

Notes to Consolidated Financial Results

In line with its corporate philosophy — as expressed by the concept of “Savemation”^{*} — Yamatake is a company dedicated to providing value to its customers. Drawing on its diverse strengths in measurement and control, Yamatake has developed its core businesses; Building Systems business and Advanced Automation business. Moreover, in domains peripheral to these businesses Yamatake has been creating new solutions businesses as well as actively pursuing interests overseas as strategies for growth. In addition to Building Systems and Advanced Automation, Yamatake has been expanding its Life Automation businesses, such as environment and care services businesses applying its measurement and control technologies.

**Savemation: a term derived from saving through automation, delivering unsurpassed technology and high-quality products that help our customers to conserve energy and resources, enhance safety, and provide comfortable environments.*

1. Market conditions and results by business segment

1) Summary of Consolidated Financial Results

Consolidated sales for the FY2004 were 180.8 billion yen, an increase of 6.4% compared with the same period last year. As regards profits, by making efforts such as in cost reduction, Yamatake was able to post an operating income of 9.4 billion yen, an increase of 37.1%, and recurring income of 9.5 billion yen, an increase 38.9% compared with the same period last year. Although an extraordinary charge of 3.5 billion yen incurred by the shift to a Defined Contribution (DC) Pension plan, Yamatake recorded net income of 3.7 billion yen, an increase of 14.4% compared with the same period last year.

2) Building Systems Business

Consolidated sales for Building Systems business for the FY2004 were 82.6 billion yen, an increase of 4.5% compared with the same period last year, although operating income was 5.5 billion yen, a decrease of 2.8%.

The business environment in the building industry has continued to be challenging, owing in part to the reduction in public spending and the fall in price of building constructions. Nevertheless, in certain domains there are now good reasons for optimism, such as an increase of construction projects for large-scale buildings, principally in the Tokyo metropolitan area, and capital investment mainly in the manufacturing industry.

In the market for new buildings, which remains in difficult circumstances, Yamatake has strengthened its capabilities to identify the emerging needs of its customers and its market, and to swiftly provide solutions. Owing to healthy sales of factory HVAC (Heating, Ventilating and Air-conditioning) systems— buoyed up by capital investment in the manufacturing industry, especially the electrical and electronic fields — it was possible to record higher sales than the previous year.

In the market for existing buildings, there was a steady growth in solutions and services, such as Yamatake's Total Energy Management Service (TEMS) for optimal energy- and cost-savings and its network-based management service, which are tailored to suit changing customer needs.

Furthermore, with rising demand for environmental protection as the result of such international developments as Russia's ratification of the Kyoto Protocol, there has been growth in demand for energy management integrating HVAC, utilities and the production line, especially in factories. Effectively Yamatake is thus expanding in a domain that combines its expertise in Building Systems and Advanced Automation.

In its international business, Yamatake was able to increase sales owing to strong capital investment in Asia, and progress made by Yamatake in developing its operational base, mainly in China.

3) Advanced Automation Business

Consolidated sales for Advanced Automation business for the FY2004 were 84.3 billion yen, an increase of 7.9%, and operating income of 4.7 billion yen was achieved, a increase of 81.3% compared with the same period previous year.

In the Advanced Automation business, following the rebound in corporate earnings, capital investment has recovered in the manufacturing industry as a whole, with the driving force provided by the semiconductor, electrical, electronic and automotive markets. Sales of control products, field instruments and control valves expanded significantly, resulting in a healthy business performance.

By pursuing close-contact and proposal sales activities, and providing high value-added products and solutions employing the company's original technologies, Yamatake has been able to satisfy customer needs for greater energy savings, enhanced safety, improved quality, and environmental friendliness. Moreover, further strengthening the synergistic effect by coordination between its Industrial Automation and Control Product businesses, Yamatake has developed new products with enhanced performance, as well as provide solutions that meet diversified customer needs.

In international business, although the effect of a production slowdown for semiconductors was evident, overall sales have increased, particularly in China, Taiwan and Thailand.

4) New and Other Businesses

Consolidated sales for New and Other businesses for the FY2004 were 15.5 billion yen, an increase of 6.3%. Despite an operating loss of 0.9 billion yen, it was marked improvement compared with an operating loss of 1.4 billion yen in the same period last year.

As regards the business for the import and sales of inspection and measurement equipments, sales was brisk reflecting favorable conditions in the automotive, electrical and electronic markets.

In the environment business, heightened concerns about food safety spurred the introduction of a fresh-produce traceability system and there has been an upswing in sales.

In the care services business, sales are also growing steadily partly due to the establishment of new service centers.

2. Developments in the Fiscal Year 2004 ended March 31, 2005

1) Changes in business segments and functions, work style and mindset

Looking ahead to FY2006 ending March 31, 2007, which will mark Yamatake's centennial, the company has been strengthening its corporate culture and business base in order to succeed in progress for its second century. Directing this initiative are the following key concepts: "Business expansion through the fusion of business segments and/or functions," "Creation of new work styles," and "Development of a new mindset." Yamatake has already begun implementing ways to enhance creativity and productivity of staff operations, R&D, product development and engineering, and manufacturing functions.

2) New Products

Building Systems business has marketed the open-network savic-net FX, a next-generation building automation system compatible with the IPv6 protocol. It has also developed wireless sensors and controllers, enhancing the value-added product line designed for the age of ubiquitous networking. These new products have significantly

bolstered Yamatake's competitive edge in the intensified markets for new and existing buildings.

Advanced Automation business has developed and started marketing a diaphragm gauge that plays a crucial role in the semiconductor manufacturing process. The first product to market has been a capacitance-type pressure sensor that employs sapphire for the measurement component.

Also, the company has upgraded its "Harmonas/Industrial DEO manufacturing control system" featuring Web operation and enhanced safety and security. It is now even better suited applications for production control in the pharmaceutical, food & beverages, automotive and semiconductor industries, as well as the monitoring and management of utilities.

In addition, Yamatake has developed the InfiflexCR, an HVAC controller for clean rooms that employs an innovative approach to reduce energy consumption by up to 50%. By integrating capabilities of Building Systems and Advanced Automation, Yamatake further strengthens its product line.

3) Research & Development

In the biotechnology field, a market that is expanding, Yamatake is currently working together with CEA-Leti (Laboratory for Electronic and Information Technologies of the French Atomic Energy Commission) to develop biochips and automated manufacturing equipment for their production. Moreover, Yamatake is engaged in joint research with Tohoku University and several companies that has led to the successful prototyping of a spherical SAW (surface acoustic wave) gas sensor, which will play an important role in the practical application of fuel cells; development is now being fast-tracked.

4) Overseas

In order to strengthen its operations in China's industrial market, Yamatake has established Shanghai Yamatake Automation Co., Ltd., a Shanghai-based overseas affiliate for control products. It serves as a distribution base, having developed an infrastructure linking manufacturing and marketing companies within China. Sales activities have been stepped up for control products, focusing on the industrial market, including automotive, electrical, electronic, semiconductor, food, delivery, and industrial furnace.

5) Corporate Governance

Management organization and system of internal controls

Yamatake employs an auditing system with four auditors, two of whom are appointed from outside the company. Three of these auditors are working full-time. Corporate operations and management decisions made by the directors and executive officers are thus carefully scrutinized, particularly as regards legal compliance. Within the company's management, there is a separation of functions between the Board of Directors and the Executive Officers. The former makes decisions on basic management policy as well as on legal and regulatory matters and other important issues; it also oversees the overall business affairs of the company. The latter is responsible for day-to-day operations. This management system ensures that business is handled swiftly and efficiently, strengthening the supervision of daily operations.

Yamatake appoints no external directors. As of April 1, 2005, there are 7 directors, of whom 5 also serve as executive officers. The other two directors serve as full-time members of the board and supervise management and operation. They have an independent standpoint with a wide purview, unrestricted by fixed duties or daily operations. Thus, they are able to pursue the goal of maximizing Yamatake's value as an enterprise.

3. Outlook for the Fiscal Year 2005 ending March 31, 2006

		Billions of Yen			
		FY2004 (Mar.2005)	FY2005 (Mar.2006)	Difference	%
Building Systems	Sales	82.6	85.0	2.4	2.9
	Operating income	5.5	6.0	0.5	8.4
Advanced Automation	Sales	84.3	88.0	3.7	4.4
	Operating income	4.7	5.8	1.1	22.8
New & Other	Sales	15.5	17.0	1.5	9.5
	Operating income	(0.9)	(0.3)	0.6	-
Consolidated	Sales	180.8	188.0	7.2	4.0
	Operating income	9.4	11.5	2.1	23.0
	Recurring income	9.5	11.3	1.8	19.0
	Net income	(*)3.7	7.8	4.1	110.3

* An extraordinary charge of 3.4billion yen recorded by shift to DC pension plan

Yamatake expects to see a growth in sales of 7.2 billion yen, an increase of 4.0%, compared with the FY2004, as well as an increase in operating income of 2.1 billion yen and recurring income of 1.8 billion yen as a result of improvement of cost of sales and expenses efficiently.

1) Building Systems Business

Sales for Building Systems business are forecasted to increase by 2.4billion yen compared with the FY2004. Business environment for Building Systems will remain challenging; despite a continuing brisk performance in the factory HVAC market, public spending will decrease and investment in construction will be stagnant. While Yamatake

must cope with the difficult environment, its high added value solutions businesses — offering customers energy savings, access control, safety and security, and reduced lifecycle costs — will expand, and its international business will also grow.

Operating income is also expected to increase by 0.4 billion yen. In the face of downward pressure on price reduction and a low-price offensive from its competitors, Yamatake will work to improve profitability through cost-reductions etc.

2) Advanced Automation Business

Sales for Advanced Automation business are forecasted to increase by 3.6 billion yen. Yamatake will put renewed emphasis on close-contact and proposal sales activities against a background of sustained growth in demand in both domestic and overseas markets.

Operating income is also expected to increase by 1.0 billion yen as a result of efforts such as further improved cost of sales.

Note that the main items of extraordinary profit and loss expected in the next fiscal year are as follows:

1. 2.7 billion yen profit on the land sale of part of the site of Yamatake's Industrial Operations Tokyo office.
2. 1.0 billion yen in costs associated with consolidating sales offices and manufacturing site
3. 0.4 billion yen in impaired assets, such as the Kobe factory site.

These extraordinary profit and loss items will result in a net income of 7.8 billion yen, an increase of 4.0 billion yen.

4. Basic policy regarding profit sharing

In the management of the company, Yamatake places great importance on the distribution of profits to its shareholders. The management would like to maintain stable dividends while striving to increase its dividend payout, taking into account comprehensively consolidated performance, levels of ROE (Return On Equity), dividend ratio to shareholders' equity, as well as retained earnings for strengthening its business base and developing future businesses.

In keeping with these principles, Yamatake expects to increase the annual dividend by 9 yen to 23 yen per share for the fiscal year ended March 31, 2005.

Looking ahead to the fiscal year ending March 31, 2006, Yamatake plans to further increase the annual dividend to 40 yen per share to promote profit sharing with its shareholders, taking into consideration both the success of ongoing initiatives intended to enhance the company's business and the outlook for performance improvement. Additionally, to mark the company's centennial in 2006, the management plans to issue a commemorative dividend of 10 yen per share.

As regards the appropriation of retained earnings, the management proposes to make investments designed to reinforce the company's business base and expand businesses for a further increase in shareholder value. These include investments to develop advanced technologies and high value-added products, to enhance the company's global production and sales network, and to create new businesses.