



## Consolidated Financial Statements for the First Half of the Year Ending March 31, 2006

Date: November 7, 2005

Name of Listed Company: Yokogawa Electric Corporation (the "Company" herein)

Stock Exchanges Where the Company's Shares are Listed: Tokyo Stock Exchange

Stock Code: 6841

Location of Company Head Office: Tokyo

(URL: <http://www.yokogawa.com>)

Name and Position of the Representative: Isao Uchida, President and Chief Executive Officer

Name and Position of Person in Charge: Masatoshi Okabe, General Manager of Public Relations &amp; Investor Relations Dept.

Telephone Number: +81-422-52-5530

Interim Settlement Board of Directors Meeting Date: November 7, 2005

Conformance with U.S. Accounting Standards: No

### 1. Business results for the half year ended September 30, 2005 (April 1, 2005-September 30, 2005)

#### (1) Results of operations on a consolidated basis (amounts less than one million yen omitted)

	Net Sales		Operating Income		Ordinary Income	
	¥mil	%	¥mil	%	¥mil	%
For the half year ended September 30, 2005	177,796	(5.0)	7,733	(26.9)	8,350	(16.2)
For the half year ended September 30, 2004	187,102	12.4	10,571	126.8	9,968	211.1
For the year ended March 31, 2005	387,053		24,756		22,401	

	Net Profit		Net Profit per Share	Diluted Net Profit per Share
	¥mil	%	¥	¥
For the half year ended September 30, 2005	1,832	(35.5)	7.53	6.97
For the half year ended September 30, 2004	2,842	-	11.69	10.81
For the year ended March 31, 2005	9,372		38.43	35.53

(Note)

#### 1) Profit or loss from investments accounted for by the equity method:

For the half year ended September 30, 2005	¥653 million
For the half year ended September 30, 2004	¥589 million
For the year ended March 31, 2005	¥1,060 million

#### 2) Average number of shares on a consolidated basis:

For the half year ended September 30, 2005	243,215,038 shares
For the half year ended September 30, 2004	243,270,420 shares
For the year ended March 31, 2005	243,243,513 shares

#### 3) Change of accounting method: None

#### 4) The percentages in the net sales, operating income, and ordinary income columns in the above table show the percent increase or decrease since the first half of the previous fiscal year.

#### (2) Financial conditions on a consolidated basis (amounts less than one million yen omitted)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	¥mil	¥mil	%	¥
For the half year ended September 30, 2005	386,055	174,106	45.1	715.83
For the half year ended September 30, 2004	386,322	161,063	41.7	662.13
For the year ended March 31, 2005	400,268	168,751	42.2	693.75

(Note)

#### Number of shares issued at end of the period (consolidated):

For the half year ended September 30, 2005	243,221,913 shares
For the half year ended September 30, 2004	243,252,576 shares
For the year ended March 31, 2005	243,208,024 shares

#### (3) Conditions of cash flow on a consolidated basis (amounts less than one million yen omitted)

	Net cash provided by operating activities	Net cash provided by (used in) investment activities	Net cash used in financing activities	Cash and cash equivalents at the end of the period
	¥mil	¥mil	¥mil	¥mil
For the half year ended September 30, 2005	11,287	(10,432)	(14,052)	27,382
For the half year ended September 30, 2004	8,107	(7,600)	(3,351)	31,498
For the year ended March 31, 2005	18,275	(11,221)	(1,305)	40,091

#### (4) Matters concerning investments in consolidated subsidiaries and affiliates that involve the equity method of accounting

Number of consolidated subsidiaries: 80

Number of non-consolidated subsidiaries whose investments involve the equity method of accounting: 4

Number of affiliates whose investments involve the equity method of accounting: 12

(5) Changes of the extent of consolidation and companies as to investments in which the equity method of accounting has been carried out:

Consolidated subsidiaries	Newly included: 1	Excluded: 1
Companies whose investments involve the equity method of accounting	Newly included: -	Excluded: -

2. Business forecast for the year ending March 31, 2006 (April 1, 2005-March 31, 2006)

	Net Sales	Ordinary Income	Net Income
	¥mil	¥mil	¥mil
Full year	390,000	28,000	13,000

(Reference)

Earnings per share expected for the year ending March 31, 2006 on a consolidated basis: ¥53.45

\* The above forecasts are based on the information that was available at the time this document was released and involve assumptions regarding uncertain factors that may have an effect on future performance. Actual performance may vary greatly due to a variety of factors. Please refer to page 12 of the appendix for a disclaimer regarding the assumptions used in performance forecasts and the use of performance forecasts.

## 1. Status of the Yokogawa Group

The Yokogawa Group consists of Yokogawa Electric Corporation (“the Company”), 89 subsidiaries, and 17 affiliated companies. The major businesses of the group companies and businesses pertaining to each company in the group by segment are as follows:

Note: Business activities are classified as either (1) the measurement, control, and information equipment business segment, or (2) the other businesses segment. This classification is based on a consideration of product affiliations and market similarities.

(1) The measurement, control, and information equipment business: 97 companies

In this business segment, products manufactured by consolidated subsidiaries such as Yokogawa Electronics Manufacturing Corporation, Yokogawa Electric China Co., Ltd., and Yokogawa Electric Asia Pte. Ltd. are sold in Japan by the Company. Outside Japan, mainly Yokogawa Engineering Asia Pte. Ltd. in Southeast Asia, Yokogawa Europe B.V. in Europe, and Yokogawa Corporation of America in the United States add some of their own products and conduct sales, engineering service, and after-sales service.

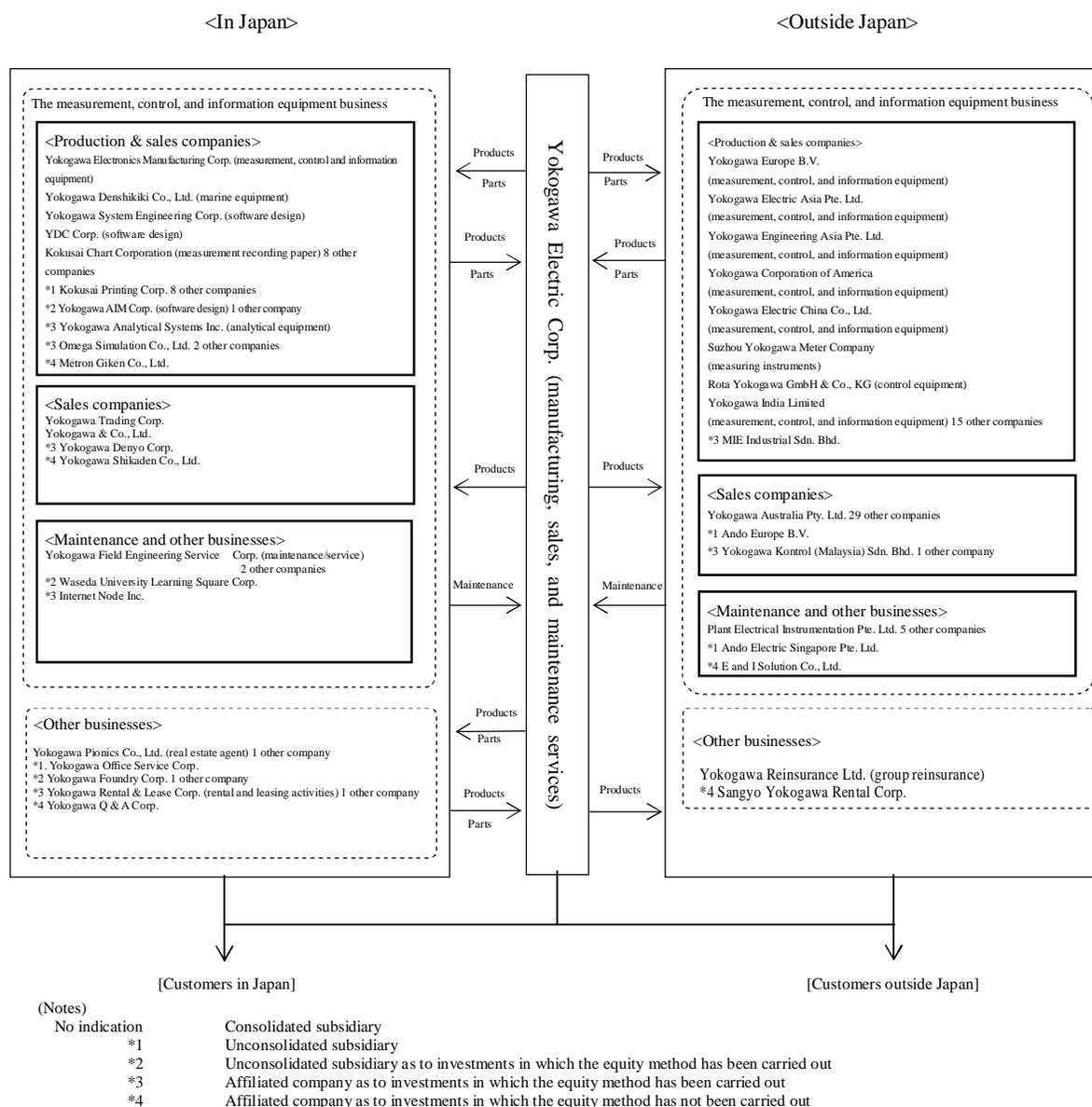
The Company and Yokogawa Denshikiki Co., Ltd. are also engaged in the manufacture and sale of electronics equipment for public sector use.

(2) Other businesses: 10 companies

Yokogawa Pionics Co., Ltd. handles operations relating to real estate, while Yokogawa Human Create Corporation acts as a temporary staffing agency.

## Business Overview

The following diagram illustrates the relations of the companies in the Yokogawa Group.



In addition, of the above, the subsidiaries listed in Japan securities markets, and open markets, are as follows.  
 Kokusai Chart Corporation Jasdaq Securities Exchange, Inc.

## 2. Management Policies

### (1) Core Management Policies

In keeping with the core goals of VISION-21 and ACTION-21 which were announced in January 2000, and embracing a corporate strategy aiming at sound and profitable operation, the Yokogawa Group has pursued a business strategy of bringing about innovations in business structure and group management.

The Company is reforming its business structure by aiming to increase profitability through greater efficiency in its industrial automation and control business, particularly within the market for plant control systems, while also taking steps to increase orders in control markets outside Japan that are anticipated to grow in the future. The Company is also transforming its business structure by injecting more of the Group's resources into markets and industries that appear poised for growth and prosperity in the years ahead, namely semiconductors, optical communications, and life sciences, implementing several programs to reach the quantitative goals it has set for achievement by fiscal year 2005, as the first milestone year.

To bring about innovations in Group management and fortify the management structure, we have

embarked on a quest to maximize consolidated operating income through the realignment and consolidation of Group companies.

(2) Policy on Appropriation of Profit

Taking into consideration such factors as the need to strengthen our consolidated business performance and financial standing while establishing a stable corporate foundation, the Company is committed to the payment of dividends, recognizing that the distribution of earnings to shareholders is one of its most important policies.

In addition, in the interest of achieving the goals set out in our corporate strategy and bolstering consolidated performance, an internal reserve will be secured to invest in new businesses and the development of new products for growing markets.

Further, in the current interim period, along with increasing the dividend from 3.75 yen to 5 yen, an additional dividend of 5 yen will be paid to express our gratitude to our shareholders on the occasion of the 90<sup>th</sup> anniversary of our establishment on September 1 of this year, for a total interim dividend of 10 yen per share.

(3) Policy on the Reduction in the Minimum Trading Unit of Shares

The Company recognizes that improving the liquidity of its shares to encourage the participation of more diverse investors is a matter of top management priority. Based on this policy, as of December 1, 2004, we have reduced the minimum trading unit from 1,000 to 100 shares.

(4) Management Targets

We have worked toward achievement of several consolidated management targets to be reached by fiscal year 2005 as our first milestones, through the steady implementation of the core strategies outlined by the Group's VISION-21 and ACTION-21 corporate strategy, which was announced in January 2000. These targets are a consolidated operating income of 50 billion yen, consolidated net sales of 500 billion yen, consolidated ROA of 5 percent, and consolidated ROE of 10 percent.

There is no change in our determination to achieve these goals. However, taking into consideration our business performance in the first half, we have established as our minimum goals the achievement of a consolidated operating income of 30 billion yen, and consolidated net sales of 390 billion yen, for our business plan for fiscal year 2005.

(5) Medium- and Long-term Business Strategies

The Company has classified its operations into key business domains: the industrial automation and control business, the test and measurement business, the information systems business, and the aviation and industry support businesses. Yokogawa is now pursuing an aggressive business strategy in each of these domains, the core strategies for which are outlined below.

Industrial Automation and Control Business

We will aggressively develop our industrial automation and control business, aiming toward becoming the global number one company in the year 2010. In addition to the Japan market, where we will seek to increase our share and solidify our profit foundation, we will create infrastructure and aggressively invest resources in active markets outside Japan where large-scale projects have been planned, thereby strengthening our structure to increase the number of orders that we receive.

We will actively increase our share of the Japan industrial automation and control market by differentiating Yokogawa from rival companies through our research and development-backed, highly reliable products, and our ability to provide total solutions to customer needs. In addition, by strengthening project revenue management, we aim to bolster our revenue base in the Japan industrial automation and control business. Extending this policy around the globe, we aim to improve the profitability of our industrial automation and control business as a whole.

Outside Japan, in addition to the Singapore Development Center and the Global Engineering Solution Center, software package development sites that already had been established in Singapore, Yokogawa Electric International Pte. Ltd. was newly established in April 2005 to function as our overseas business headquarters. It will be the headquarters not only for development of core strategy from a global standpoint, but for the sales, engineering, and service functions as well, efficiently accelerating the development of business.

The Company will make an especially focused use of resources to expand business in the fast-growing Chinese market, with a goal of a 30 percent or higher share and sales of 120 billion yen by the year 2010.

The Company is also working to increase profitability through the lowering of overall business costs by transferring production facilities outside Japan and adopting an improved engineering organization that effectively utilizes cost-effective resources in labor markets outside Japan. Furthermore, in addition to providing highly reliable new products and optimal system solutions targeting the global market, the Company is also expanding its service organization to respond to the needs of customers, and will continue to bolster its industrial automation and control business through continuing technical development activities.

#### Test and Measurement Business

Yokogawa is expanding its business presence in the semiconductor market and markets for communications and measurement equipment through the strategic debut of competitive new products. In the market segment for semiconductor testers, the Company is expanding operations with a product strategy geared to the test needs of the customer, by focusing on system LSI, liquid crystal driver IC, and memory IC testers used in cellular telephones and information appliances. The Company is also expanding its operations in the communications and measuring instruments business by enlarging its line of high-frequency measuring instruments for the development of next-generation telecommunications network equipment and information appliances, in response to the needs of the customer. It is also utilizing the latest measurement and semiconductor technologies to commercialize measuring instruments for optical communications networks and related devices that are essential for the construction of broadband environments.

The Company will also work to launch new operations, aggressively exploring the life science market by focusing its resources on areas such as drug development and medical research.

#### Information Systems Business

Yokogawa is expanding its business in medical imaging and information systems, a market segment where the Company already commands a strong share. Furthermore, it is providing competitive solutions primarily for the manufacturing industry, which is striving for business efficiency through the use of information technology. The Company is also actively working to expand its business in the fields of security, energy conservation, ecology, and facilities, which are essential aspects in building corporate networks and in creating a network society that will expand further in the future.

#### Aviation and Industry Support Businesses

Together with its original government-oriented business, Yokogawa is expanding operations in the aircraft instrumentation business by working more aggressively to accommodate private sector demand. The Company is also utilizing the latest measurement technology in an effort to actively expand its business into new areas such as magnetoencephalographs, which measure brain functions.

#### (6) Challenges for the Company

With measurement, control and information as its core technologies, the Company has continued to strengthen its ability to provide added-value solutions that resolve customer issues and increase their management efficiency. These activities will be further enhanced and established as we aim to become a true solution provider offering high added value and high profitability. In order to achieve this, we will build an organization capable of providing consistent total solutions throughout the entire life cycle of products in each business area. While strengthening our business structure and investing resources outside Japan to secure stable and high revenues in our main area of operations, the industrial automation and control business, we are improving product development efficiency in the communication and measurement equipment businesses to improve its responsiveness to market needs and build an organization that is highly profitable. The Company will work to expand its semiconductor tester business as well, by introducing new products that reflect market needs in a timely fashion, and actively increasing order reception and attracting new customers. The Company will also accelerate the establishment of new businesses that are expected to grow, such as the optical communication device and life science businesses. Furthermore, the Company will pursue increased production efficiency not only in Japan but globally as well, and strive to improve product quality and reduce production costs throughout the Group. The Group will also intensify its work to improve not only the quality of product development, manufacturing, delivery, service, and other work processes, but the quality of management for the entire Group, including the administrative workforce engaging in sales activities and head office functions.

(7) Basic Stance on Corporate Governance and Relevant Measures Already Implemented

7-1) Basic Stance on Corporate Governance

The Company is well aware that the basic mission of corporate management lies in the maximization of corporate value. Corporate governance has been positioned as the mechanism to fulfill this mission, and we are working to strengthen its functions. We consider that the Board of Directors is mandated by shareholders to make corporate strategy and supervise its implementation, and the Board of Directors is to be monitored by the Board of Corporate Auditors. One of the basic policies is to strengthen corporate governance by enhancing the transparency, soundness, and validity of management through the reinforcement of these two functions.

7-2) Status of Corporate Governance Measures Already Implemented

The status of business management organization related to decision-making, execution, and supervision of the management of the Company, and other elements of the corporate governance structure

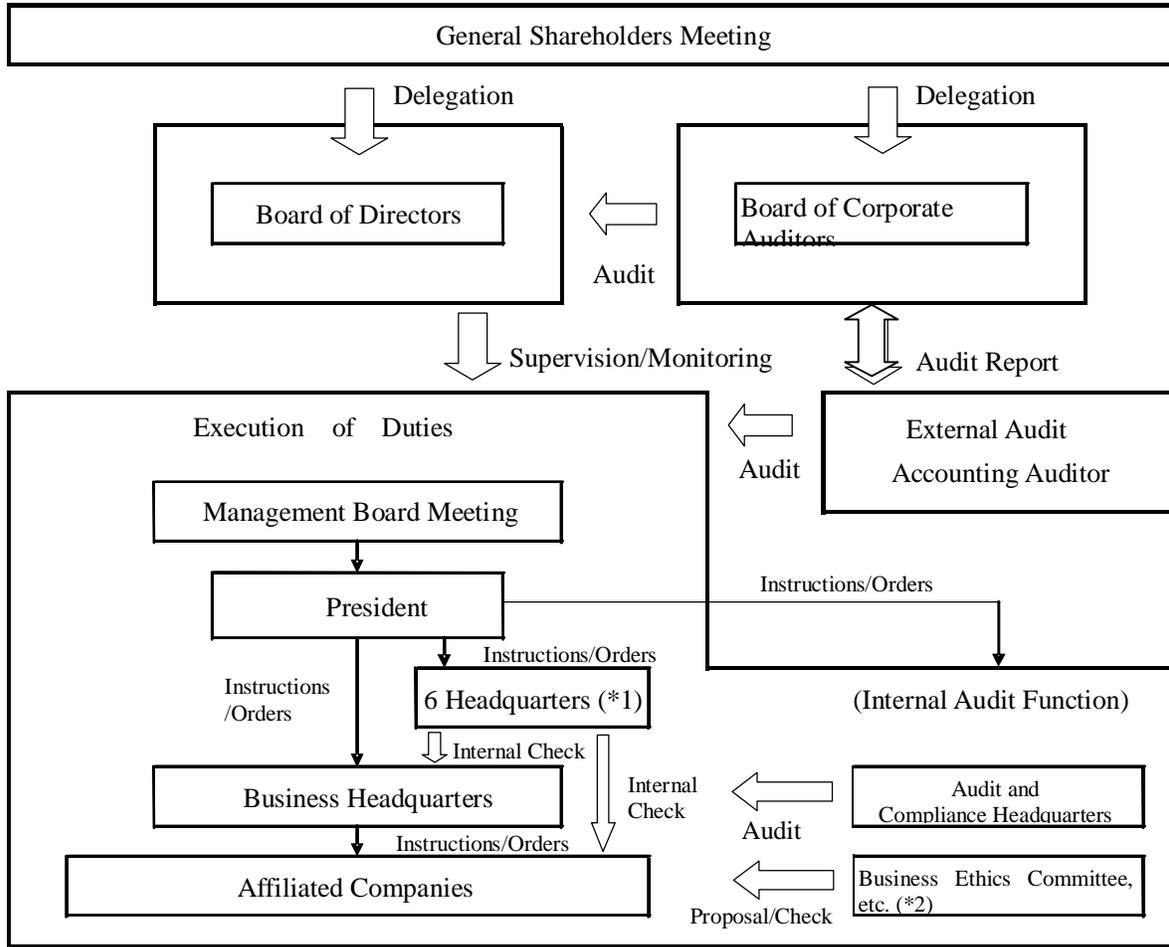
(i) Description of Company Organization

To strengthen the corporate strategy and executive supervision functions of the board of directors, one outside director has been selected to provide a wide range of objective counsel. In addition, the board of corporate auditors consists of two inside corporate auditors and three outside corporate auditors, for the purpose of enhancing the auditing function.

In accordance with the Company's management structure, the management board meeting deliberates on the important issues of overall management and works to obtain a unified approach in the execution of its duties. Under the direction of the representative director, the head of the division that has the responsibility and authority carries out these duties. In addition, the Company carries out internal audits through the Audit and Compliance Headquarters under the direct supervision of the representative director to ensure the legality and efficiency of each division and affiliated company.

In the area of compliance and corporate ethics, the Company has established the Standards of Business Conduct for the Yokogawa Group for the Company and all Group companies worldwide in the interest of establishing a culture that encourages each and every employee to act in accord with a strong sense of business ethics. In addition, a Business Ethics Committee has been established, and with its support, the Audit and Compliance Headquarters utilizes a structure to ensure compliance with the Standards of Business Conduct and legal ordinances.

<Diagram of Yokogawa's Corporate Governance Structure>



(\*1) Crisis Management Office, Quality Assurance Headquarters, Management Administration Headquarters, Corporate Marketing Headquarters, Corporate Research and Development Headquarters, Target Costing Headquarters

(\*2) Information security, health and safety, environment conservation, product liability, export control, and other committees

(ii) Status of Preparation of the Internal Control System

The Company has positioned the internal control system as a mechanism for the achievement of business objectives, and is moving forward with the preparation and strengthening of internal controls. As one element of this, the Internal Control Project Department was launched on October 1, 2005. We will press forward with improvement of work process flow, rules, and methods of making decisions for the entire Group, improving management effectiveness and efficiency, ensuring the reliability of financial reports, and strengthening compliance.

(iii) Status of Internal Audits and Corporate Auditor Audit

As an internal audit function of the Company, the Audit and Compliance Headquarters, under the direct supervision of the company president, is conducting internal audits of the entire Group. Each division and affiliated company also designates a reviewer who checks whether or not tasks are being carried out appropriately, providing a sufficient check function. The results of the audit by the Audit and Compliance Headquarters are disclosed to the president, corporate auditors, and the audited department, and if there are any items that require correction, there is a mechanism for rapidly executing measures and rectifying the problem.

The two full-time corporate auditors and three outside corporate auditors on the Board of Corporate Auditors strive to effectively carry out their audit function by confirming the reasonableness of management decisions. They do this by making comments during meetings of the Board of Directors, according to their individual roles.

Further, the Audit and Compliance Headquarters, the Board of Corporate Auditors, and independent auditors hold regular meetings to exchange information, creating closer links and further increasing the effectiveness of their audits.

(iv) Status of Preparation of the Risk Management Structure

As part of the Company's risk management structure, ordinarily the Crisis Management Office gathers and analyzes risk information, manages the progress of measures to reduce potential risks, and creates manuals and disseminates information. If a serious incident occurs, it works with the Crisis Management Committee, which is under the direct supervision of the president, to prepare a companywide response.

(8) Items Related to the Parent Company

There are no applicable items.

### 3. Business Results and Financial Condition

#### (1) Business Results

The market for our core industrial automation and control business has been favorable, with continued high oil prices resulting in active investment in the construction of petroleum/petrochemical/natural gas plants outside Japan, as well as new investment to replace production facilities in the Japanese market. In addition, the semiconductor tester market, the main segment of the test and measurement business, was steady in the first quarter, with indications of recovery in LCD driver IC demand, which had slowed down in the second half of last year; however, investment in our leading performer, the memory tester segment, entered an adjustment period in the second quarter, resulting in a reduction of orders and sales.

In such circumstances, we have focused this period on carrying out the various business measures that are based on the core strategies outlined in the Group's VISION-21 and ACTION-21 corporate strategy, which was announced in January 2000.

As a result, performance for the current interim accounting period is as follows:

#### <Consolidated>

Net sales	177.7 billion yen	(down 9.3 billion yen, 5.0% from the same term last year)
Operating income	7.7 billion yen	(down 2.8 billion yen, 26.9% from the same term last year)
Pretax profit	8.3 billion yen	(down 1.6 billion yen, 16.2% from the same term last year)
Current net profit	1.8 billion yen	(down 1 billion yen, 35.5% from the same term last year)

#### <Non-consolidated>

Net sales	109.5 billion yen	(down 14.4 billion yen, 11.7% from the same term last year)
Operating income	100 million yen	(down 6.4 billion yen, 97.5% from the same term last year)
Pretax profit	3.3 billion yen	(down 5.4 billion yen, 61.9% from the same term last year)
Current net profit	100 million yen	(down 5.8 billion yen, 97.5% from the same term last year)

Results by individual business segment are outlined below.

#### Industrial Automation and Control Business

In the industrial automation and control business market, increases in energy demand and high oil prices have led to investment in large-scale petroleum, petrochemical, and natural gas plants. In this favorable business environment, the reliability of the Company's products based on our continued investment in development and our ability to carry out projects have been evaluated very positively, leading to a large number of orders. These results produce subsequent orders, creating a favorable cycle. In addition, replacement demand has become fully active in the Japanese market, especially in the materials industry. Results in this business segment have significantly exceeded those in the same period last year due to efforts to solidify the profit foundation for the business. These efforts include measures to strengthen the profit management structure for each individual project.

#### Test and Measurement Business

Though indications of recovery in demand for LCD driver IC testers were seen in the first quarter, investment in our leading performer, the memory tester segment, entered an adjustment period, resulting in an overall reduction of orders and sales in the semiconductor business.

In the communications measuring instrument business, management resources were centralized at the head office (Musashino) and the sales structure and development structure were strengthened, but the main optical communications market remained in a slump, with severe conditions continuing this period as well.

#### Information Systems Business

In the information systems business, the Company focused its resources on areas in which it can exhibit its strengths. In addition to the favorable trend in orders for medical imaging and information management systems, our manufacturing solutions business has been strong, with orders and sales exceeding those for the same period last year.

### Aviation and Industry Support Businesses

While working to expand our aviation and industry support business in the private sector centering on flat panel displays for Europe's Airbus aircraft, we also sought to increase orders for magnetoencephalographs, whose clinical use is now eligible in Japan for reimbursement by insurers. On the other hand, scaling down of the parts sales business being conducted by subsidiaries resulted in a decrease both in orders and sales for the aviation and industry support businesses overall compared to the same period last year.

Results by region were as follows.

#### Japan

Though the industrial automation and control business has stabilized, there was a significant drop in income and profit for the test and measurement business as a result of decreased sales in the key semiconductor tester segment. Net sales were 143 billion yen (down 14.6 billion yen, 9.3% from the same term last year) and operating income was 2.6 billion yen (down 5.2 billion yen, 66.2% from the same term last year).

#### Asia, excluding Japan

In Asia as well, the industrial automation and control business performed well, resulting in increased income and profit. Net sales were 35 billion yen (up 4.7 billion yen, 15.6% from the same term last year) and operating income was 2.9 billion yen (up 1.3 billion yen, 89.0% from the same term last year).

#### Europe

In Europe as well, the industrial automation and control business performed well, resulting in increased profit. Net sales were 15.8 billion yen (up 300 million yen, 2.3% from the same term last year) and operating income was 1.2 billion yen (up 200 million yen, 20.2% from the same term last year).

#### North America

The industrial automation and control business also perform well in North America, producing increased income and profit. Net sales were 10.7 billion yen (up 1.4 billion yen, 15.1% from the same term last year) and operating income was 300 million yen (up 100 million yen, 57.0% from the same term last year).

#### Other

In other regions, particularly the Middle East, an upswing in the petroleum/petrochemical/natural gas related business resulted in increased income and profit for the industrial automation and control business. Net sales were 10.1 billion yen (up 2.8 billion yen, 38.9% from the same term last year) and operating income was 400 million yen (up 200 million yen, 165.9% from the same term last year).

## (2) Financial Status

Total assets came to 386 billion yen, down 14.2 billion yen from the end of the previous fiscal year. The main cause of this was a 12.5 billion yen decrease in cash and deposits. Total debt came to 207.3 billion yen, down 19.6 billion yen from the end of the previous fiscal year. The main cause of this was a 12.5 billion yen decrease in interest-bearing debt. Shareholders' equity totaled 174.1 billion yen, with increases of net unrealized gains on other securities coming to 3.5 billion yen, for an increase of 5.3 billion yen over the end of the previous fiscal year. As a result, the shareholders' equity ratio was 45.1%, a 2.9 point increase over the end of the previous consolidated fiscal year.

Additional information about cash flow is as follows:

Cash flow from operating activities increased 3.1 billion yen from the previous interim period, and with an interim net profit before adjustment for taxes of 4.6 billion yen, income was 11.2 billion yen.

Cash flow from investment activities decreased 2.8 billion yen from the previous interim period, for an outflow of 10.4 billion yen. Acquisition of fixed assets in the current interim period came to 9.8 billion yen, including software and other intangible fixed assets.

As a result of pushing forward with repayment of interest-bearing debt, cash flow from financing activities decreased 10.7 billion yen from the previous interim period, for an outflow of 14 billion yen.

As a result of the above, the balance of cash and cash equivalents for the end of the current interim period showed a decrease of 12.7 billion yen from the end of the previous fiscal year, coming to 27.3 billion yen.

Trends in the Company's cash flow indicators are as follows:

	Period ended Mar. 2004		Period ended Mar. 2005		Period ended Mar. 2006
	Interim	End	Interim	End	Interim
Shareholders' equity ratio (%)	37.7	40.3	41.7	42.2	45.1
Market value based shareholders' equity ratio (%)	73.2	94.5	79.8	88.2	111.6
Debt redemption schedule (years)	--	12.0	12.0	5.5	7.8
Interest coverage ratio (multiple)	--	7.4	16.5	21.1	32.6

Shareholders' equity ratio: Shareholders' equity / total assets

Shareholders' equity ratio on market value basis: Total market value of stock / total assets

Debt redemption schedule: Interest-bearing debt / operating cash flow

Interest coverage ratio: Operating cash flow / interest payments

\* All values are calculated using consolidated financial figures.

\* Interest bearing debt includes all debt listed on the consolidated balance sheets for which interest is being paid (including zero coupons and 30 billion yen of Euro-yen denominated convertible bonds with subscription rights to new shares).

\* The figures for operating cash flow and interest payments utilize the "Cash flows from operating activities" and "Interest expenses paid" shown in the consolidated cash flow statements.

### (3) Full Year Business Forecast

In the industrial automation and control business, it is forecast that investment in plant construction outside Japan will continue to move in a positive direction. In Japan as well, profitability will improve by strengthening profit management when orders are received. Accordingly, we are forecasting achievement of the original plan.

On the other hand, in the test and measurement business, although we will invest in strategic semiconductor tester business products in the second half and will seek to increase our market share by increasing sales to existing customers and developing new customers, we expect that investments in liquid crystal display (LCD) driver IC testers and memory testers will be lower than planned at the beginning of the year. Accordingly, we are forecasting that the test and measurement business will be below the original plan.

The medical information business, which is the key segment of the information systems business, has been strong, and is expected to exceed the original plan.

In the aviation and industry support businesses, we will work to continue to expand sales of aircraft instruments to the private sector while also aiming to increase sales of magnetoencephalographs, which is a growing market due to changes in how reimbursement is made for medical treatment in Japan. However, because of an expected reduction in the parts sales business that is being conducted by our subsidiaries, the aviation and industry support business is not expected to perform as well as was originally planned.

Taking into consideration the status of each of these businesses, and as indicated in the revised earnings announcement of October 31, our original forecast announced on May 10 is being revised as follows. Net sales are being revised downward by 10 billion yen from the original forecast, for a planned total of 390 billion yen (up 2.9 billion yen, 0.8% from the same term last year). In addition, operating income is being revised downward by 5 billion yen to 30 billion yen (up 5.2 billion yen, 21.2% from the same term last year). Pretax profit is being revised downward by 2 billion yen to 28 billion yen (up 5.5 billion yen, 25.0% from the same term last year). Current net profit is also revised downward by 2 billion yen to 13 billion yen (up 3.6 billion yen, 38.7% from the same term last year).

<Consolidated Business Performance Forecasts (Yearly)>

Net Sales	390 billion yen	(up 0.8% from the previous year)
Operating Income	30 billion yen	(up 21.2% from the previous year)
Income Before Income Tax	28 billion yen	(up 25.0% from the previous year)
Current Net Income	13 billion yen	(up 38.7% from the previous year)

<Non-consolidated Business Performance Forecasts (Yearly)>

Net Sales	250 billion yen	(up 0.1% from the previous year)
Operating Income	18 billion yen	(up 30.5% from the previous year)
Income Before Income Tax	18.5 billion yen	(up 16.4% from the previous year)
Current Net Income	11 billion yen	(up 4.6% from the previous year)

Note: The consolidated business forecast assumes an average exchange rate of  
US\$1 = 105 yen, 1 Euro = 130 yen.

<Notes Regarding Forecasts>

The above forecasts are based on certain assumptions deemed reasonable by Yokogawa at the present time, and may differ from actual business results.

Major factors that may affect business performance include the following:

- Fluctuations in the U.S. dollar, European currencies, and Asian currencies relative to the yen
- Sudden changes in economic conditions in major markets, trade regulations, or other aspects of the business environment
- Sudden fluctuations in product supply or demand
- Rapid technological innovations
- Fluctuations in Japanese share prices
- Protection of Yokogawa patents and the licensing of patents held by other companies
- Alliances with other companies for product development or other purposes

(4) Business Risks

Risks Related to Economic Conditions

The businesses of the company are easily affected by fluctuations in economic trends, particularly in the area of private-sector capital investment. Throughout the economic slump that followed the collapse of Japan's bubble economy in the early 1990s, our major customers held back from capital investments and financial outlays. In the midst of a recovery trend, private-sector capital investment is now more solid, but the Japanese economy remains brittle and a drop in the level of private-sector capital investment remains a possibility. Reductions in financial outlays and in customers' capital investments as the result of fluctuations in economic conditions can have an adverse impact on the company's orders. In addition, the Company relies heavily on markets outside Japan in its industrial automation and control business and semiconductor tester business, and the European, North American, Middle Eastern, Chinese, Southeast Asian, and South Korean markets are particularly important to net sales. If political turmoil, conflicts, or economic downturns occur in these regions, we will constantly monitor developments and take appropriate measures, but it remains possible that declining demand in these regions can adversely affect the Company's performance.

Risks Related to Industrial Automation and Control Business

Industrial automation and control systems monitor and control the operation of petroleum refineries, chemical plants, and other types of plants. The plant operation rate has a direct impact on a company's production capacity, and products that are extremely reliable and will be durable for many years are required to maintain the operation rate. Accordingly, industrial automation and control business products and systems tend to have a lower replacement rate than consumer products. In addition, because customers enter into long-term contractual relationships with their industrial automation and control suppliers, it is possible that opportunities to acquire new customers are more limited than in other industries. Further, in the case of a petroleum refinery or a chemical plant, once an accident has occurred, it not only can bring damage to the plant itself but can escalate into a catastrophe that involves surrounding areas as well. If an accident happens, we will work closely with the customer and our departments in charge of crisis and risk management will move forward with appropriate responses. Still, if one of our products happens to be the cause of an accident, it is possible that the reputation of the Company can be greatly damaged.

#### Risks Related to the Test and Measurement Business

The market for semiconductor testers, the leading product line of our test and measurement businesses, is greatly affected by the silicon cycle, the boom and bust pattern that is repeated every few years in the semiconductor industry business. The percentage of the Company's net sales accounted for by semiconductor testers has increased significantly over the years. As this percentage increases, it becomes more likely that the Company will be adversely affected by declines and increases in the volatile semiconductor market. Accordingly, we have been restructuring our production structure and creating a structure that can respond more flexibly to fluctuations in demand; however, if the production quantities of LCD driver semiconductor and memory testers fall significantly under the forecast, it is possible that we will not be able to absorb the fixed costs of manufacturing, having an adverse effect on the Company's performance. Another factor to consider is that test and measurement instruments play a key "mother tool" support role in research & development and production activities in a wide variety of fields, and therefore require a high level of reliability and performance. With the technology that it has accumulated over many years and its solid quality control structure, the Company has been able to ensure the reliability of its products; however, any reliability problem with these products can have an adverse impact on the Company's performance.

#### Risks Related to Production Outside Japan

To win out in the international competition that is expected to intensify in the future, the Company is pushing forward to expand its production structure outside Japan, with the result that the overseas production rate is increasing each year. Accordingly, if there is any political turmoil or if there is any economic or legal change that adversely affects production in a country or region in which the Company has a production site, it is possible that the Company's entire production structure can be adversely affected.

#### Risks Related to Competitive Relationships and Markets

Many of the Japan customers for the industrial automation and control business are in the materials industry and few have plans to construct new plants here. Because they are focused on updating production facilities, it is believed that growth in this market will be limited. While the Japanese controls market is divided between Yokogawa and its Japanese competitors, the industry situation can change considerably if a non-Japanese company enters this market, and this can affect our market share and net sales. In addition, while investment is active in the controls market outside Japan and the Company is strengthening its business structure in growing markets such as the Middle East, Asia, India, and China, it is expected that competition with American and European companies will become even more severe in the future. Further, although business activities for the test and measurement business are being expanded in the Japanese market, it will be necessary in the future to also increase net sales in the large-scale markets outside Japan. Because international competitors in this area have a corporate scale and resources that exceed those of Yokogawa, a concerted effort will be essential to come out ahead in the highly competitive international marketplace.

#### 4. CONSOLIDATED FINANCIAL STATEMENTS

##### (1) Consolidated Balance Sheets

Item	Previous Interim Accounting Period ended September 30, 2004		Current Interim Accounting Period ended September 30, 2005		Change	Previous Fiscal Year Summary Consolidated Balance Sheets for the Year ended March 31, 2005	
	Amount (¥mil)	Composition Ratio (%)	Amount (¥mil)	Composition Ratio (%)	Change (¥mil)	Amount (¥mil)	Composition Ratio (%)
<b>ASSETS</b>	<b>386,322</b>	<b>100.0</b>	<b>386,055</b>	<b>100.0</b>	<b>(267)</b>	<b>400,268</b>	<b>100.0</b>
<b>I Current Assets</b>	<b>225,056</b>	<b>58.3</b>	<b>218,263</b>	<b>56.5</b>	<b>(6,792)</b>	<b>233,641</b>	<b>58.4</b>
1. Cash and time deposits	31,973		28,190			40,720	
2. Notes and accounts receivable	107,761		110,080			116,916	
3. Marketable securities	74		323			74	
4. Inventories	56,369		53,262			51,136	
5. Deferred tax assets – current	20,104		15,612			11,372	
6. Other current assets	10,580		12,546			15,200	
Allowance for doubtful accounts	(1,807)		(1,752)			(1,780)	
<b>II Fixed Assets</b>	<b>161,266</b>	<b>41.7</b>	<b>167,792</b>	<b>43.5</b>	<b>6,525</b>	<b>166,626</b>	<b>41.6</b>
1. Tangible fixed assets	78,258	20.3	79,875	20.7	1,617	77,825	19.4
(1) Buildings and structures	40,138		39,125			39,413	
(2) Other	38,120		40,749			38,412	
2. Intangible fixed assets	13,689	3.5	12,595	3.3	(1,093)	13,627	3.4
(1) Other	13,689		12,595			13,627	
3. Investments and other assets	69,318	17.9	75,321	19.5	6,002	75,173	18.8
(1) Investments in securities	40,590		50,121			42,514	
(2) Other	29,901		26,080			33,573	
Allowance for doubtful accounts	(1,173)		(880)			(913)	
<b>Total Assets</b>	<b>386,322</b>	<b>100.0</b>	<b>386,055</b>	<b>100.0</b>	<b>(267)</b>	<b>400,268</b>	<b>100.0</b>

Item	Previous Interim Accounting Period ended September 30, 2004		Current Interim Accounting Period ended September 30, 2005		Change	Previous Fiscal Year Summary Consolidated Balance Sheets for the Year ended March 31, 2005	
	Amount (¥mil)	Composition Ratio (%)	Amount (¥mil)	Composition Ratio (%)	Change (¥mil)	Amount (¥mil)	Composition Ratio (%)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>221,139</b>	<b>57.2</b>	<b>207,319</b>	<b>53.7</b>	<b>(13,819)</b>	<b>227,001</b>	<b>56.7</b>
<b>I Current Liabilities</b>	<b>102,468</b>	<b>26.5</b>	<b>100,169</b>	<b>25.9</b>	<b>(2,298)</b>	<b>116,506</b>	<b>29.1</b>
1. Notes and accounts payable	30,306		36,904			37,585	
2. Short-term bank loans	13,213		11,898			14,244	
3. Bonus allowances	9,933		9,834			11,085	
4. Other	49,015		41,531			53,591	
<b>II Fixed Liabilities</b>	<b>118,670</b>	<b>30.7</b>	<b>107,149</b>	<b>27.8</b>	<b>(11,520)</b>	<b>110,494</b>	<b>27.6</b>
1. Bonds	20,000		20,000			20,000	
2. Bonds with subscription rights to new shares	30,000		30,000			30,000	
3. Long-term bank loans	34,022		25,846			28,040	
4. Reserve for retirement payments	5,597		5,180			6,099	
5. Other allowances	560		478			513	
6. Long-term accounts payable	26,707		24,126			24,270	
7. Other	1,782		1,518			1,570	
<b>(Minority interests in consolidated subsidiaries)</b>	<b>4,119</b>	<b>1.1</b>	<b>4,629</b>	<b>1.2</b>	<b>510</b>	<b>4,515</b>	<b>1.1</b>
<b>(Shareholders' equity)</b>	<b>161,063</b>	<b>41.7</b>	<b>174,106</b>	<b>45.1</b>	<b>13,042</b>	<b>168,751</b>	<b>42.2</b>
<b>I Common Stock</b>	<b>32,306</b>	<b>8.4</b>	<b>32,306</b>	<b>8.4</b>	<b>-</b>	<b>32,306</b>	<b>8.1</b>
<b>II Capital Surplus</b>	<b>35,449</b>	<b>9.2</b>	<b>35,474</b>	<b>9.2</b>	<b>24</b>	<b>35,463</b>	<b>8.9</b>
<b>III Retained Earnings</b>	<b>101,024</b>	<b>26.1</b>	<b>107,532</b>	<b>27.8</b>	<b>6,507</b>	<b>106,663</b>	<b>26.6</b>
<b>IV Net Unrealized Gains on Other Securities</b>	<b>6,781</b>	<b>1.8</b>	<b>11,946</b>	<b>3.1</b>	<b>5,165</b>	<b>8,374</b>	<b>2.1</b>
<b>V Foreign Currency Translation Adjustments</b>	<b>(6,391)</b>	<b>(1.7)</b>	<b>(4,975)</b>	<b>(1.3)</b>	<b>1,415</b>	<b>(5,871)</b>	<b>(1.5)</b>
<b>VI Treasury Stock</b>	<b>(8,107)</b>	<b>(2.1)</b>	<b>(8,177)</b>	<b>(2.1)</b>	<b>(70)</b>	<b>(8,184)</b>	<b>(2.0)</b>
<b>Total liabilities and minority shareholders' interests and equity</b>	<b>386,322</b>	<b>100.0</b>	<b>386,055</b>	<b>100.0</b>	<b>(267)</b>	<b>400,268</b>	<b>100.0</b>

## (2) Consolidated Statements of Income

Item	Previous Interim Accounting Period (April 1, 2004 to September 30, 2004)		Current Interim Accounting Period (April 1, 2005 to September 30, 2005)		Change	Previous Fiscal Year Summary Consolidated Profit and Loss Statements (April 1, 2004 to March 31, 2005)	
	Amount (¥mil)	Composition Ratio (%)	Amount (¥mil)	Composition Ratio (%)	Change (¥mil)	Amount (¥mil)	Composition Ratio (%)
I Net Sales	187,102	100.0	177,796	100.0	(9,306)	387,053	100.0
II Cost of Sales	118,907	63.6	113,067	63.6	(5,840)	250,035	64.6
<b>Gross profit</b>	<b>68,195</b>	<b>36.4</b>	<b>64,728</b>	<b>36.4</b>	<b>(3,466)</b>	<b>137,018</b>	<b>35.4</b>
III Selling, General and Administrative Expenses	57,623	30.7	56,995	32.1	(627)	112,261	29.0
<b>Operating income</b>	<b>10,571</b>	<b>5.7</b>	<b>7,733</b>	<b>4.3</b>	<b>(2,838)</b>	<b>24,756</b>	<b>6.4</b>
IV Non-operating Income	1,889	1.0	2,381	1.4	492	3,646	0.9
1. Interest income	170		167			379	
2. Dividend income	230		221			1,371	
3. Foreign exchange gain	346		871			-	
4. Profit from investments according to the equity method	589		653			1,060	
5. Other	551		466			834	
V Non-operating Expenses	2,492	1.4	1,763	1.0	(728)	6,001	1.5
1. Interest expenses	403		369			810	
2. Loss on disposal of inventories	217		140			586	
3. Loss on write-down of inventories	674		527			2,211	
4. Foreign exchange loss	-		-			364	
5. Other	1,196		726			2,029	
<b>Income before taxes</b>	<b>9,968</b>	<b>5.3</b>	<b>8,350</b>	<b>4.7</b>	<b>(1,617)</b>	<b>22,401</b>	<b>5.8</b>
VI Extraordinary Pretax Income	1,046	0.6	77	0.0	(968)	3,481	0.9
1. Gain on sale of fixed assets	62		31			221	
2. Gain on sale of marketable securities	844		28			3,060	
3. Other	139		17			200	
VII Extraordinary Losses	7,657	4.1	3,749	2.1	(3,907)	11,467	3.0
1. Loss on sale of fixed assets	491		2			791	
2. Loss on disposal of fixed assets	650		345			990	
3. Loss on impaired assets	-		2,390			-	
4. Loss on write-down of investments in marketable securities	116		44			120	
5. Loss on restructuring	3,323		101			4,428	
6. Loss due to change in retirement benefit plan	2,417		78			2,950	
7. Other	658		786			2,185	
<b>Interim (current) net income before tax and other adjustments</b>	<b>3,357</b>	<b>1.8</b>	<b>4,678</b>	<b>2.6</b>	<b>1,321</b>	<b>14,416</b>	<b>3.7</b>
Corporate, resident and enterprise tax	1,222	0.6	2,050	1.1	827	3,055	0.8
Income tax refund	12	0.0	15	0.0	3	14	0.0
Adjustment of corporate tax, etc.	(1,016)	(0.5)	481	0.3	1,497	1,193	0.3
Minority shareholders' income (deduction)	320	0.2	330	0.2	9	808	0.2
<b>Interim (current) net income</b>	<b>2,842</b>	<b>1.5</b>	<b>1,832</b>	<b>1.0</b>	<b>(1,010)</b>	<b>9,372</b>	<b>2.4</b>

## (3) Statements of Interim Consolidated Retained Earnings

	Previous Interim Accounting Period (April 1, 2004 to September 30, 2004)	Current Interim Accounting Period (April 1, 2005 to September 30, 2005)	Change	Previous Fiscal Year Summary Consolidated Surplus Statements (April 1, 2004 to March 31, 2005)
Item	Amount (¥mil)	Amount (¥mil)	Change (¥mil)	Amount (¥mil)
<b>CONSOLIDATED BALANCE</b>				
I Consolidated Balance at Beginning of Period	35,445	35,463	17	35,445
II Increase in Consolidated Balance	4	11	6	17
1. Gain on sale of treasury stock	4	11		17
III. Consolidated Balance at End of Interim Period	35,449	35,474	24	35,463
<b>RETAINED EARNINGS</b>				
I Retained Earnings at Beginning of Period	99,210	106,663	7,452	99,210
II Increase in Retained Earnings	2,842	1,837	(1,005)	9,378
1. Interim (current) net income	2,842	1,832		9,372
2. Other increases	-	4		5
III Decrease in Retained Earnings	1,028	968	(59)	1,925
1. Dividends	912	912		1,824
2. Bonuses to directors and corporate auditors	24	31		35
3. Other decreases	92	24		65
IV Retained Earnings at End of Interim Period	101,024	107,532	6,507	106,663

## (4) Interim Consolidated Cash Flow Statements

	Previous Interim Accounting Period (April 1, 2004 to September 30, 2004)	Current Interim Accounting Period (April 1, 2005 to September 30, 2005)	Change	Previous Fiscal Year Summary Consolidated Cash Flow Statements (April 1, 2004 to March 31, 2005)
Item	Amount (¥mil)	Amount (¥mil)	Change (¥mil)	Amount (¥mil)
<b>I Cash Flows from Operating Activities</b>				
Interim (current) net income for the period under review before tax and other adjustments	3,357	4,678	1,321	14,416
Depreciation and amortization	6,775	7,063	287	14,331
Loss on impaired assets	-	2,390	2,390	-
Changes in allowance for doubtful accounts	254	(115)	(370)	(7)
Changes in reserve for retirement benefits	(10,617)	(929)	9,688	(10,161)
Changes in accrued bonus	37	(1,291)	(1,328)	1,186
Loss on write-down of marketable securities	116	40	(75)	120
Interest and dividend income	(401)	(388)	12	(1,751)
Interest expenses	403	369	(34)	810
Gain on equity method	(589)	(653)	(64)	(1,060)
Gain on sale of investments in securities	(824)	(28)	796	(3,040)
Loss on disposal of fixed assets	621	344	(276)	996
Changes in trade receivables	11,099	7,504	(3,595)	974
Increase in inventories	(4,505)	(1,685)	2,819	743
Changes in trade payables	(9,144)	(7,772)	1,372	(7,982)
Increase in accrued liabilities due to change in retirement benefits system	9,833	(189)	(10,022)	6,130
Other	1,493	3,948	2,455	2,927
Subtotal	7,910	13,285	5,374	18,632
Interest and dividend income received	2,431	735	(1,695)	3,401
Interest expenses paid	(490)	(345)	144	(866)
Income taxes paid or refunded	(1,744)	(2,387)	(643)	(2,891)
Cash flows from operating activities	8,107	11,287	3,180	18,275
<b>II Cash Flows from Investing Activities</b>				
Payments for deposit in time deposits	(115)	(492)	(377)	(792)
Proceeds from return on time deposits	194	328	133	781
Acquisition of tangible fixed assets	(8,756)	(8,409)	346	(14,298)
Proceeds from sale of tangible fixed assets	896	389	(506)	1,735
Acquisition of intangible fixed assets	(2,193)	(1,395)	798	(4,353)
Acquisition of investments in marketable securities	(18)	(1,131)	(1,113)	(71)
Proceeds from sale of investments in marketable securities	916	66	(850)	3,674
Other	1,475	212	(1,262)	2,102
Cash flow provided by investment activities	(7,600)	(10,432)	(2,832)	(11,221)

	Previous Interim Accounting Period (April 1, 2004 to September 30, 2004)	Current Interim Accounting Period (April 1, 2005 to September 30, 2005)	Change	Previous Fiscal Year Summary Consolidated Cash Flow Statements (April 1, 2004 to March 31, 2005)
Item	Amount (¥mil)	Amount (¥mil)	Change (¥mil)	Amount (¥mil)
<b>III Cash Flows from Financing Activities</b>				
Change in short-term bank borrowings, net	(1,606)	(4,847)	(3,241)	(973)
Net reduction in balance of commercial paper	-	(8,000)	(8,000)	8,000
Proceeds from issuance of long-term debt	513	0	(512)	606
Repayment of long-term debt	(1,186)	(129)	1,057	(6,829)
Cash dividends paid	(912)	(912)	0	(1,822)
Payment for purchase of treasury stock	(67)	(8)	58	(162)
Cash dividends paid to minority shareholders	(102)	(207)	(104)	(188)
Other	10	52	41	63
Cash flows from financing activities	(3,351)	(14,052)	(10,701)	(1,305)
<b>IV Effect of Exchange Rate Change on Cash and Cash Equivalents</b>	(74)	489	564	(75)
<b>V Net Change in Cash and Cash Equivalents</b>	(2,918)	(12,708)	(9,789)	5,673
<b>VI Cash and Cash Equivalents at Beginning of Interim Period</b>	34,417	40,091	5,673	34,417
<b>VII Cash and Cash Equivalents at End of Interim Period</b>	31,498	27,382	(4,115)	40,091