

Notes to Consolidated Financial Results

1. Market conditions and results by business segment

1.1 Summary of Consolidated Financial Results

■ Mid-term consolidated financial results

Despite the fact that there are now some signs of improvement as a result of a slight recovery in corporate earnings and capital investment, owing to continuing deflation and the sudden strengthening of the yen, there is still no cause for optimism when looking at the future of the Japanese economy. The building and industrial markets, on which Yamatake's core businesses are based, continue to be in difficult straits. Nevertheless, Yamatake is actively pursuing what it has designated as "strategic businesses" — international business and new businesses, as well as striving to expand the high added-value solutions business through adopting a close customer contact approach. As a result, business performance for this mid-term consolidated accounting period is such that the company was almost able to achieve sales in line with its targets.

Consolidated sales for the first half of this fiscal year were 77,666 million yen, a 6.0% increase compared with the same period last year, due to a recovery in some markets and the successful sales activities of the Group. A consolidated operating income of 657 million yen was recorded thanks to increased sales and reductions in selling, general and administrative expenses (cf. a consolidated operating loss of 1,416 million yen for the same period last year). Net income for the first half of this fiscal year was 351 million yen.

From the current fiscal year, consolidated results include those for Yamatake Care-Net Co., Ltd. and the overseas affiliate Yamatake Environmental Control Technology (Beijing) Co., Ltd.

1.2 Building Systems Business

Building systems sales were 34,064 million yen, a 6.0% increase compared with the first half of the previous year. Operating income was 787 million yen, a 28.9% increase over the same period last year.

The business environment of Japan's building industry continued to be severe: in addition to the continuing decline in public sector investment, private capital investment was sluggish, with the exception of part of the Tokyo metropolitan region. In the face of the weakness in the new building market and a trend toward contraction in the medium and long term, Yamatake has actively shifted its management resources to a solutions business in the market for existing buildings.

In the building automation business for new buildings, the redevelopment projects within Tokyo — specifically in the Tameike and Shinagawa sections — have been completed. Yamatake increased its sales for additional construction associated with these projects.

In the solutions business that focuses on renewal and servicing for existing buildings, Yamatake actively promoted repair proposals and total energy management services (ESCO) to owners and operators of buildings with maintenance contracts. As a result, sales have steadily increased .

In the services business, in addition to Yamatake's current total building management service business, the company marketed a new service for remote maintenance. This includes a network-based management service designed for remote sites or small- and medium-scale buildings, and a data analysis and diagnosis service that uses network technologies. There is a clear demand in the market for reduced costs associated with building maintenance and management, but thanks to an increase in orders for new contracts and an increase in small-scale construction jobs generated from maintenance contract services, there was a marginal increase in sales.

Export sales continued to be firm overall. Japanese manufacturers in China have been actively investing in equipment, while in Korea and Taiwan sales to local customers have been growing. However, sales fell in Southeast Asia.

1.3 Advanced Automation Business

Advanced automation sales were 37,192 million yen, a 1.9% increase from the first half of the previous year. A consolidated operating income of 624 million yen was recorded thanks to increased sales and reductions in selling, general and administrative expenses (cf. a consolidated operating loss of 1,263 million yen for the same period last year).

The domestic business environment surrounding the advanced automation business (industrial systems and control products) has witnessed a remarkable recovery in capital investment in certain markets, such as semiconductor manufacture. The company has contributed to improvements in operating efficiency, safety and quality for its customers. This has been achieved by marketing a range of control products that employ Yamatake's unique sensing and control technologies, marketing open solution systems, and providing a variety of products and services designed to optimize the customer's automation assets. Moreover, added effort has been invested in close-contact sales approach and proposal activities for winning orders for new projects and enhancing the customer base overseas.

Yamatake has realized significant cost reductions with product renewals that involve close cooperation between the development and manufacturing departments. It has also improved engineering productivity through strengthening its project management capabilities.

There was strong sales growth in the control products business that targeted semiconductor manufacturers, etc., as well as a new consulting service to enable manufacturers to comply with regulations for pharmaceutical and food manufacture. In contrast, sales were weak in the public sector market.

Compared to last year, sales grew overseas thanks to large replacement orders for valve components etc. in the Middle East, and growth in sales of control products as a result of brisk business in the electrical and electronic markets of mainly China, Taiwan and Korea. There has also been brisk capital investment, particularly by Japanese transplants in China, Korea and Thailand.

1.4 New Businesses and others

Sales increased for Yamatake's new businesses and others — such as import and sales of inspection/measuring equipment used in the automobile and machine tool markets.

Total sales were 7,262 million yen, a 6.0% increase compared with the first half of the previous year. Sales for Yamatake Care-Net, a new addition to the consolidated financial results, were 449 million yen.

The current situation for each of the new businesses is as follows:

■ Care services business

Sales grew steadily owing to an increase in the number of users of the emergency dispatch service and growth in the number of outlets for Yamatake's home care service. Moreover, aiming at expanding the scope of this business, a new service for diabetic patients was developed jointly with Yamatake's R&D Headquarters.

■ Home comfort business

As a result of increasing needs for indoor air quality control, sales continued to grow.

■ Others

Yamatake's environmental business, which includes sewage inflow prediction and produce traceability, was unable to grow significantly owing to the slump in public investment.

There was some growth in the vision sensing business. In addition to the recovery of the electrical, electronic and semiconductor markets that are the main markets for image sensors, Yamatake laid plans to enter a new market for bookbinding equipment.

2. Outlook for the financial year ending March 31, 2004

		FY2002 (Mar.2003)	FY2003 (Mar.2004)	Difference	%
Building Systems	Sales	81.3	80.0	(1.3)	(1.6)
	Operating income	7.0	6.3	(0.7)	(10.9)
Advanced Automation	Sales	76.5	79.5	2.9	3.9
	Operating income	(2.2)	2.0	4.2	—
New & Others	Sales	12.4	15.4	2.9	23.7
	Operating income	(1.5)	(1.3)	0.2	—
Consolidated	Sales	167.9	173.0	5.0	3.0
	Operating income	3.2	7.0	3.7	113.8
	Net income	5.3	3.3	(2.0)	(37.8)

Unit: ¥billion

2.1 Business Segments and Forecasts

On April 1, 2003 Yamatake Corporation and its fully owned subsidiaries Yamatake Building Systems Co., Ltd. and Yamatake Industrial Systems Co., Ltd. merged. Marking this new start, Yamatake reorganized its core businesses into “in-house companies.” Yamatake Building Systems became the “Building Systems Company,” while Yamatake Industrial Systems was merged with Yamatake’s Control Products business into a single entity named the “Advanced Automation Company.” Consequently, since 2003 most of Yamatake’s business falls into two main segments: Building Systems (BS) and Advanced Automation (AA). Note that AA business financial results for the previous year have been recalculated for clearer comparison with this year’s results.

Consolidated sales figures show an increase of 5.0 billion yen (3.0%) over the previous year, and owing to improved profits in the AA business, operating income is expected to grow.

2.2 Business Systems Business

While Yamatake will be affected by the decreasing number of new building constructions with the winding down of the current round of redevelopment projects in the Tokyo metropolitan area, Building Systems expects to suffer only a small fall in sales. This is because of the increase in business related to existing buildings — refurbishing, enhancing energy efficiency, and providing maintenance and service.

In the face of continuing pressure to discount in the new buildings market and a low-cost offensive by competitors, the focus has been on the existing building market and the service business. Nevertheless, operating income is expected to be approximately 800 million yen less than in the previous financial year.

2.3 Advanced Automation Business

In addition to the increase in sales from control products sold in the domestic electrical, electronic and semiconductor markets, in terms of profits further improvements are expected as a result of increased efficiency following the merger of IA and CP businesses. Overseas business performance is expected to improve with increased capital investment by Japanese transplants as well as increased sales of control products thanks to the recovery in the electrical, electronic and semiconductor markets.

.....
Annual dividend per share is expected to increase in FY2003 by ¥2 to ¥14 (1H: ¥6; 2H: ¥8) from the previous ¥12 (1H: ¥6; 2H: ¥6).