

Notes to Consolidated Financial Results

1. Market conditions and results by business segment

1) Summary of Consolidated Financial Results

Yamatake has been drawing on its diverse strengths in measurement and control to actively develop new solution businesses for domains peripheral to its core businesses, and also to develop its interests overseas. At the same time, Yamatake has been expanding its new businesses, including care services. It has also been engaged in further strengthening its profit base by focusing on its core businesses, and working to enhance corporate efficiency and profitability.

The consolidated financial results for the first half of FY2004 reflect these efforts. During this accounting period favorable conditions were experienced in certain markets and, thanks to vigorous sales activities, sales of 80.8 billion yen were recorded, a 4.0% increase compared with the first half of the previous year. As well as increased sales, profitability has benefited from actively reducing expenses and costs: operating income was 1.7 billion yen, up 150.9% on the same period last year. While a loss of 1.3 billion yen in net income was posted, this resulted principally from an extraordinary charge of 3.5 billion yen incurred by the shift to a defined contribution (DC) pension plan.

The financial results for the current consolidated accounting period for Yamatake's business segments are as follows.

2) Building Automation Business

Consolidated sales for the Building Systems business during the first half of FY2004 were 34.6 billion yen, a 1.6% increase compared to the same period last year. However, despite efforts made to cut costs, it was not possible to

compensate for the reduction in income resulting from a fall in prices and there was a slight drop in operating income to 0.5 billion yen.

The business environment for the building automation industry continued to be difficult as a result of the long-term slump in capital investment.

With the slowdown and downsizing in the market for new buildings, the Group has been putting increasing emphasis on shifting management resources to the market for existing buildings. At the same time, the Group has made organizational improvements to ensure a rapid response to changing customer needs through the development of solutions to problems faced by the customers. This has meant that Yamatake was able to successfully provide proactive solutions and services — such as its Total Energy Management Service (TEMS) for optimal energy saving and cost cutting, and its remote maintenance service — to suit the changing business environment and satisfy customer needs.

Turning to international business, increasing capital investment and the progress made with improving Yamatake's business base in China and Korea have led to sales expansion.

3) Advanced Automation Business

Consolidated sales for the Advanced Automation business (industrial systems and control products) were 39.2 billion yen, a 5.3% increase compared with the first half of last year. At the same time a consolidated operating income of 1.8 billion yen was achieved, representing a 183.0% increase on the same period of the previous year.

In the Advanced Automation business, the recovery in domestic capital investment has continued, as has market expansion overseas.

Domestically, close-contact and proactive sales activities have yielded plentiful results: the Group has won orders for new projects and successfully attracted new customers. Moreover, the increase in the number of applications of high added-

value products that employ Yamatake's original micromachining technology, and the upgrade of core products have made a significant contribution to both sales and profits.

On the international front, both orders and sales have increased significantly in China, Taiwan and Thailand. There has been a considerable expansion in sales of control valves and electromagnetic flowmeters, mainly for the petrochemical market.

4) New and Other Businesses

Sales for new and other businesses reached 7.7billion yen, a 6.7% increase on the same period last year.

Sales increased for inspection and measurement equipment used in the automobile and machine tool industries.

Steady growth was seen in the care services business. This can be explained by such factors as the increase in the number of users for medical emergency dispatch and in-home nursing care services following the standardization and upgrading of the services offered, and the increased number of regional service centers. Also, sales have grown in the Group's environment business, thanks in part to the full-fledged launch of its fresh-produce traceability system.

2. Outlook for the financial year ending March 31, 2005

Billions of Yen

		FY2003 (Mar.2004)	FY2004 (Mar.2005)	Difference	%
Building Systems business	Sales	79.0	82.0	2.9	3.7
	Operating income	5.6	6.1	0.4	7.1
Advanced Automation business	Sales	78.1	83.5	5.3	6.8
	Operating income	2.6	4.0	1.3	53.5
New & Others Businesses	Sales	14.6	16.0	1.3	9.5
	Operating income	(1.4)	(0.8)	0.6	—
Elimination / Corporate	Sales	(1.8)	(1.5)	—	—
	Operating income	(0)	(2)	—	—
Consolidated	Sales	169.9	180.0	10.0	5.9
	Operating income	6.8	9.1	2.2	33.4
	Net income	3.2	2.9	(0.3)	(10.5)

1) Business Segments and Forecasts

Having reviewed the outlook for the whole financial year, Yamatake currently estimates that consolidated sales will increase by 10.0 billion yen, 5.9% compared to the previous financial year. As regards profits, operating income is expected to be 9.1 billion yen, 33.4% higher than the previous year's figure. Net income, however, will suffer from the shift to a DC pension plan: as an extraordinary charge of 3.5 billion yen for the first half of this period in review. This is expected to result in a decrease of 0.3 billion yen, 10.5% compared to the previous financial year.

2) Building Systems Business

In the Building Systems business, the Group is aiming to expand its range of high added-value solutions — including energy saving, access control, safety & security, and reduced lifecycle costs. As regards the building automation business, in the face of a continuing decline in public sector investment, Yamatake will focus on sales activities targeting investment in the manufacturing industries, particularly the electrical/electronic businesses. This will contribute to higher sales and it is also expected that profits will increase.

3) Advanced Automation Business

In the Advanced Automation business, there is a recovery in capital investment. For both control products and industrial systems businesses, increased effort is being put into close-contact and proactive sales. Furthermore, as a result of the growing demand for products with high added value and solutions to the issues facing modern society, both sales and profits are expected to grow.

3. Revision of the dividend forecast

In the management of the company, Yamatake places a great importance on the distribution of profits to its shareholders.

The management would like to maintain stable dividends over the long term while striving to increase its dividend payout, taking into account consolidated performance, levels of ROE (Return On Equity), dividend ratio to shareholders' equity and retained earnings to strengthen business structure and develop future businesses comprehensively.

In keeping with these principles, Yamatake will issue a first-half dividend of 10 yen, unchanged from the figure previously announced. However, taking into account performance forecast for the whole year and the financial position, the dividend forecast has been revised upward, to a year-end dividend set at 13 yen. This

represents a dividend for the whole year of 23 yen per share, or 9 yen higher than the annual dividend last year.