>133.1</b>	<b>282.8</b>	<b>149.7</b>	<b>899.1</b>	<b>979.5</b>	<b>80.4</b>

\* Scope of calculations

Major three operations of Yamatake Corporation (Fujisawa Technology Center, Shonan factory, Isehara factory) and Yamatake Control Products Co., Ltd.

### << Economic Benefit Associated with Environmental Conservation Activities >>

(Millions of yen)

Details of benefit	Fiscal 2005	Fiscal 2006	Change
Disposal cost saving through lower resource input or recycling	28.2	49.5	21.3
Energy expense saving through energy conservation	-5.6	-39.2	-33.6
Cost saving from reduced resource use (Water)	3.2	-3.4	-6.6
<b>Total</b>	<b>25.8</b>	<b>6.9</b>	<b>-18.9</b>

\* Scope of calculations

Major three operations of Yamatake Corporation (Fujisawa Technology Center, Shonan factory, Isehara factory) and Yamatake Control Products Co., Ltd.

### << Environmental Conservation Benefit >>

Details of benefit	Fiscal 2005	Fiscal 2006	Change
Electricity (Million kWh)	35.2	41.2	6.0
Water (10,000 m <sup>3</sup> )	9.8	9.8	0.0
Gasoline/diesel for transport (kl)	1,575.6	1,611.2	35.6
CO <sub>2</sub> emissions (tons)	19,493.7	20,738.1	1,244.4
Total discharge of waste (tons)	1,522.3	1,573.1	50.8
Waste for final disposal (tons)	24.2	11.8	-12.4

\* Scope of calculations

Yamatake Corporation, Yamatake Control Products and Taishin (Some figures for fiscal 2006 include data from Yamatake & Co., Ltd., and Safety Service Center Co., Ltd.)

\* Environmental conservation cost is presented in a format equivalent to that given in the Ministry of the Environment's Environmental Accounting Guidelines 2005.

\* Since the amounts represent the cost and benefit of activities to reduce the environmental impact, primarily production-related activities, the income and expenses from the environmental business and environmentally-conscious products and services are not included.

\* Capital investment is fully booked in the fiscal year they were made, but are not included in the depreciation expenses calculation.

\* Deemed benefit is not included. Economic benefit is limited to actual benefit, such as amounts saved due to reducing energy use.



# Environmentally-conscious Products and Services

In 1997, Yamatake drafted its environmental design guidelines for the development of environmentally-conscious products and services. We are actively promoting the development of products and services that are environmentally-conscious at every stage of the product's lifecycle for new products as well as upgraded models of existing products.

## Environmentally-conscious Product Development flow

To reduce the environmental impact of products as much as possible, the environment must be taken into consideration at every stage of the product's life cycle, from the early development, planning, and design stage to material procurement, production, distribution, sales, use, and disposal. All new Yamatake products undergo an environmental design assessment. However, we are establishing a system whereby products, in principle, also receive a life cycle assessment (LCA). Products that meet or exceed the assessment standards are recognized as environmentally-conscious products. They receive the Yamatake Group Environmental Label, a Type II environmental labeling that advertises our environmental awareness and capabilities.

## Environmental Assessment

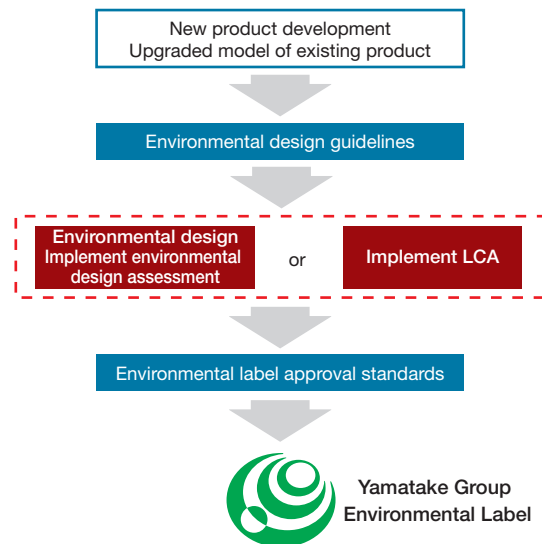
Since 1997, the Yamatake Group has been assessing the design of new products or upgraded models based on eight categories\*<sup>1</sup> stipulated in the environmental design guidelines that were created to promote the production of environmentally-conscious products. This evaluation adopts a 4-stage scoring method according to the degree of improvement when compared with an existing similar product, and is designed to make relative assessments. In fiscal 2006, the Group decided to add the LCA to this process and raised the bar on some requirements regarding restricted chemical substances and energy savings. The new requirements will be applied starting in fiscal 2007.

For assessments in fiscal 2006, the Yamatake Group achieved an overall average improvement\*<sup>2</sup> of 16.9%. The Group made strong progress in complying with requirements for chemical substances under the EU's RoHS Directive and other regulations, scoring an improvement of 35.7% in environmental friendliness. Energy conservation improved 31.1%.

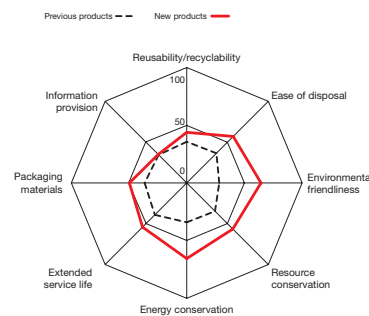
\*<sup>1</sup> The eight categories are reusability/recyclability, ease of disposal, environmental friendliness, resource conservation, energy conservation, extended service life, packaging materials, and information provision.

\*<sup>2</sup> The overall average improvement calculation is a simple sum of the respective environmental assessment results of Group companies, and therefore does not represent a Group-wide improvement rate.

### << Environmentally-conscious Product Development Flow >>



### << Results of Overall Assessment in FY2006 >>



## Yamatake Group Environmental Label

Since April 2001, we have been using an environmental labeling certification system that conforms with the international standard ISO 14021 and are actively providing publicly available environmental information on our products for customers. We use the Type II, or self-declared environmental labeling.

### << The Yamatake Group's Environmental Label Criteria >>

Based on an environmental design assessment, the product should meet either one of the following conditions when compared with an existing similar product.

- At least a 30% improvement in every category and a positive rating in its overall evaluation.
- At least a 10% improvement in its overall evaluation.

# Chemical Substances Measures and Green Procurement

Compliance with the EU's RoHS Directive (Restriction of the use of certain Hazardous Substances in electrical and electronic equipment) as well as substances subject to the RoHS Directive in Japan and elsewhere has become an urgent issue. Because customers have requested that not only these but other chemical substances be absent from products, Yamatake is further strengthening its system for managing chemical substances.

## Establishing a System for Managing Chemical Substances

In fiscal 2006, Yamatake proceeded with a company-wide project to establish a system for managing chemical substances based on the guidelines issued by the Japan Green Procurement Survey Standardization Initiative (JGPSSI). We also have revised our lists of substances that are prohibited from being used in parts or materials of products and substances. Combining consideration of the 24 substance groups of the Joint Industry Guide (JIG<sup>\*1</sup>) and market needs, we have begun using a new Yamatake standardized system.

Yamatake is now revising the green procurement guidelines necessary for establishing the system and will step up initiatives.

<sup>\*1</sup> JIG is a new survey guideline that replaces the previously used chemical substance survey method of the Japan Green Procurement Survey Standardization Initiative (JGPSSI).

## Compliance with RoHS Directive

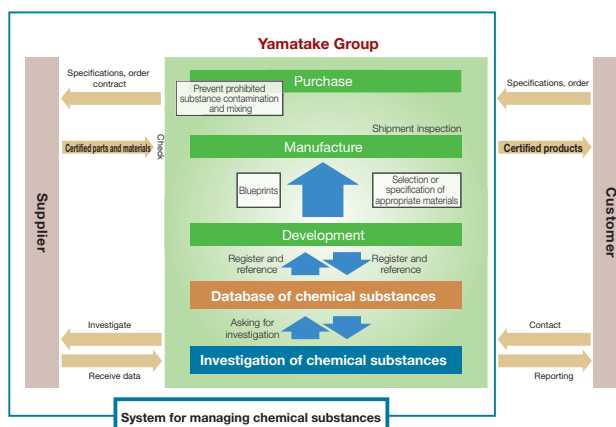
Enforced in July 2006, the RoHS Directive prohibits the use of lead, mercury, cadmium, hexavalent chromium, PBB and PBDE in all electrical and electronic products sold in the EU. Although this directive does not affect monitoring and control instruments, the Yamatake Group is committed to providing environmentally conscious products and has therefore been proceeding with plans to produce RoHS Directive-compliant products.

## Green Procurement

To supply customers with environmentally conscious products and services, we believe it is important to pursue one's own environmental protection activities, as well as consider the activities of suppliers. In fiscal 2005, we formulated the Yamatake Eco Program (YEP), which is based on the Eco Action 21 program developed by the Ministry of the Environment. The YEP mechanism facilitates the implementation of environmental protection activities by small suppliers. As soon as we released it, 36 suppliers began the program. Of this number, 29 suppliers completed implementing the program in fiscal 2006 and received a registration certificate from Yamatake. The other companies are pursuing other methods of boosting environmental management, such as certification by third parties, such as ISO 14001 or Eco Action 21. However, of the 36 companies originally participating in the program, all have become more aware of the importance of environmental preservation activities and are developing such programs.

In fiscal 2006, we revised the system, making it easier to enable anyone to participate. With the release of the revised system in fiscal 2007, 50 more companies began participating.

<< Yamatake Group System for Managing Chemical Substances >>



## Company involved with YEP: Kanaden Corporation

Because our main business is assembly and processing, we focused on reducing our use of electricity, gasoline, and water. By turning off lighting in unnecessary areas, reducing lighting during lunchtime, thoroughly managing air conditioning settings, and implementing other measures, we were able to cut our electricity consumption. With gasoline, we bought some hybrid cars for our fleet and revised our operating system to ensure that vehicles were being used efficiently. Our efforts to reduce use of water included installing faucets with restricted water flow and equipping toilets with sound effects to hide embarrassing sounds and thereby reduce excessive toilet flushing (customary practice in Japan). All employees are informed of the results of the previous month's measures at monthly meetings. Thanks to our participation in YEP, awareness of environmental issues in our daily lives has grown little by little. For the next fiscal year, I am thinking of focusing on reducing waste as we expand our environmental preservation activities.



Toshiyuki Take  
Kanaden Corporation



On-site guidance

# Energy and Resource Conservation and Waste Reduction

Our business operations inevitably increase our environmental impact. However, we believe that it is important to contribute to improvement in the environment by minimizing energy and resource use in supplying customers with products and services. To efficiently use precious resources and energy, we actively conduct energy and resource conservation and waste reduction activities.

## Carbon Dioxide Emission Results

Since fiscal 2005, Yamatake has been implementing a series of measures to transform its business foundation, from relocating its Headquarters administration functions and integrating its sales offices in the Tokyo metropolitan area, to concentrating its R&D and engineering functions and reorganizing Yamatake Group manufacturing bases.

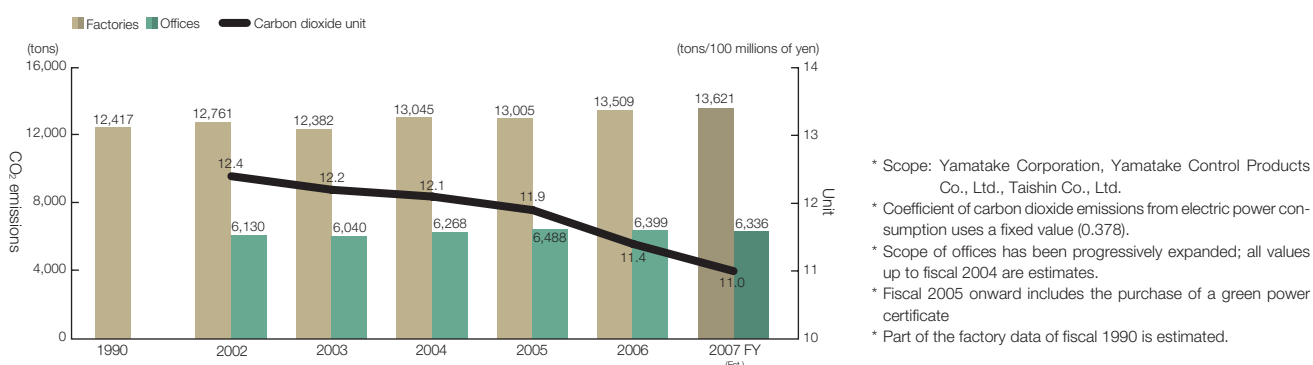
A variety of energy conservation measures have been initiated as part of the overall program. Among them, *No. 100* building newly constructed on the Fujisawa Technology Center site serves as a model building for energy conservation. Incorporating leading-edge energy conservation technology and other environmentally-conscious design features, the building has qualified as a CASBEE: S class (highest class) building. CASBEE stands for Comprehensive Assessment System for Building Environmental Efficiency.

The total scope of our measurement of energy consumption (electricity, gas, fuel, etc.) in fiscal 2006 included all Yamatake Corporation operating sites, including offices, and Group manufacturing companies in Japan. The scope has been widened further with the inclusion of fuel of Company-owned vehicles.

Compared with fiscal 2002, we achieved an 11% improvement in energy consumption per unit of sales. While all divisions have worked to conserve energy, total emissions increased 2.1% compared with fiscal 2005 due to increased production.

Up until fiscal 2003, we had made steady progress in reducing CO<sub>2</sub> emissions. However, due to expansion in production in recent years, we plan to fundamentally revise our medium- to long-term plan, including capital investment, in fiscal 2007. (Please refer to the feature section on page 15)

### << Carbon Dioxide Emissions: Results and Targets >>

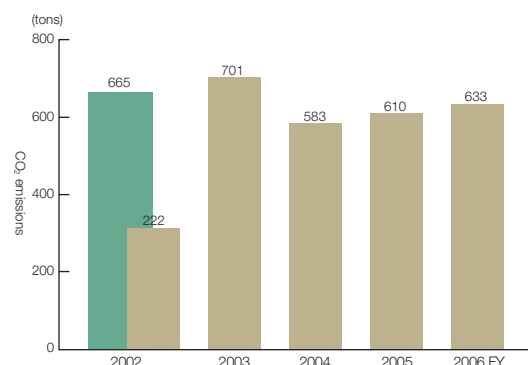


## Distribution-related Carbon Dioxide Emission Results

Yamatake began measuring energy consumption at the distribution stage in December 2002. Since then, we have gradually expanded the scope and endeavored to refine our measurements. The Yamatake Group outsources the major portion of its distribution to transport companies. Therefore, our efforts to reduce energy use, such as the planning of delivery routes, improving loading, and revising packaging materials, is done with the cooperation of the transport companies.

With regard to shipper classifications under the revised Law Concerning the Rational Use of Energy, we held an information meeting with distribution-related companies in April and collected required information from each transport company with their cooperation. As a result, our total distribution volume was 3.37 million ton kilometers for fiscal 2006. Therefore, we were not classified as a specified shipper. Nevertheless, we plan to step up our efforts to reduce the impact of our distribution operations on the environment.

### << Carbon Dioxide Emissions at the Distribution Stage >>



\* Includes company services and charter services.  
 \* Scope: Yamatake Corporation's Fujisawa Technology Center, Shonan factory and Isehara factory, Yamatake Control Products Co., Ltd., and Taishin Co., Ltd.  
 \* The figure of 665 tons used for fiscal 2002 is an estimate based on the 222 tons recorded during the four months of available data starting in December 2002.

## Waste Reduction Results

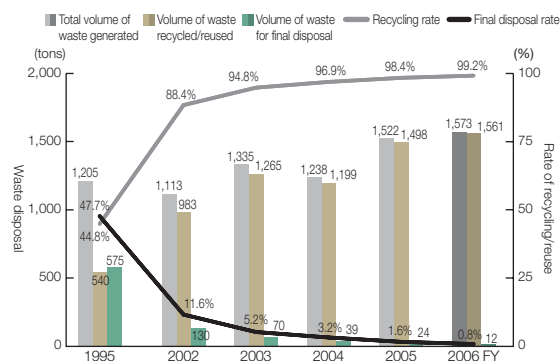
The waste generated at our factories and offices is meticulously sorted by material or type. In order to reuse or recycle these sorted wastes, we are reexamining methods for gathering waste and educating employees on sorting waste.

In fiscal 2006, we raised our recycling rate to 99.2%. Along with the relocation of our Headquarters and business offices, we disposed of large volumes of paper as well as furniture and fixtures, causing a temporary, sharp rise in the total volume of waste generated.

During the fiscal year under review, Yamatake Control Products found a service vendor that could process the oil-contaminated water that could not previously be recycled. As a result, the company raised its recycling rate to 99.7% and achieved zero emissions.

\* Yamatake defines zero emissions as being when landfill waste is 2% or less of total waste by weight or when the recycling rate is 98% or greater by weight.

### << Waste Disposal and Rate of Recycling/Reuse >>



\* Scope: Yamatake Corporation's Fujisawa Technology Center, Shonan factory and Isehara factory, Yamatake Control Products Co., Ltd., and Taishin Co., Ltd.

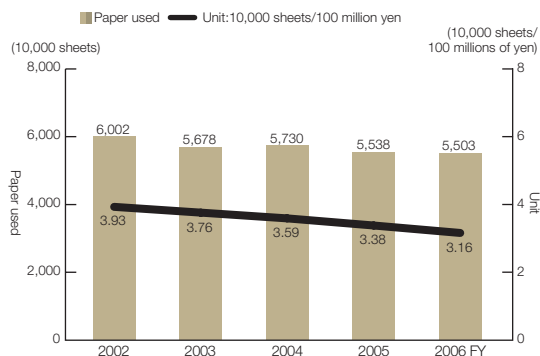
## Reducing Paper Use

We are reducing the volume of paper used for printing and copying in all of our business operations. Progress is being made through the use of a company-wide electronic bulletin for information exchange, electronic ledger sheets, and owner's manuals and specifications in electronic form.

In fiscal 2006, reducing the use of paper became an item of emphasis in our environmental preservation activities during the office move done as part of our business reorganization. We took various steps to reduce paper use, such as eliminating personal and large filing cabinets and introducing multifunction copy machines.

As a result of implementing these reduction measures, the total volume of paper used has remained the same despite an increase in work volume. On a unit of sales basis, we reduced the volume of paper used by 6.3% from a year earlier.

### << Paper Use >>



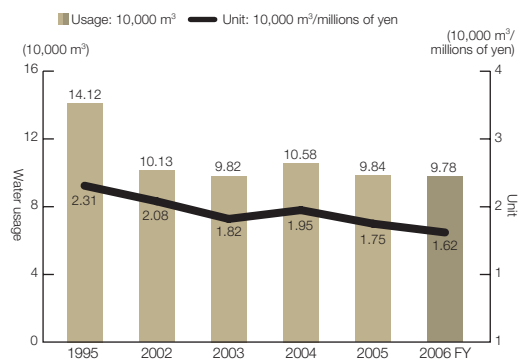
\* Scope: Yamatake Corporation, Yamatake Control Products Co., Ltd., and Taishin Co., Ltd.

\* Because the scope of measurement has been steadily expanded, figures up to fiscal 2004 are estimates.

## Reducing Water Usage

Water is a precious resource, and so we are striving to reduce the use of water by adopting various water-saving measures, as well as promoting the reuse of pure water and recycling of cooling water. Since various measures introduced in prior years have reduced water usage, our goal for the time being is to avoid increasing water usage from current levels.

### << Water Usage >>



\* Scope: Yamatake Corporation's Fujisawa Technology Center, Shonan factory and Isehara factory, Yamatake Control Products Co., Ltd., and Taishin Co., Ltd.



# Environmental Pollution Prevention

With the objective of minimizing the impact on the environment of our production activities, we conduct a variety of atmospheric, water, and soil pollution prevention activities. We periodically check gas emissions and wastewater and maintain pollution removal equipment. Furthermore, in addition to appropriately managing use of chemical substances and promoting the replacement of chemical substances with safer alternatives, we also carry out environmental audits and emergency response training.

## Atmospheric Pollution Prevention

We control the concentration in air of emissions of dichloromethane, which is used in the degreasing process, using control devices. In each processing stage, we are introducing different types of cleaning equipment in stages, and shifting to safer alternative solvents (depending on the process, water, semi-water, or hydrocarbon cleaning solvents).

Yamatake Control Products has completely eliminated use of dichloromethane. The Shonan factory has also steadily introduced equipment to eliminate use of dichloromethane. However, due to new problems arising as a result of equipment replacement and during introduction, reduction of dichloromethane was held to 23% for the entire fiscal year. We are continuing with the introduction of alternative solvents in fiscal 2007.

## Asbestos Measures

In fiscal 2005, we carried out detailed surveys of all buildings and facilities where asbestos had been used. We completed measures in response to the results of the surveys, such as asbestos removal or containment, during the first half of fiscal 2006. For thermostatic baths and other equipment containing asbestos, we placed warning labels on the equipment and upgraded our waste disposal management rules to clarify the proper method of handling the equipment on disposal.

## Water Pollution Prevention

Wastewater from each factory (kitchens, toilets, washing basins) is appropriately cleansed at water treatment facilities and returned to the public water system. The quality of the water is continually monitored through regular measurement.

In May 2006, the allowed concentrations of biochemical oxygen demand (BOD) and fluorine exceeded standard levels in the waste processing water at the Fujisawa Technology Center. A concentration of 54 mg/l was measured for BOD, compared with the level of 20 mg/l Yamatake and the city of Fujisawa had agreed on. The cause of the higher concentrations was wastewater from the cleaning process for cells used in air purification equipment. Therefore, we improved the process and took permanent repair action. In the case of fluorine, we recorded a concentration of 9.1 mg/l, which exceeded the statutory level of 8 mg/l. We discovered the cause to be the cleaning process for furnace tubes. After implementing measures to prevent recurrence, we introduced daily inspection of fluorine levels.

Following our improvements, we have determined that concentration levels have remained within allowed levels in both cases.

## Soil Contamination

For soil that is recognized as being contaminated, we quickly carry out a soil survey, and follow up with soil remediation measures. There were no cases of soil contamination in fiscal 2006.

## Compliance with PRTR Law\*

PRTR-designated substances that the Yamatake Group uses one ton or more of annually are shown below.

\* The Pollutant Release and Transfer Register (PRTR) Law promotes improved measurement and management of emissions into the environment of designated chemical substances.

### << PRTR Law Class 1 Designated Chemical Substances >>

(tons)

Office or factory	Designated substance	FY2004 usage	FY2005 usage	FY2006 usage	Atmospheric emissions	Water and soil emissions	Transported as waste	Landfill disposal	Transported for recycling
Yamatake Corporation's Shonan factory	Dichloromethane	21.380	19.500	15.000	12.500	0	0	0	2.500
"	Toluene	6.170	6.500	7.480	7.480	0	0	0	0
"	Xylene	2.989	3.130	4.050	2.840	0	1.210	0	0
Yamatake Control Products Co., Ltd.	Dichloromethane	22.993	16.781	0.000	0	0	0	0	0
"	Toluene	1.008	1.289	1.219	0.883	0	0.336	0	0
"	Xylene	1.295	1.614	1.841	1.361	0	0.480	0	0
"	Lead	3.960	6.605	3.090	0	0	0	0	1.192

\* Reporting requirement did not apply to Yamatake Corporation's Fujisawa Technology Center and Isehara factory, and Taishin Co., Ltd. (Use of PRTR-designated substances was less than one ton annually.)

\* All lead comes from soldering. Amount used in soldering products was 1.898 tons.

# Financial Report

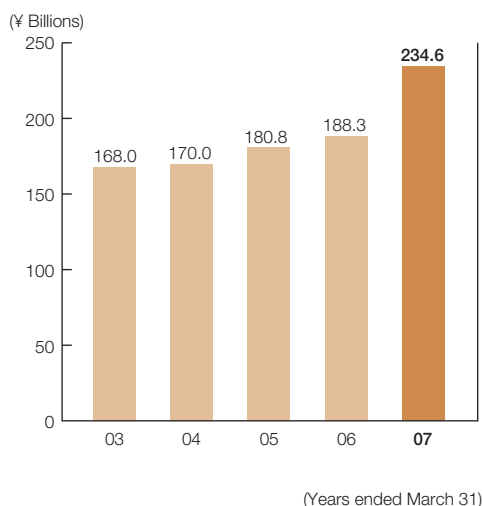
## Financial Report

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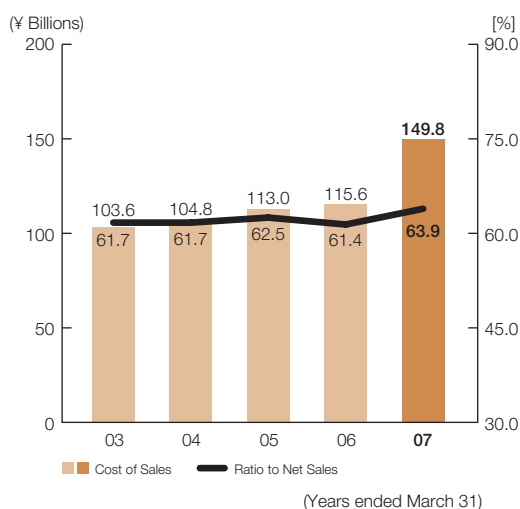
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# Financial Review

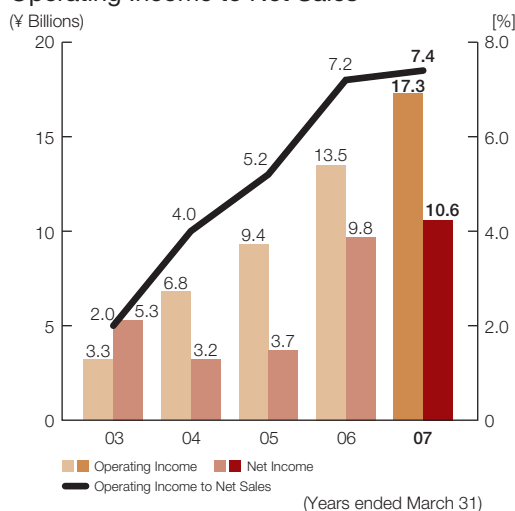
## Net Sales



## Cost of Sales/Ratio to Net Sales



## Operating Income/Net Income/ Operating Income to Net Sales



## Consolidated Results

### Net Sales

In fiscal 2006, ended March 31, 2007, net sales increased 46,251 million yen, or 24.6%, year on year to 234,572 million yen. Growth was driven by a favorable market environment and contribution to results from Kimmon Manufacturing Co., Ltd., which was included in the scope of consolidation from fiscal 2005.

### Building Automation Business

Consolidated sales in the Building Automation business rose 6,809 million yen, or 8.3%, to 88,978 million yen.

In the Building Automation business, Yamatake reinforced its solutions-type sales activities, which capture customer needs in the market for new buildings. In the factory HVAC field, we boosted sales through collaboration with the Advanced Automation business. In the market for existing buildings, Yamatake's ESCO business, a comprehensive energy management service for conserving energy, received strong orders. In the maintenance service field, contracts increased, including those under the Specified Manager System, a new area of business for Yamatake. Furthermore, owing to increasing needs for measures to ensure safety and prevent information leakage in buildings, sales in the security business also expanded. Furthermore, sales grew in the international business, as Yamatake made progress in developing markets in Asia.

### Advanced Automation Business

Sales in the Advanced Automation business grew 6,764 million yen, or 7.3%, to 99,750 million yen.

In the Advanced Automation business, Yamatake focused on sales of core products that precisely capture customer needs, such as energy-saving, in Japan and also began collaborating with Royal Controls Co., Ltd., which became a Group company in fiscal 2006. As a result, sales increased mainly in the product business. In addition, sales were healthy in the solutions service business, which offers solutions for safe operations and for maintaining and managing quality in production. In the international business, Yamatake recorded significant growth in sales on the back of increasing capital investments in China, South Korea, and Taiwan, and improved performances in North America, where Yamatake has been reorganizing its operations, as well as in Europe.

### Life Automation Business

Sales in the Life Automation business rose 32,249 million yen, or 708.1%, to 36,804 million yen.

In the Lifeline field, Kimmon Manufacturing, which plays a key role, launched new products in the LP gas business and developed new demand in the private sector in its water meter business. Furthermore, with the aim of expanding the business domains of the entire Group, Kimmon Manufacturing furthered its collaboration with the Building Automation and Advanced Automation businesses, and also began collaborating on the manufacturing front. In the Life Assist field, Yamatake tapped into demand for emergency dispatch services and nursing care services and also entered the business of group homes to provide care for elderly patients with dementia. These actions generated sales growth.

### Other Businesses

Sales in this segment increased 685 million yen, or 6.6%, to 11,124 million yen.

Regarding the import, purchasing and sale of inspection and measurement equipment, increasing capital investments in the automotive, machine tool, electric and electronic markets, resulted in growth in both orders and sales.

### Operating Income

Cost of sales increased 34,240 million yen, or 29.6%, to 149,792 million yen and the cost of sales ratio rose 2.5 points to 63.9%. Gross profit rose 12,011 million yen, or 16.5%, to 84,780 million yen. Selling, general and administrative expenses increased 8,212 million yen to 67,466 million yen, reflecting the impact of the inclusion of Kimmon Manufacturing, its consolidated subsidiaries, and Royal Controls in consolidated operations.

In spite of the above factors, operating income climbed 3,799 million yen, or 28.1%, to 17,314 million yen.

### Net Income

#### Other Income and Expenses

Other income decreased 1,593 million yen to 542 million yen mainly due to such factors as the absence of a gain on the sale of property, plant and equipment and gain on sales of investment securities recorded in fiscal 2005.

As a result of the above, income before income taxes and minority interests climbed 2,206 million yen, or 14.1%, to 17,856 million yen.

#### Income Taxes

Total income taxes increased 1,294 million yen to 6,999 million yen. The actual effective tax rate on income before income taxes and minority interests was 39.2%, an increase of 2.7 percentage points from the previous fiscal year.

After minority interests in net income of 211 million yen, consolidated net income for fiscal 2006 was 10,646 million yen.

## Financial Position

### Assets

Total assets at March 31, 2007 stood at 230,679 million yen, 12,797 million yen higher than a year ago, mainly reflecting an increase in current assets. The major changes were as follows.

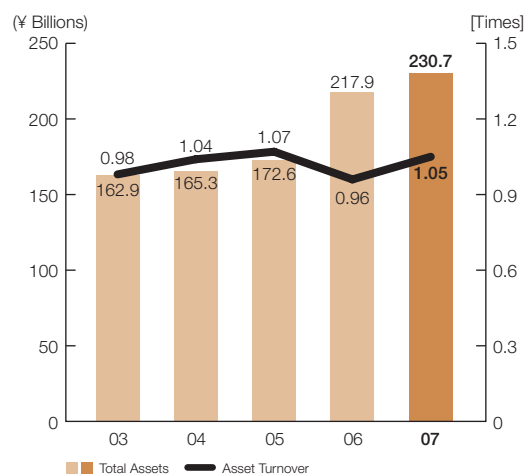
Cash and cash equivalents: decreased 1,112 million yen.

Notes and accounts receivable: increased 9,675 million yen due to higher sales and an increase in the balance of trade notes receivable stemming from the fact that the fiscal year-end fell on a bank holiday.  
Inventories: increased 3,455 million yen due to an increase in the order backlog.

Buildings and structures: increased 3,418 million yen, mainly due to the completion of the construction of the No. 100 building at the Fujisawa Technology Center.

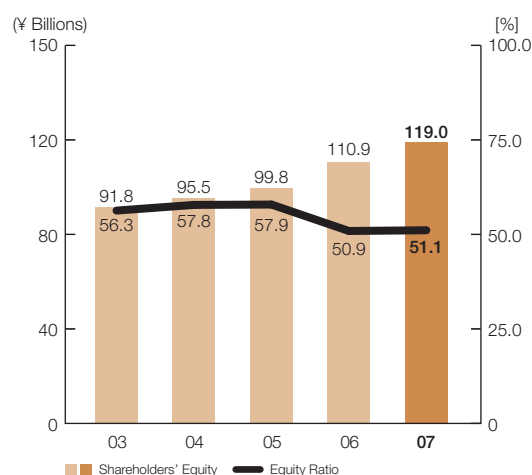
Construction in progress: decreased 3,184 million yen, mainly due to the completion of the construction of the No. 100 building at the Fujisawa Technology Center.

### Total Assets/Asset Turnover



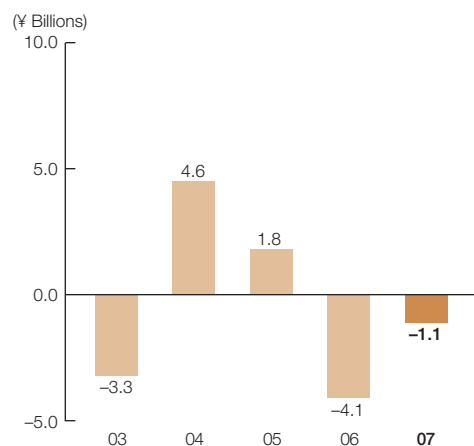
(Years ended March 31)

### Equity/Equity Ratio



(Years ended March 31)

### Cash Flows



(Years ended March 31)



### Liabilities

Total liabilities increased 5,371 million yen to 111,712 million yen. The major changes were as follows.

Current liabilities: increased 7,064 million yen, chiefly reflecting a rise in trade notes and accounts payable.

Long-term liabilities: declined 1,693 million yen, mainly due to the repayment of long-term debt.

### Total Equity

Total equity at the end of the fiscal year stood at 118,967 million yen, an increase of 8,108 million yen from the total of shareholders' equity and minority interests at the end of the previous fiscal year. This increase was mainly due to the posting of net income.

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

- Receivables/Sales (days): decreased 10 days to 131 days.
- Inventories/Cost of sales (days): decreased 3 days to 56 days.
- Asset turnover (times): increased 0.09 to 1.05.
- The ratio of equity to total assets: increased 0.2 points to 51.1%.

### Per Share Data

Net income per share increased 12.19 yen over the previous year to 144.71 yen, and net assets per share rose 96.08 yen to 1,602.33 yen.

### Cash Flows

Net cash provided by operating activities increased 1,138 million yen to 7,524 million yen, mainly due to increases in income before income taxes and minority interests and depreciation and amortization.

Net cash used in investing activities declined 4,930 million yen to 2,475 million yen. The decline reflected the absence of outflows for the purchase of marketable securities and the acquisition of a subsidiary that were recorded in the previous fiscal year.

Net cash used in financing activities increased 3,020 million yen to 6,348 million yen. The main contributing factors were an increased outflow for the repayment of long-term debt and an increase in dividends paid.

As a result of the above, the year-end balance of cash and cash equivalents decreased 1,112 million yen to 35,191 million yen.

### Outlook for Fiscal 2007

For fiscal 2007, ending March 31, 2008, forecasts call for a 4.0% increase in net sales to 244.0 billion yen and a 15.5% increase in operating income to 20.0 billion yen. Net income is projected to grow 12.7% to 12.0 billion yen.

#### Building Automation Business

The new buildings business is growing due to active construction investment in large-scale urban redevelopment projects, mainly in the Tokyo metropolitan area, and in the manufacturing industry. In the market for existing buildings, Yamatake's ESCO business, a comprehensive energy management service for conserving energy, is projected to perform strongly and the security business (access control) is projected to expand. In the international business, Yamatake is projecting sales growth resulting from burgeoning factory construction investment, mainly in Asia. In terms of income, Yamatake expects profit to increase due to cost reductions and the launch of high-value-added products.

#### Advanced Automation Business

Yamatake expects this business to continue to perform strongly, supported by solid capital investments in Japan and overseas. In Japan, Yamatake is projecting higher sales and profits from sales of solutions based on close contact with customers. In the international business too, Yamatake is

projecting an increase in sales and profits stemming from expanded product sales mainly in China, South Korea, and Southeast Asia.

### Life Automation Business

In the Life Assist field, the Group will expand existing businesses and promote an improvement in business efficiency. In the Lifeline field, core company Kimmon Manufacturing is expected to be unable to avoid a decline in sales, due to a cyclical fall in demand, but the Group will endeavor to improve income.

## 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 at the end of the fiscal year under review.

### (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 through 21 local companies overseas. In the rapidly growing Chinese market, the Group manufactures and sells products, carries out instrumentation work and conducts other business locally through 10 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, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 6)	¥ 35,191	¥ 36,303	\$ 298,226
Notes and accounts receivable:			
Trade	89,184	79,509	755,794
Other	1,118	935	9,478
Allowance for doubtful receivables	(356)	(430)	(3,019)
Inventories (Note 4)	24,703	21,248	209,343
Deferred tax assets (Note 9)	5,716	5,155	48,444
Prepaid expenses and other current assets	4,165	3,246	35,298
Total current assets	159,721	145,966	1,353,564
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land (Notes 5, 6 and 14)	6,548	8,132	55,492
Buildings and structures (Notes 6 and 14)	37,537	34,119	318,107
Machinery and equipment	17,292	20,173	146,540
Furniture and fixtures	19,407	19,147	164,471
Construction in progress	387	3,571	3,279
Total	81,171	85,142	687,889
Accumulated depreciation	(50,494)	(54,118)	(427,911)
Net property, plant and equipment	30,677	31,024	259,978
<b>INVESTMENT AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 6)	23,989	23,196	203,295
Investments in and advances to unconsolidated subsidiaries and associated companies	577	454	4,894
Goodwill	4,234	4,963	35,879
Deferred tax assets (Note 9)	244	964	2,070
Other assets	11,237	11,315	95,230
Total investment and other assets	40,281	40,892	341,368
<b>TOTAL</b>	<b>¥230,679</b>	<b>¥217,882</b>	<b>\$1,954,910</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Note 6)	¥ 12,069	¥ 11,757	\$ 102,279
Current portion of long-term debt (Note 6)	2,209	2,200	18,718
Notes and accounts payable:			
Trade	42,200	38,689	357,631
Other	3,490	3,341	29,576
Income taxes payable	4,939	4,527	41,856
Accrued bonuses	8,842	8,012	74,940
Other accrued expenses and current liabilities	13,218	11,377	112,014
Total current liabilities	86,967	79,903	737,014
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Note 6)	6,573	7,913	55,701
Liabilities for retirement benefits (Note 7)	16,048	16,411	135,998
Deferred tax liabilities (Note 9)	1,954	1,320	16,563
Other long-term liabilities	170	794	1,441
Total long-term liabilities	24,745	26,438	209,703
<b>MINORITY INTERESTS</b>		682	
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b> (Notes 11, 12 and 13)			
<b>EQUITY</b> (Notes 8 and 14):			
Common stock—authorized, 279,710,000 shares; issued, 73,576,256 shares	10,523	10,523	89,176
Capital surplus	12,648	12,648	107,183
Retained earnings	87,025	80,472	737,501
Unrealized gain on available-for-sale securities	7,477	7,164	63,372
Deferred loss on derivatives under hedge accounting	(1)		(12)
Foreign currency translation adjustments	218	60	1,849
Treasury stock—at cost, 8,463 shares in 2007 and 7,721 shares in 2006	(10)	(8)	(87)
Total	117,880	110,859	998,982
Minority interests	1,087		9,211
Total equity	118,967	110,859	1,008,193
<b>TOTAL</b>	<b>¥230,679</b>	<b>¥217,882</b>	<b>\$1,954,910</b>



# Consolidated Statements of Income

Yamatake Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
<b>NET SALES</b>	<b>¥234,572</b>	<b>¥188,321</b>	<b>\$1,987,902</b>
<b>COST OF SALES</b> (Note 7)	<b>149,792</b>	<b>115,552</b>	<b>1,269,428</b>
Gross profit	84,780	72,769	718,474
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Notes 7 and 10)	<b>67,466</b>	<b>59,254</b>	<b>571,747</b>
Operating income	17,314	13,515	146,727
<b>OTHER INCOME (EXPENSES):</b>			
Interest income	122	37	1,031
Dividend income	288	210	2,438
Interest expense	(210)	(98)	(1,776)
Foreign currency exchange gain	132	223	1,121
(Loss) gain on sales of property, plant and equipment—net	(243)	1,590	(2,062)
Gain on sales of investment securities—net	76	546	640
Loss on impairment of long-lived assets (Notes 2.g and 5)		(330)	
Others—net	377	(43)	3,202
Other income—net	542	2,135	4,594
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	<b>17,856</b>	<b>15,650</b>	<b>151,321</b>
<b>INCOME TAXES</b> (Note 9):			
Current	5,971	4,736	50,600
Deferred	1,028	969	8,710
Total income taxes	6,999	5,705	59,310
<b>MINORITY INTERESTS IN NET INCOME</b>	<b>(211)</b>	<b>(150)</b>	<b>(1,789)</b>
<b>NET INCOME</b>	<b>¥ 10,646</b>	<b>¥ 9,795</b>	<b>\$ 90,222</b>
		Yen	U.S. Dollars
	2007	2006	2007
<b>PER SHARE OF COMMON STOCK</b> (Note 2.r):			
Net income	¥ 144.71	¥ 132.52	\$ 1.23
Cash dividends applicable to the year	50.00	50.00	0.42

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

Yamatake Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2007 and 2006

	Thousands	Millions of Yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available- for-sale Securities	Deferred loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
<b>BALANCE, APRIL 1, 2005</b>	73,569	¥10,523	¥12,648	¥73,130	¥3,639		¥ (85)	¥ (7)	¥ 99,848		¥ 99,848
Adjustment of retained earnings for newly consolidated subsidiaries				14					14		14
Net income				9,795					9,795		9,795
Cash dividends, ¥50 per share				(2,427)					(2,427)		(2,427)
Bonuses to directors				(40)					(40)		(40)
Repurchase of treasury stock								(1)	(1)		(1)
Net increase in unrealized gain on available-for-sale securities					3,525				3,525		3,525
Net change in foreign currency translation adjustments							145		145		145
<b>BALANCE, MARCH 31, 2006</b>	73,569	10,523	12,648	80,472	7,164		60	(8)	110,859		110,859
Reclassified balance as of March 31, 2006 (Note 2.i)										¥ 682	682
Net income				10,646					10,646		10,646
Cash dividends, ¥50 per share				(4,046)					(4,046)		(4,046)
Bonuses to directors				(47)					(47)		(47)
Repurchase of treasury stock	(1)							(2)	(2)		(2)
Net change in the year					313	¥(1)	158		470	405	875
<b>BALANCE, MARCH 31, 2007</b>	73,568	¥10,523	¥12,648	¥87,025	¥7,477	¥(1)	¥218	¥(10)	¥117,880	¥1,087	¥118,967

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available- for-sale Securities	Deferred loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
<b>BALANCE, MARCH 31, 2006</b>	\$89,176	\$107,183	\$681,964	\$60,717		\$ 507	\$(69)	\$939,478		\$ 939,478
Reclassified balance as of March 31, 2006 (Note 2.i)									\$5,782	5,782
Net income			90,222					90,222		90,222
Cash dividends, \$0.42 per share			(34,290)					(34,290)		(34,290)
Bonuses to directors			(395)					(395)		(395)
Repurchase of treasury stock							(18)	(18)		(18)
Net change in the year				2,655	\$(12)	1,342		3,985	3,429	7,414
<b>BALANCE, MARCH 31, 2007</b>	\$89,176	\$107,183	\$737,501	\$63,372	\$(12)	\$1,849	\$(87)	\$998,982	\$9,211	\$1,008,193

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Yamatake Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥17,856	¥15,650	\$151,321
Adjustments for:			
Income taxes—paid	(5,596)	(3,546)	(47,425)
Depreciation and amortization	4,580	2,352	38,815
(Reversal of) provision for doubtful receivables	(200)	199	(1,694)
Increase in accrued bonuses	653	46	5,530
Loss (gain) on sales of property, plant and equipment—net	243	(1,590)	2,062
Gain on sales of investment securities—net	(76)	(546)	(640)
Loss on impairment of long-lived assets		330	
Increase in notes and accounts receivable	(9,414)	(6,971)	(79,782)
Increase in inventories	(3,120)	(677)	(26,441)
Increase in notes and accounts payable	2,245	3,092	19,023
(Decrease) increase in liabilities for retirement benefits	(681)	301	(5,771)
Others—net	1,034	(2,254)	8,761
Total adjustments	(10,332)	(9,264)	(87,562)
Net cash provided by operating activities	7,524	6,386	63,759
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sales of property, plant and equipment	1,998	2,845	16,929
Purchase of property, plant and equipment	(5,335)	(3,763)	(45,212)
Proceeds from sales of investment securities	225	592	1,905
Purchase of investment securities	(268)	(118)	(2,271)
Payment for purchase of Kimmon Manufacturing Co., Ltd., net of cash acquired		(7,192)	
Proceeds from purchase of Royal Controls Co., Ltd. net of cash acquired	1,307		11,078
Proceeds from sales of beneficiary securities of trust	3,237	4,544	27,431
Purchase of beneficiary securities of trust	(3,199)	(4,020)	(27,108)
Others—net	(440)	(293)	(3,727)
Net cash used in investing activities	(2,475)	(7,405)	(20,975)
<b>FINANCING ACTIVITIES:</b>			
Net increase in short-term borrowings	46	28	394
Proceeds from long-term debt		100	
Repayment of long-term debt	(2,332)	(1,015)	(19,762)
Dividends paid	(4,044)	(2,427)	(34,273)
Others—net	(18)	(14)	(153)
Net cash used in financing activities	(6,348)	(3,328)	(53,794)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	187	209	1,583
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,112)	(4,138)	(9,427)
<b>CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR</b>		191	
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	36,303	40,250	307,653
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥35,191	¥36,303	\$298,226
<b>NONCASH INVESTING ACTIVITIES:</b>			
Increase in assets and liabilities due to consolidation of subsidiaries previously unconsolidated (Note 2.a):			
Assets		¥ 137	
Liabilities		40	
Increase in assets and liabilities, cash paid for the capital and goodwill due to the purchase of Kimmon Manufacturing Co., Ltd. :			
Assets acquired		33,844	
Liabilities assumed		29,314	
Cash paid for the capital		9,493	
Goodwill		4,963	
Increase in assets and liabilities, cash paid for the capital and goodwill due to the purchase of Royal Controls Co., Ltd. :			
Assets acquired	¥ 3,538		\$ 29,981
Liabilities assumed	3,296		27,934
Cash paid for the capital	215		1,823
Goodwill	(27)		(224)

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Yamatake Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2007 and 2006

## 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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

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 2006 consolidated financial statements to conform to the classifications used in 2007.

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 ¥118 to \$1, the approximate rate of exchange as of March 31, 2007. 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, 2007, include the accounts of Yamatake and its 36 (38 in 2006) significant subsidiaries (together, "Yamatake Group").

Under the control or influence concept, those companies in which Yamatake Group, 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. has been amortized over 7 years. Other goodwill is to be amortized on the straight-line basis over 5 years with the exception of minor amounts which are charged to income in the period of acquisitions.

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

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

Cash equivalents include time deposits, certificate of deposits, 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 Receivables**—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. Investment Securities**—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 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 of Yamatake and domestic consolidated subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998. Depreciation of foreign consolidated subsidiaries is mainly computed by the straight-line method. 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 issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the 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 the eventual disposition of the asset or the net selling price at disposition.



**h. Retirement and Pension Plans**—Yamatake has a non-contributory funded pension plan and a defined contribution 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. Presentation of Equity**—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, 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. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

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

**k. 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.

**l. Bonuses to Directors**—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.

Yamatake Group adopted the new accounting standard for bonuses to directors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥89 million (\$753 thousand) (see Note 15).

**m. 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 and tax loss carryforwards.

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

**o. 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 the translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

**p. Foreign Currency Financial Statements**—The balance sheet accounts of the foreign consolidated subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for 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 equity.

Revenue and expense accounts of foreign consolidated subsidiaries are also translated into yen at the current exchange rate as of the balance sheet date.

**q. 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, the hedge accounting is applied.

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.

**r. 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 73,568,242 shares for 2007 and 73,568,744 shares for 2006.

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.

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

### **s. New Accounting Pronouncements**

**Measurement of Inventories**—Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories,” which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

**Lease Accounting**—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

## Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.”

The carrying amounts and aggregate fair values of investment securities whose fair value is readily determinable as of March 31, 2007 and 2006, were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2007				2006				2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:												
Equity securities	¥6,146	¥14,623	¥35	¥20,734	¥5,569	¥14,363	¥11	¥19,921	\$52,081	\$123,920	\$297	\$175,704
Trust fund investments and other	636	4		640	650	4		654	5,390	34	2	5,422

The carrying amounts of investment securities whose fair value is not readily determinable as of March 31, 2007 and 2006, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Securities classified as available-for-sale:			
Equity securities	¥1,532	¥1,530	\$12,984
Trust fund investments and other	1,083	1,091	9,185

The new PITF prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new PITF is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

### 3. INVESTMENT SECURITIES

Investment securities as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Non-current:			
Marketable equity securities	<b>¥22,266</b>	¥21,451	<b>\$188,688</b>
Trust fund investments and other	<b>1,723</b>	1,745	<b>14,607</b>
Total	<b>¥23,989</b>	¥23,196	<b>\$203,295</b>

Proceeds from sales of available-for-sale investment securities for the years ended March 31, 2007 and 2006 were ¥225 million (\$1,905 thousand) and ¥592 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥77 million (\$650 thousand) and ¥546 million for the years ended March 31, 2007 and 2006, respectively.

#### 4. INVENTORIES

Inventories as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Merchandise	¥ 2,201	¥ 1,736	\$ 18,648
Finished products	2,475	1,961	20,977
Work in process	13,739	11,472	116,428
Raw materials	6,288	6,079	53,290
Total	¥24,703	¥21,248	\$209,343

#### 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. The carrying amount of certain idle land was written down to the net selling price at disposition. No impairment loss was recognized in the year ended March 31, 2007.

#### 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2007 and 2006, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.9% to 5.8% as of March 31, 2007 and from 0.4% to 5.4% as of March 31, 2006.

Long-term debt as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Loans from banks and other financial institutions, due serially to 2026 with interest rates ranging from 1.1% to 2.8% in 2007 and from 0.5% to 2.7% in 2006:			
Collateralized	¥ 509	¥ 1,418	\$ 4,310
Unsecured	7,593	8,695	64,346
Bond due serially to 2011 with interest rates ranging from 2.3% to 3.3% in 2007:			
Collateralized	170		1,441
Unsecured	510		4,322
Total	8,782	10,113	74,419
Less current portion	(2,209)	(2,200)	(18,718)
Long-term debt, less current portion	¥6,573	¥ 7,913	\$55,701

As of March 31, 2007, Yamatake had an unused line of credit amounting to ¥30,000 million (\$254,237 thousand) of which ¥10,000 million (\$84,745 thousand) related to the unused portion of commitment lines with four banks and ¥20,000 million (\$169,492 thousand) related to the medium term notes program.

Annual maturities of long-term debt as of March 31, 2007, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥2,209	\$18,718
2009	2,072	17,557
2010	2,363	20,024
2011	1,811	15,351
2012	111	941
2013 and thereafter	216	1,828
Total	¥8,782	\$74,419

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt as of March 31, 2007, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposit	¥ 135	\$ 1,144
Land	40	339
Buildings and structures	194	1,642
Investment securities	4,240	35,932
Total	¥4,609	\$39,057

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.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by the lending banks and that 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 banks. Yamatake Group has never received any such requests.

#### 7. RETIREMENT AND PENSION PLANS

Yamatake Group has retirement and pension plans for employees, and retirement benefit plans for 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 or by death, than the voluntary termination 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, 2007 and 2006, was ¥174 million (\$1,471 thousand) and ¥141 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, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥46,457	¥47,671	\$393,706
Fair value of plan assets	(27,838)	(25,976)	(235,918)
Unrecognized prior service costs	2,841	2,939	24,077
Unrecognized actuarial loss	(5,698)	(8,463)	(48,288)
Prepaid pension expense	112	99	950
Net liability	¥15,874	¥16,270	\$134,527

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥1,313	¥1,793	\$11,126
Interest cost	860	794	7,291
Expected return on plan assets	(379)		(3,215)
Amortization of prior service costs	(224)	(223)	(1,896)
Recognized actuarial loss	694	919	5,884
Payment for defined contribution pension plan and other	758	728	6,423
Net periodic benefit costs	¥3,022	¥4,011	\$25,613

Assumptions used for the years ended March 31, 2007 and 2006, were set forth as follows:

	2007	2006
Discount rate	2.0%	2.0%–2.2%
Expected rate of return on plan assets	1.5%	0.0%
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. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the “Corporate Law”), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, 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) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, Yamatake cannot do so because it does not meet all the above criteria. 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.

The Corporate Law 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 Corporate Law, the total amount of

additional paid-in capital and legal reserve may be reversed without limitation. 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 equity, if any. 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 equity, if any, or deducted directly from stock acquisition rights.

## 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, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Pension and severance costs	¥ 6,441	¥ 6,578	\$54,590
Accrued expenses	4,753	4,683	40,278
Depreciation	950	937	8,053
Loss on impairment of land	286	1,321	2,422
Allowance for doubtful receivables	274	1,199	2,326
Tax loss carryforwards	3,185	4,036	26,989
Others	2,720	1,942	23,054
Less valuation allowance	(7,012)	(8,449)	(59,426)
Total	11,597	12,247	98,286
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	6,055	5,799	51,312
Special advanced depreciation	1,182	1,295	10,018
Others	354	356	3,005
Total	7,591	7,450	64,335
Net deferred tax assets	¥ 4,006	¥ 4,797	\$33,951

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2007 and 2006, was as follows:

	2007	2006
Normal effective statutory tax rate	40.4%	40.4%
Expenses not deductible for tax purposes	1.7	1.3
Tax benefits for qualified expenses	(4.2)	(5.0)
Amortization of goodwill	1.6	
Others—net	(0.3)	(0.2)
Actual effective tax rate	39.2%	36.5%



As of March 31, 2007, certain subsidiaries have tax loss carryforwards aggregating approximately ¥10,500 million (\$88,983 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
2008	¥ 120	\$ 1,016
2009	630	5,339
2010	1,630	13,814
2011	320	2,712
2012	590	5,000
2013	4,910	41,610
2014 and thereafter	2,300	19,492
<b>Total</b>	<b>¥10,500</b>	<b>\$88,983</b>

## 10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,776 million (\$74,375 thousand) and ¥8,360 million for the years ended March 31, 2007 and 2006 respectively.

## 11. LEASES

### (1) Financing Leases as a Lessee

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

Total rental expenses under the above leases for the years ended March 31, 2007 and 2006, were ¥5,161 million (\$43,737 thousand) and ¥4,819 million, respectively, including ¥821 million (\$6,956 thousand) and ¥449 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, 2007 and 2006, was as follows:

	2007				2006			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥925	¥2,212	¥619	¥3,756	¥643	¥2,112	¥408	¥3,163
Accumulated depreciation	361	1,468	206	2,035	232	1,253	123	1,608
<b>Net leased property</b>	<b>¥564</b>	<b>¥ 744</b>	<b>¥413</b>	<b>¥1,721</b>	<b>¥411</b>	<b>¥859</b>	<b>¥285</b>	<b>¥1,555</b>

	2007			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	\$7,842	\$18,744	\$5,248	\$31,834
Accumulated depreciation	3,064	12,439	1,745	17,248
<b>Net leased property</b>	<b>\$4,778</b>	<b>\$ 6,305</b>	<b>\$3,503</b>	<b>\$14,586</b>

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥1,012	¥ 890	\$ 8,576
Due after one year	3,195	2,789	27,080
<b>Total</b>	<b>¥4,207</b>	<b>¥3,679</b>	<b>\$35,656</b>

The above obligations under finance leases include the imputed interest 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 ¥817 million (\$6,924 thousand) and ¥437 million for the years ended March 31, 2007 and 2006, respectively.

The minimum rental commitments under noncancelable operating leases as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 751	¥ 749	\$ 6,363
Due after one year	1,829	2,576	15,503
<b>Total</b>	<b>¥2,580</b>	<b>¥3,325</b>	<b>\$21,866</b>

### (2) Financing Leases as a Lessor

Yamatake Group leases certain machinery and equipment as a lessor.

Pro forma information of leased property such 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, 2007 and 2006, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Receivables under finance leases:			
Due within one year	¥ 264	¥ 221	\$ 2,236
Due after one year	1,820	1,544	15,424
<b>Total</b>	<b>¥2,084</b>	<b>¥1,765</b>	<b>\$17,660</b>

## 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 gain 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, 2007 and 2006, was as follows:

	2007			2006			2007		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Exchange contract:									
Sell Japanese yen	¥48	¥48		¥129	¥131	¥2	\$407	\$407	
Buy Japanese yen				130	132	(2)			

## 13. COMMITMENT AND CONTINGENT LIABILITIES

As of March 31, 2007, Yamatake Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted	¥894	\$7,578
Trade notes endorsed	121	1,026
Guarantees and similar items of loans	62	528

## 14. SUBSEQUENT EVENTS

### a. Sale of Buildings and Land

On June 27, 2007, Yamatake sold the buildings and land of the Environmental Engineering Research Center of ¥390 million (\$3,302 thousand) at ¥3,140 million (\$26,610 thousand).

### b. Appropriation of Retained Earnings

The following appropriation of retained earnings as of March 31, 2007 was approved at the Yamatake's general shareholders meeting held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25.0 (\$0.21) per share	¥1,839	\$15,586

## 15. SEGMENT INFORMATION

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

The building automation segment designs, develops, manufactures, distributes and provides engineering/maintenance services, integrated building automation systems, security systems and energy and facility management, primarily for 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, primarily for 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 "Life-line automation," "Life-care automation," and "Life science." 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, 2007 and 2006, was as follows:

**(1) Industry Segments**

**a. Sales and Operating Income**

							Millions of Yen
							2007
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥88,499	¥98,677	¥36,735	¥10,661	¥234,572		¥234,572
Intersegment sales	479	1,073	69	463	2,084	¥(2,084)	
Total sales	88,978	99,750	36,804	11,124	236,656	(2,084)	234,572
Operating expenses	80,519	90,682	37,327	10,772	219,300	(2,042)	217,258
Operating income (losses)	¥ 8,459	¥ 9,068	¥ (523)	¥ 352	¥ 17,356	¥ (42)	¥ 17,314

							Millions of Yen
							2006
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/ Corporate	Consolidated
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

							Thousands of U.S. Dollars
							2007
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$749,993	\$836,247	\$311,318	\$90,344	\$1,987,902		\$1,987,902
Intersegment sales	4,054	9,092	587	3,924	17,657	\$(17,657)	
Total sales	754,047	845,339	311,905	94,268	2,005,559	(17,657)	1,987,902
Operating expenses	682,360	768,491	316,339	91,282	1,858,472	(17,297)	1,841,175
Operating income (losses)	\$ 71,687	\$ 76,848	\$ (4,434)	\$2,986	\$ 147,087	\$ (360)	\$ 146,727

## b. Assets, Depreciation and Capital Expenditures

							Millions of Yen
							2007
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/Corporate	Consolidated
Assets	¥55,555	¥75,340	¥36,604	¥5,752	¥173,251	¥57,428	¥230,679
Depreciation	1,024	1,600	1,233	34	3,891		3,891
Capital expenditures	1,624	3,213	337	99	5,273		5,273

							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

							Thousands of U.S. Dollars
							2007
	Building Automation	Advanced Automation	Life Automation	Other	Total	Eliminations/Corporate	Consolidated
Assets	\$470,805	\$638,471	\$310,204	\$48,746	\$1,468,226	\$486,684	\$1,954,910
Depreciation	8,678	13,560	10,443	290	32,971		32,971
Capital expenditures	13,764	27,229	2,853	837	44,683		44,683

Notes: Corporate assets of ¥60,807 million (\$515,314 thousand) and ¥58,192 million for the years ended March 31, 2007 and 2006, respectively, included in "Eliminations/corporate" mainly consist of cash and cash equivalents and investment securities.

The effect of adoption of the new accounting standard for bonuses to directors and corporate auditors described in Note 2.1 was to decrease operating income of building automation and advanced automation for the year ended March 31, 2007, by ¥39 million (\$331 thousand) and ¥50 million (\$421 thousand), respectively, from such segments in the prior year.

### (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

To the Board of Directors of  
Yamatake Corporation:

We have audited the accompanying consolidated balance sheets of Yamatake Corporation (the "Company") and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in 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, 2007 and 2006, 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.

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 28, 2007

# Corporate Data

As of March 31, 2007

<b>Company Name</b>	Yamatake Corporation	<b>Paid-in Capital</b>	¥10,523 million
<b>Headquarters</b>	Tokyo Building 2-7-3 Marunouchi, Chiyoda-ku Tokyo 100-6419, Japan	<b>Factories</b>	Fujisawa, Shonan, Isehara
		<b>Employees</b>	5,390
<b>Founded</b>	December 1, 1906	<b>Contact</b>	Tel: 81-3-6810-1010 Fax: 81-3-5220-7278
<b>Incorporated</b>	August 22, 1949	<b>Website</b>	http://www.yamatake.com

## Subsidiaries and Affiliates

### Japan

<b>Yamatake &amp; Co., Ltd.*</b> Tokyo, Japan Ownership 100%	<b>Kimmon Manufacturing Co., Ltd.*</b> Tokyo, Japan Voting right 43.3%	<b>Kimmon Iwase Co., Ltd.*</b> Fukushima, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.
<b>Yamatake Control Products Co., Ltd.*</b> Kanagawa, Japan Ownership 100%	<b>Aomori Manufacturing Co., Ltd.*</b> Aomori, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.	<b>Kimmon Environment Equipment Co., Ltd.*</b> Kanagawa, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.
<b>Yamatake Expert Services Co., Ltd.</b> Tokyo, Japan Ownership 100%	<b>Wakayama Seiki Co., Ltd.*</b> Wakayama, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.	<b>Hokkaido Kimmon Construction Co., Ltd.*</b> Hokkaido, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.
<b>Yamatake Friendly Co., Ltd.</b> Kanagawa, Japan Ownership 100%	<b>Sirakawa Seiki Co., Ltd.*</b> Fukushima, Japan Ownership 86.3% owned by Kimmon Manufacturing Co., Ltd.	<b>Tohoku Kimmon Construction Co., Ltd.*</b> Fukushima, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.
<b>Yamatake Care-Net Co., Ltd.*</b> Tokyo, Japan Ownership 100%	<b>Kimmon Sirasawa Co., Ltd.*</b> Fukushima, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.	<b>Royal Controls Co., Ltd.*</b> Tokyo, Japan Ownership 100%
<b>Safety Service Center Co., Ltd.*</b> Tokyo, Japan Ownership 100%	<b>Kimmon Aizu Co., Ltd.*</b> Fukushima, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.	<b>Taishin Co., Ltd.*</b> Nagano, Japan Ownership 100%
<b>ESD Co., Ltd.</b> Tokyo, Japan Ownership 51%	<b>Kimmon Haramati Co., Ltd.*</b> Fukushima, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.	<b>Building Performance Consulting, Inc.</b> Tokyo, Japan Ownership 45%
<b>Kumamoto Safety Service Center Co., Ltd.*</b> Kumamoto, Japan Ownership 100% owned by Safety Service Center Co., Ltd.	<b>Kimmon Mizuho Co., Ltd.*</b> Kyoto, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.	<b>Tem-Tech Lab.</b> Tokyo, Japan Ownership 25%
<b>SecurityFriday Co., Ltd.</b> Kanagawa, Japan Ownership 85%	<b>Kimmon Karatu Co., Ltd.*</b> Saga, Japan Ownership 100% owned by Kimmon Manufacturing Co., Ltd.	
<b>Hara Engineering Co., Ltd.</b> Kanagawa, Japan Ownership 100% owned by Yamatake & Co., Ltd.		

### Overseas

<b>Yamatake Korea Co., Ltd.*</b> Seoul, Korea Ownership 100%	<b>Dalian Yamatake Control Instruments Co., Ltd.*</b> Dalian, China Ownership 100%	<b>Yamatake Automation Products Shanghai Co., Ltd.*</b> Shanghai, China Ownership 100%
<b>Yamatake Taiwan Co., Ltd.*</b> Taipei, Taiwan Ownership 100%	<b>Yamatake Information Technology Center (Dalian) Co., Ltd.</b> Dalian, China Ownership 100%	<b>YCP Precision Hong Kong Limited</b> Hong Kong, China Ownership 100% owned by Yamatake Control Products Co., Ltd.
<b>Yamatake (Thailand) Co., Ltd.*</b> Bangkok, Thailand Ownership 99.9%	<b>Yamatake Environmental Control Technology (Beijing) Co., Ltd.*</b> Beijing, China Ownership 100%	<b>Yamatake Sensing Control, Limited*</b> Santa Clara, CA, U.S.A. Ownership 100%
<b>Yamatake Philippines, Inc.*</b> Makati, Philippines Ownership 99.9%	<b>Yamatake Environmental Engineering (Shanghai) Co., Ltd.*</b> Beijing, China Ownership 100%	<b>Yamatake America, Inc.*</b> Phoenix, AZ, U.S.A. Ownership 100%
<b>Yamatake Automation (M) Sdn. Bhd.*</b> Petaling Jaya, Malaysia Ownership 100%	<b>Shanghai Yamatake Automation Co., Ltd.*</b> Shanghai, China Ownership 60%	<b>Yamatake Europe N.V.*</b> Brussels, Belgium Ownership 99.9%
<b>Yamatake Controls Singapore Pte. Ltd.*</b> Singapore Ownership 100%	<b>Yamatake China Limited*</b> Hong Kong, China Ownership 99.9%	<b>SICAL Yamatake Ltd.</b> Chennai, India Ownership 25%
<b>PT. Yamatake Berca Indonesia*</b> Jakarta, Indonesia Ownership 55%		Two other affiliates

\* indicates consolidated subsidiary

# Stock Information

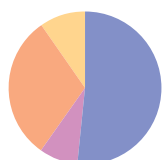
As of March 31, 2007

<b>Total Number of Authorized Shares</b>	279,710,000
<b>Shares of Common Stock Issued</b>	73,576,256
<b>Shareholders</b>	6,348
<b>Fiscal Year</b>	April 1–March 31
<b>Annual Shareholders' Meeting</b>	June
<b>Stock Listing</b>	Tokyo Stock Exchange, 1st Section
<b>Transfer Agent</b>	Mizuho Trust & Banking Co., Ltd.

## Major Shareholders

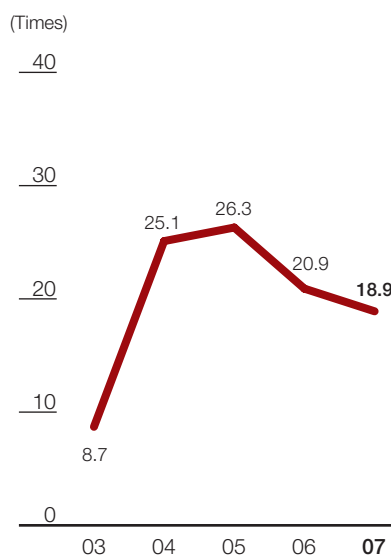
	Number of shares held (thousands)	Percentage of shares held (%)
Japan Trustee Services Bank, Ltd.	7,686	10.44
Northern Trust Company (AVFC) Sub-account American Clients	5,229	7.10
Meiji Yasuda Life Insurance Co.	5,214	7.08
The Master Trust Bank of Japan, Ltd.	4,849	6.59
Nippon Life Insurance Co.	2,669	3.62
Mizuho Trust & Banking Co., Ltd.	2,301	3.12
Mizuho Corporate Bank, Ltd.	2,100	2.85
Northern Trust Company (AVFC) Re U.S. Tax Exempted Pension Funds	2,013	2.73
Sompo Japan Insurance Inc.	1,700	2.31
Trust & Custody Services Bank, Ltd.	1,226	1.66

## Composition of Shareholders



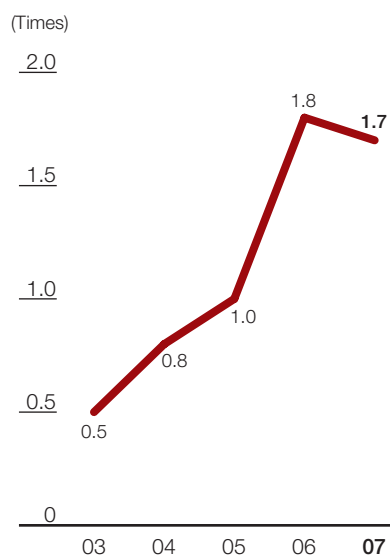
Japanese Financial Institutions	51.61
Other Japanese Corporations	8.17
Foreign Institutions and Individuals	30.54
Japanese Individuals and Others	9.67
Treasury Stock	0.01

### Price Earning Ratio



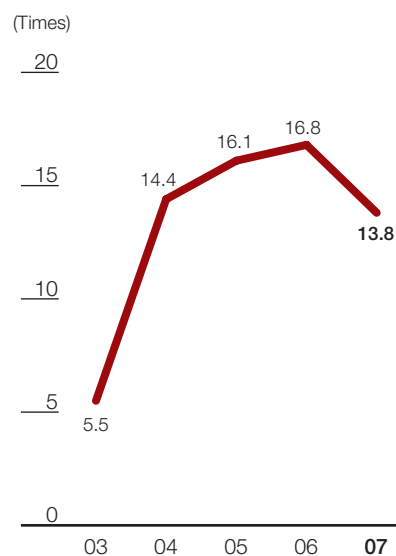
Price Earning Ratio =  
Stock Price/Net Income per Share

### Price Book-value Ratio



Price Book-value Ratio =  
Stock Price/Equity per Share

### Price Cash Flow Ratio



Price Cash Flow Ratio =  
Stock Price/Cash Flow per Share  
Cash Flow = Net Income + Depreciation

(Years Ended March 31)

# Board of Directors, Executive Officers and Corporate Auditors

As of June 29, 2007



**Board of Directors** From left: Eugene H. Lee, Masaaki Togo, Jun Kawachi, Seiji Onoki, Yoshiharu Sato, Kiyofumi Saito, Tadayuki Sasaki, Makoto Yasuda

**Yoshiharu Sato**  
Chairman

**Seiji Onoki**  
President and  
Chief Executive Officer

**Kiyofumi Saito**  
Executive Director  
Senior Managing Executive Officer  
and Building Systems  
Company President

**Jun Kawachi**  
Executive Director  
Managing Executive Officer

**Tadayuki Sasaki**  
Executive Director  
Managing Executive Officer

**Masaaki Togo**  
Executive Director

**Makoto Yasuda**  
Executive Director

**Eugene H. Lee**  
Executive Director

**Yukihiko Tsuruta**  
Corporate Auditor

**Tomonori Kobayashi**  
Corporate Auditor

**Kozo Edanami**  
Corporate Auditor

**Kinya Fujimoto**  
Corporate Auditor

**Katsuhiko Tanabe**  
Corporate Auditor

**Kanichirou Shimoda**  
Managing Executive Officer  
and Advanced Automation  
Company President

**Sadachika Ogawa**  
Executive Officer

**Toshio Hiraoka**  
Executive Officer

**Tadashi Hirooka**  
Executive Officer

**Hirozumi Sone**  
Executive Officer

**Yasuyuki Washi**  
Executive Officer

**Toshitsune Ookubo**  
Executive Officer

**Toshimitsu Miyaji**  
Executive Officer

**Kenji Mochimaru**  
Executive Officer

**Kazuo Shimizu**  
Executive Officer

**Tadashi Kawashima**  
Executive Officer

**Ichio Kunii**  
Executive Officer

**Keiichi Fuwa**  
Executive Officer

**Junji Funamoto**  
Executive Officer

**Masaaki Inozuka**  
Executive Officer

**Toshio Yoshida**  
Executive Officer

**Takuji Hosoya**  
Executive Officer

**Osamu Tamayori**  
Executive Officer



## Contact

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