
Notes to Consolidated Financial Results

*Notes: Amounts indicated in the financial results are rounded down.

1. Business Environment and Measures

During the first half of fiscal year 2005, there has been a degree of uncertainty regarding the prospects for Japan's economy owing to the steep rise in crude oil prices. However, capital investment has been increasing, through the improvement in corporate earnings and growth in demand in investment. Consumer spending is also showing signs of recovery. By breaking out from a temporary economic lull, Japan is on course for a gradual recovery. Meanwhile, overseas economies are robust; especially China's economy, which continues to grow.

Under this economic climate the Yamatake Group is committed to providing value to its customers in line with its corporate philosophy, as expressed by the concept of "Savemation"*. Drawing on its diverse strengths in measurement and control, Yamatake is actively striving both to create new solutions businesses in those fields peripheral to its core businesses, and to expand its international business. At the same time, the Group has been expanding its Life Automation businesses, such as care services and environment businesses.

**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.*

To mark Yamatake's 100th year in business in fiscal year 2006 ending March 31, 2007, and achieve sustainable growth in its second century, we are taking actions to enhance creativity and productivity in such functions as staff operations, product development, engineering and production. At the same time, steps are being taken to transform the corporate culture and business foundation using three key concepts: changing the business structure, creating a new workstyle, and creating a new corporate culture imbued with the spirit of challenge.

Market Conditions and Results by Business Segment

1) Summary of Consolidated Financial Results

During the first half of fiscal year 2005, there was an upturn in some markets, and together with Yamatake's aggressive sales activities, sales were 84.5 billion yen, up 4.6% on the same period previous year. As for profits, a rise in earnings along with efforts in cost and expense reduction enabled Yamatake to post an operating income of 4.0 billion yen and an recurring income of 4.2 billion yen, increasing 145.9% and 134.5%, respectively, on the same period last year. Net income marked 3.8 billion yen owing to an increase both in sales and incomes, and an extraordinary profit of 2.7 billion yen was made on the land sale of part of the site of Yamatake's Industrial Operations Tokyo office. However, extraordinary charges were incurred by a 0.3 billion yen loss on impaired assets, and the costs of 0.4 billion yen associated with the relocation of the Head Office and factory refitting. (A net loss of 1.2 billion yen was recorded in the same period previous year, owing mainly to an extraordinary charge of 3.4 billion yen incurred by the switchover to a defined contribution (DC) pension plan.)

2) Building Systems Business

Building Systems sales for the first half of fiscal year 2005 totaled 33.0 billion yen, a decrease of 4.4% compared with the previous fiscal year. As for profits, through efforts such as cost reduction, an operating income of 0.5 billion yen was recorded, which was 17.4% more than the previous fiscal year.

Price competition is still evident in the building industry, ensuring that the market environment remains challenging. However, gradually signs of improvement are appearing: with the economy on course for recovery, there have been announcements of new urban redevelopment projects, especially in the Tokyo metropolitan area, and also new capital investment in the manufacturing sector.

In this business environment Yamatake succeeded in steadily winning orders in the market for new buildings by implementing organizational improvements to facilitate the provision of solutions that respond rapidly to customer and market needs. Despite this progress, sales fell. In contrast, in the market for existing buildings an increasing awareness of the need for

environmental load reduction led to significant growth in ESCO or Yamatake's tems (Total Energy Management Service) aimed at optimal energy and cost savings. Moreover, in the factory HVAC market, collaboration with Advanced Automation Company (AAC) was further promoted, which enabled Yamatake to offer a solutions service focused on customer needs and maintain its sales performance. Also, owing to a heightened need to enhance safety and security in buildings, its security business expanded as well.

In international business, sales increased substantially due to increased capital investment by Japanese companies in Korea, Singapore, Indonesia and Thailand. Other factors include the establishment of new offices in southern China, and the progress made in expanding Yamatake's China-based business.

3) Advanced Automation Business

Advanced Automation sales for the first half of fiscal year 2005 totaled 44.8 billion yen, an increase of 14.5 % compared with the previous fiscal year. Operating income of 3.7 billion yen was recorded, 113.4% more than the previous fiscal year.

The Advanced Automation business has been benefiting from a robust market, as demonstrated by the recovery in capital investment throughout the manufacturing sector that has resulted from the improvement in corporate earnings.

Yamatake has further strengthened its close-contact and proactive sales activities, while responding to diversifying customer needs and concerns regarding such issues as environmental load reduction and safety, and supplying optimum products and solutions employing proprietary technologies. Also, by supplying a high added-value engineering service covering the lifecycle of a customer's manufacturing lines — rather than merely selling products and systems— by making optimum use of the synergy between its Industrial Automation business and Control Products business, Yamatake has been expanding its business, and achieved significant growth in sales.

As for international business, with Japanese companies continuing to set up production facilities overseas, Yamatake has been deepening its ties with local subsidiaries to strengthen the sales support structure and supply these customers with high-quality products and services. As a result sales expanded in Asia, especially in China.

4) New and Other Businesses

For Yamatake's New and other businesses, sales for the first half of fiscal year 2005 totaled 7.3 billion yen, a decrease of 5.0% compared with the previous fiscal year. Operating loss was 0.3 billion yen, compared with an operating loss of 0.4 billion yen incurred in the same period the previous year.

As for the business of inspection and measuring equipment, sales fell slightly, although Yamatake secured orders owing to the increasing capital investment in the automobile, electrical and electronic, as well as machine tool markets.

As for the environment business, in the field of urban environmental disaster prevention, the infiltration and inflow investigation service (named Dr.TCBM) — employing Yamatake's original measurement and forecasting technologies — has now an established reputation within the metropolitan areas, and sales increased. However, overall sales of the environment business fell.

In the care services business, with the expansion of the nursing-care insurance market, Yamatake has opened new service centers and launched new services, including one for disease management. As a result solid sales growth was achieved.

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

		Billions of Yen			
		FY2004 (Mar.2005)	FY2005 (Mar.2006)	Difference	%
Building Systems	Sales	82.5	82.0	(0.5)	(0.7)
	Operating income	5.5	5.9	0.3	6.6
Advanced Automation	Sales	84.3	92.0	7.6	9.1
	Operating income	4.7	6.7	1.9	41.8
Others	Sales	15.5	16.0	0.4	3.1
	Operating income	(0.9)	(0.3)	0.6	—
Consolidated	Sales	180.7	188.0	7.2	4.0
	Operating income	9.3	12.3	2.9	31.5
	Recurring income	9.4	12.0	2.5	26.4
	Net income	3.7	8.8	5.0	137.3

In review of the outlook for fiscal year 2005, Yamatake forecasts a sales growth of 7.2 billion yen, an increase of 4.0% compared with the previous fiscal year. As for profits, operating income and recurring income are also expected to rise. In addition to the rise in sales and both incomes, net income is expected to increase by 5.0 billion yen from the previous year, resulting from an extraordinary profit of 2.7 billion yen made on the land sale of part of the site of Yamatake's Industrial Operations Tokyo office. (In fiscal year 2004 in review, net income was 3.7 billion yen due to an extraordinary charge of 3.4 billion yen incurred by the shift to a DC pension plan.)

1) Building Systems Business

In spite of brisk performance in the market for new buildings in the Tokyo metropolitan area, and in the factory HVAC market, Yamatake must cope with a difficult business environment, including the shrinking new-building market nationwide and pressure to reduce prices. Nevertheless, Yamatake forecasts an increase in profits and almost equal volume of sales to

the previous year, driven by the expansion of its high added value solutions business – offering energy savings, access control, safety and security, and reduced lifecycle costs – as well as the growth of its international business.

2) Advanced Automation Business

With the recovery in capital investment throughout the manufacturing sector, Yamatake will strengthen its close-contact and proposal sales activities, and expand in domestic and overseas markets. As a result both sales and profits growth are expected.