



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

Date: May 9, 2006

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

Telephone Number: +81-422-52-5530

Date of Resolutions of the Board of Director Approving the Financial Results: May 9, 2006

Conformance with U.S. Accounting Standards: No

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

#### (1) Results of operations on a consolidated basis (any amount less than one million yen is disregarded)

	Net Sales		Operating Income		Ordinary Income	
	Million yen	%	Million yen	%	Million yen	%
For the year ending March 31, 2006	388,877	0.5	25,320	2.3	26,402	17.9
For the year ending March 31, 2005	387,053	4.1	24,756	35.6	22,401	46.0

	Net Income		Net Earnings per Share	Diluted Net Earnings per Share	Net Income/Shareholders' Equity	Ordinary Income/Total Assets	Ordinary Income/Net Sales
	Million yen	%	Yen	Yen	%	%	%
For the year ending March 31, 2006	21,559	130.0	87.45	--	11.0	6.5	6.8
For the year ending March 31, 2005	9,372	(61.4)	38.43	35.53	5.7	5.6	5.8

(Note)

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

For the year ending March 31, 2006 ¥1,655 million

For the year ending March 31, 2005 ¥1,060 million

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

For the year ending March 31, 2006 246,527,449 shares

For the year ending March 31, 2005 243,243,513 shares

#### 3) Change of accounting method:

None

#### 4) The percentages in the Net Sales, Operating Income, Ordinary Income, and Net Income columns in the above table show the percent increase/decrease since the previous period.

#### (2) Financial conditions on a consolidated basis (any amount less than one million yen is disregarded)

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	Million yen	Million yen	%	Yen
For the year ending March 31, 2006	417,805	224,566	53.7	854.24
For the year ending March 31, 2005	400,268	168,751	42.2	693.75

(Note)

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

For the year ending March 31, 2006 262,884,517 shares

For the year ending March 31, 2005 243,208,024 shares

#### (3) Consolidated cash flow status (any amount less than one million yen is disregarded)

	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
	Million yen	Million yen	Million yen	Million yen
For the year ending March 31, 2006	25,636	(11,724)	(14,091)	41,565
For the year ending March 31, 2005	18,275	(11,221)	(1,305)	40,091

#### (4) Matters concerning consolidated subsidiaries and affiliates as to investments in which the equity method of accounting has been carried out.

Number of consolidated subsidiaries: 80

Number of unconsolidated subsidiaries whose investments in which the equity method of accounting has been carried out: 5

Number of affiliates as to investments in which the equity method of accounting has been carried out: 9

#### (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: 3 Exclusions: 3

Companies as to investments in which the equity method of accounting has been carried out.

Newly included: 0 Exclusions: 2

2. Business forecast for the year ending March 31, 2007 (April 1, 2006-March 31, 2007)

	Net Sales	Ordinary Income	Net Income
	Million yen	Million yen	Million yen
For the half year ending Sept. 30, 2006	190,000	11,000	5,000
Full year	410,000	28,000	15,000

(Reference)

Earnings per share expected for the year ending March 31, 2007 on a consolidated basis: Yen 57.06

\* The above forecasts are based on the information that was available at the time this document was released and assumptions regarding uncertain factors that may have an effect on future performance made at the time this document was released. Actual performance may vary greatly due to a variety of factors. Please refer to page 10 for a disclaimer regarding the assumptions used in performance forecasts.

## 1. Status of the Yokogawa Group

The Yokogawa Group consists of Yokogawa Electric Corporation (“the Company”), 92 subsidiaries, and 14 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 systems 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 systems business: 97 companies

In this business segment, products manufactured by consolidated subsidiaries such as Yokogawa 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.

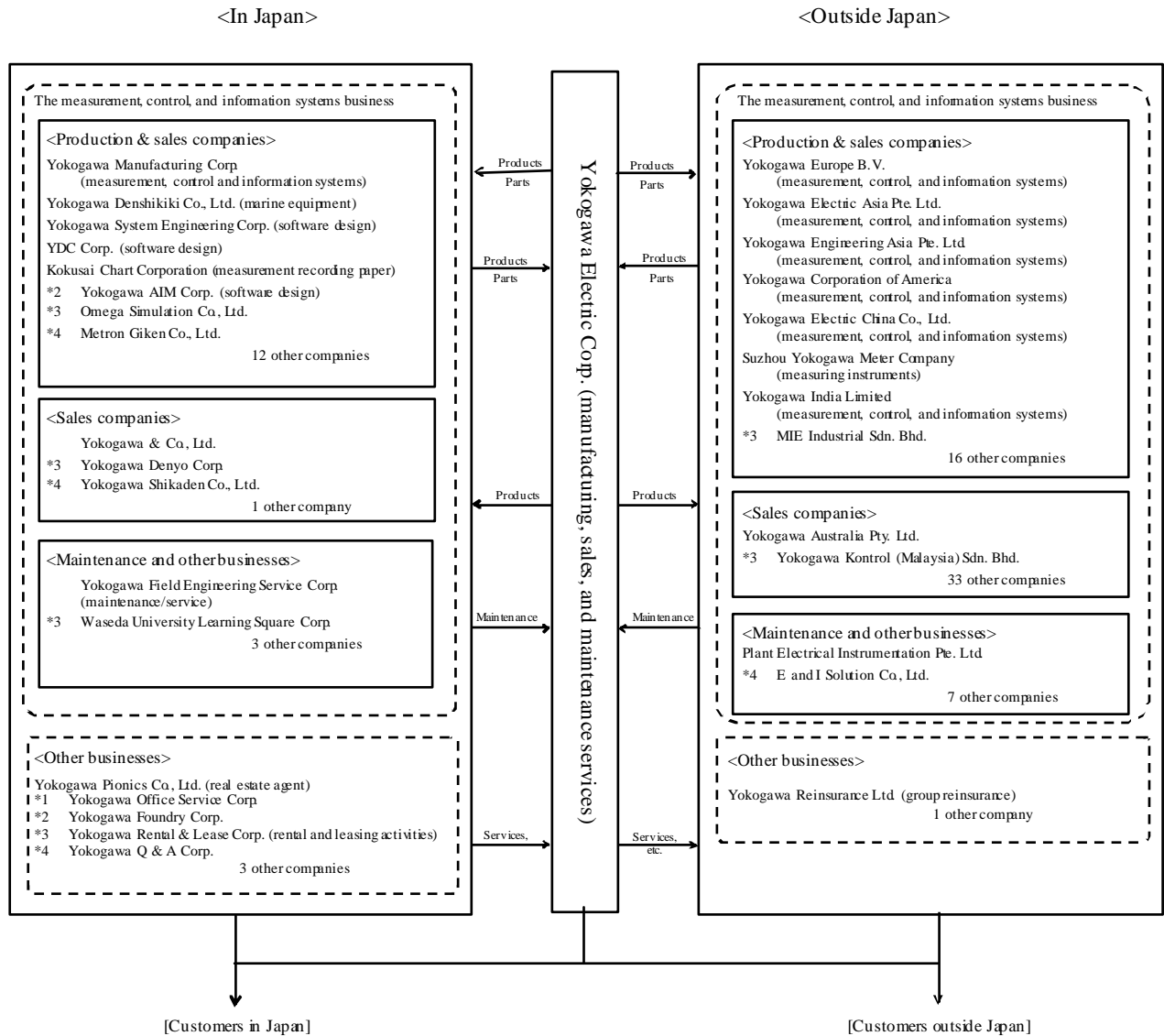
The Company and Yokogawa Denshikiki Co., Ltd. are also engaged in the manufacture and sale of electronics equipment for public sector use.

(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.



(Notes)

- No indication Consolidated subsidiary
- \*1 Unconsolidated subsidiary
- \*2 Unconsolidated subsidiary as to investments in which the equity method has been carried out
- \*3 Affiliated company as to investments in which the equity method has been carried out
- \*4 Affiliated company as to investments in which the equity method has not been carried out

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 targets of VISION-21 and ACTION-21 which were announced in January 2000, and with FY2005 as the First Milestone, the Yokogawa Group has pursued a business strategy of bringing about innovations in business structure and Group management. The framework of VISION-21, the long-term vision for accomplishing these core management objectives, will not change. As for the ACTION-21 strategy to realize this vision, we will establish concrete quantitative targets with FY2010 as the Second Milestone, and tackle this challenge anew in the five years beginning with FY2006. The keyphrase is "One Global YOKOGAWA." We will realize sound and profitable management in a truly consolidated manner to dramatically improve management efficiency, and utilize leading edge technology to achieve customer centric solutions.

### (2) Policy on Appropriation of Profit

Taking into consideration such factors as the need to strengthen our consolidated business performance, internal reserve, and financial standing while establishing a stable corporate foundation, the Company is committed to the continued 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 objectives 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.

Moreover, for this period, we are planning an end-of-period dividend of 5 yen per share. Together with the interim dividend (an ordinary dividend of 5 yen and a commemorative dividend of 5 yen), the dividend this year totals 15 yen, an increase of 7.5 yen over the previous year.

Further, beginning next year, we are planning to pay an ordinary dividend of 15 yen per share each year, the same amount as this year's total dividend of 15 yen, which includes the current commemorative dividend of 5 yen.

### (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, on December 1, 2004, we reduced the minimum trading unit from 1,000 to 100 shares.

### (4) Management Targets

By surely implementing measures to improve management efficiency for the entire Group, we will take action to achieve a consolidated operating income of 75 billion yen, a return on sales of 12.5%, and a return of investment based on operating income of 23%, as the consolidated business targets for the Second Milestone, FY2010. As the management plan for the initial year of FY2006, our targets will be a consolidated operating income of 31 billion yen and consolidated net sales of 410 billion yen. For the interim year of FY2008, the targets will be a consolidated operating income of 55 billion yen and consolidated net sales of 490 billion yen.

### (5) Medium- and Long-term Business Strategies

The Company has classified its operations into key business domains: industrial automation and control, test and measurement, and new and other 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 areas where the Company's competitive power is strong, and in areas where market growth is large, we will solidify our status as the number one market share holder, and in markets which cannot be expected to grow, we will increase our share by responding to replacement demand.

We will expand our share of the Japan industrial automation and control market, where replacement demand is anticipated, by utilizing the reliability of our products and our ability to propose comprehensive solutions to the issues faced by our existing customers. In addition, by integrating the information systems business with the industrial automation and control business, we will expand our business domain and increase market share by providing manufacturing execution system (MES), enterprise resource planning (ERP), and other new services.

Outside Japan, our “Vigilance” marketing campaign has clarified our approach toward our businesses and has significantly increased our credibility and market recognition, allowing us to develop new customers among the major oil companies, a market area where we had not had established a track record. We will use this opportunity to strive aggressively and increase our participation in worldwide markets. To this end, we are concurrently expanding development of software packages at the Singapore Development Center and globally strengthening our development capabilities. Simultaneously, we are strengthening our engineering setup to efficiently use superior resources and are transferring production to other countries; this reduces costs and gives us a strong global development setup that can meet the needs of customers in each region, which promises to dramatically increase our market share.

In the fast-growing Chinese market, we have established Yokogawa China Co., Ltd. in Shanghai to oversee all marketing functions, including those of joint ventures in China. In the future, we will aggressively focus resources in the market and work to expand business with the objective of obtaining a 30% or higher share of the Chinese industrial automation and control and test and measurement markets, and sales of 120 billion yen, by the year 2010.

#### Test and Measurement Business

Yokogawa is expanding its business presence in the semiconductor market and the 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 strengthening its capability to develop products and narrowing down the development themes to testers of system LSIs, liquid crystal driver ICs, and memory ICs used in applications such as cellular telephones and information appliances. Acting from the customer’s point of view, we will strengthen our ability to propose solutions for the entire semiconductor test process, from the design environment to service, and further work to strengthen our international business structure. In the communications and measurement equipment business, the Company will determine the areas of importance and focus development resources in areas such as the mechatronics and energy markets, which are growing rapidly due to the computerization of automobiles and other factors; the electronics and semiconductor markets, which are expanding due to the growing use of information appliances; and the communications and networking markets, which are expanding as the result of the full implementation of next generation of optical communication networks. In so doing, the Company will accelerate product development based on leading edge measurement and semiconductor technology, aiming for the expansion of operations.

#### New and Other Businesses

In the photonics business, the Company will work toward the expansion of sales in the core optical communications market by commercializing the next generation of optical communications modules and optical communications subsystems. The Company will also seek to expand sales in the optical packet network business, which is expected to see a rapid increase in demand from applications such as next generation computers. In the advance stage business, we will focus development investment on three core technologies—precision positioning technology, high-function and high-performance controller technology, and image protocol technology—and maintain the world’s top level of technology, in order to increase our share of the liquid crystal panel manufacturing and semiconductor manufacturing markets. Moreover, the Company will invest resources in life science fields such as the magnetoencephalographs business and the drug discovery field, to aggressively open new markets and launch new business. Further, in the aviation business, in addition to the conventional government-oriented business, we will aim for the expansion of business by actively promoting application to demand in the private sector.

#### (6) Challenges for the Company

To remain a healthy and profitable operation and to achieve our FY2010 management targets, the Company will implement the following three strategies:

- (1) Achieve the business plan through highly efficient and truly consolidated management.
- (2) Aim for increased profits through increased globalization and by expanding our market share worldwide.
- (3) Continuously develop leading edge technology and create new demand by starting up new fields and businesses.

In addition, to dramatically increase management efficiency, we will realize the consolidation of five themes, namely, strategy, information, human resources, accounting, and systems. For the consolidation of strategy, roles will be divided for each company in the Group, and will be linked to drawing out the

overall capacity of the Group by consolidating individual strategies with the overall strategy, with the aim of achieving the FY2010 targets. For the consolidation of information, we will share valuable information in the Group and advance measures to increase management efficiency. For the consolidation of human resources, we will create a global human resources management system, making it possible to put the right human resources in the right places. For the consolidation of accounting, we will conform financial accounting to global standards. Also, in management accounting, we will create a structure for the evaluation of each business to channel cash produced through business operations to investments for the future. For consolidation of systems, we will globally unify a variety of systems, review regulations, and move toward establishment of an internal control system.

### 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. On the other hand, though market conditions were stable overall in the semiconductor tester market, which is the main segment of the test and measurement business, sales of the liquid crystal driver IC tester, a core product, did not reach the planned level. Trends in customer investments also impacted memory testers, resulting in a reduction of orders and sales.

In such circumstances, we focused our efforts on achieving results from the various management measures we have been implementing, and aggressively pushed forward our strategy to increase sales through increasing orders from existing customers and through developing new customers.

As a result, performance for the accounting period ending March 31, 2005, was as follows:

#### <Consolidated>

Net sales	388.8 billion yen	(1.8 billion yen up from previous year)
Operating income	25.3 billion yen	(500 million yen up from previous year)
Ordinary income	26.4 billion yen	(4 billion yen up from previous year)
Net income	21.5 billion yen	(12.1 billion yen up from previous year)

#### <Non-consolidated>

Net sales	235.5 billion yen	(14.1 billion yen down from previous year)
Operating income	10.1 billion yen	(3.6 billion yen down from previous year)
Ordinary income	20.9 billion yen	(5.1 billion yen up from previous year)
Net income	13.8 billion yen	(3.2 billion yen up from previous 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 active investment in large-scale petroleum, petrochemical, and natural gas plants outside Japan. In this favorable business environment, the high 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.

Business was particularly favorable in the rapidly growing Middle East market. In Saudi Arabia, we received orders for an ultra-large-scale petrochemical plant in Rabigh and for large-scale plants in Khursaniyah, Hawiyah, and Juaymah. We also obtained orders for oil refineries and natural gas plants in Bahrain and the UAE.

Further, work has been successfully completed on a 6 billion yen order received in 2002 for a large-scale petrochemical complex (Nanhai Petrochemical Complex) that has been built in Huizhou, Guangdong, China, by CNOOC and Shell Petrochemicals Company Limited (CSPC), a joint venture between Shell and China National Offshore Oil Corporation (CNOOC). This plant is now operational, and the Company will continue through a long-term maintenance contract to provide support services that will maintain stable operation over the entire life cycle of the plant. Our track record of completing large-scale projects on schedule and on budget is well regarded in the market, and we believe that it will lead to a further increase in orders.

Because there are many large-scale projects planned in world markets, the Company is moving forward to strengthen its engineering setup in Singapore, the Middle East, China, North America, Europe, and other regions, striving to reinforce the foundation for continued expansion of orders.

Investment to replace and increase the efficiency of production facilities, especially in the materials industry, as well as investment to expand production facilities, has become fully active in the Japanese market. In this market, the Company has moved forward aggressively with activities to obtain orders, along with efforts to solidify the profit foundation for the business. These efforts include measures to strengthen the profit management structure for each individual project. We will further increase orders by continuing to widen our range of operations to high-value-added businesses by proposing overall solutions to customers for realizing the ideal plant, including consulting to resolve issues from the customer point of view.

#### Test and Measurement Business

In the test and measurement business, although the semiconductor tester business saw growth in orders and sales of liquid crystal driver IC testers over the previous year in a stable market, the original plan was not achieved. In addition, in the case of our leading performer, the memory tester, trends in investment by our major customers caused orders and sales to lag, resulting in continued severe conditions for the entire semiconductor tester business.

At the same time, we worked to strengthen our product competitiveness through the sale of new products such as the MT6121 memory tester, to improve the efficiency of development through the provision of virtual test environments for the entire process from semiconductor design to test production, and to strengthen our ability to propose solutions for the entire semiconductor test process, from improvement of test efficiency in the mass production process to service. In the future as well, we will aggressively develop new customers through timely market introduction of new products based on the needs of the market and through strengthening our ability to propose solutions.

In the communications and measurement equipment business, the Company has strengthened the sales and development setup to link product development directly to the needs of the customer. The outlook for conditions in our major market, the optical communication market, is for gradual recovery, and the Company is seeing a trend of growth in orders and sales. We will continue to strengthen our ability to develop products for our target markets, and work to increase orders.

Commercialization of the photonics products centering on optical packet networks and 40-Gbps optical communication modules, which are key technologies for the realization of next generation communication networks, is moving ahead firmly, and dramatic growth is predicted for this technology which will support our social infrastructure in the future. To continue to develop technology and supply products in a stable manner, in December 2005 the Company began construction of a new office in Sagami-hara City, Kanagawa Prefecture, to house the development and production functions. The office is planned to be completed at the end of November, and will begin full supply of products.

Further, with the widening popularity of flat panel televisions in its sights, the Company has developed the Tandem Through Stage, a large-scale ultra-high-precision XY stage which provides a carriage robot function and can accommodate up to 8th generation (2200 mm x 2400 mm) mother glass panels. It is a dramatic new product which achieves the quality, lead time, and cost demanded by the market, and we will aggressively expand our marketing activities in the future in anticipation of the renewal of facilities accompanying the expansion of the 8th generation market.

#### Information Systems Business

In the information systems business, the Company focused its resources on areas related to the industrial automation and control business, where it can exhibit its strengths. Beginning in FY2007, the information systems business will be integrated with the industrial automation and control business. In the future, we will strive for growth as a result of the synergy of the two businesses.

#### Aviation and Industry Support Businesses

While working to expand our private sector aviation business centering on flat panel displays for Europe's Airbus aircraft, we also sought to increase orders for magnetoencephalographs. Business related to the life sciences, from magnetoencephalographs to confocal scanners, which are optimal for

monitoring live cells, were moved to the new Kanazawa Office, and operations were started anew in January of this year.

Results by region were as follows.

#### Japan

In Japan, though the industrial automation and control business has stabilized, there was a 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 260.4 billion yen (down 21 billion yen, 7.5% from last year) and operating income was 14.4 billion yen (down 2.6 billion yen, 15.5% from last year).

#### Asia

In Asia, the industrial automation and control business performed well, resulting in increased income and profit. Net sales were 53.1 billion yen (up 10.6 billion yen, 25.1% from last year) and operating income was 5.3 billion yen (up 1.4 billion yen, 35.2% from last year).

#### Europe

In Europe as well, the industrial automation and control business performed well, resulting in increased income and profit. Net sales were 34.6 billion yen (up 4.4 billion yen, 14.5% from last year) and operating income was 3 billion yen (up 300 million yen, 13.9% from last year).

#### North America

The industrial automation and control business also performed well in North America, producing increased income and profit. Net sales were 19.8 billion yen (up 2.4 billion yen, 14.1% from last year) and operating income was 700 million yen (up 100 million yen, 28.8% from last year).

#### Other regions

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 20.8 billion yen (up 5.3 billion yen, 34.2% from last year) and operating income was 1 billion yen (up 800 million yen, 402.5% from last year).

## (2) Financial Status

Total assets came to 417.8 billion yen, up 17.5 billion yen from the previous year. This was due to the fact that, while inventories decreased 6.1 billion yen and deferred tax assets decreased 10.7 billion yen from the previous year, trade receivables increased 12 billion yen, tangible fixed assets increased 11.9 billion yen, and investment securities increased 12.1 billion yen, from the previous year. Total debt was 188.2 billion yen, down 38.7 billion yen from the previous year. The main reason was that, of the 30 billion yen in Euro-yen denominated convertible bonds with subscription rights to new shares that mature in 2010 and were issued on November 4, 2003, 29.7 billion yen worth of subscription rights to new shares were exercised and converted to stock. Further, advanced redemption was conducted on the total amount of the non-converted balance of 200 million yen. Shareholders' equity totaled 224.5 billion yen, an increase of 55.8 billion yen over the previous year. As a result, the shareholders' equity ratio was 53.7%, an 11.6 point increase over the previous year.

Additional information about cash flow is as follows:

Cash flow from operating activities was 25.6 billion yen, an increase of 7.3 billion yen over the previous year, from a net profit before taxes of 32.8 billion yen and adjustment items of 15.1 billion yen in depreciation costs, 13.5 billion yen in investment securities sales profits, and a 13.1 billion yen sales credit increase.

Cash flow from investment activities increased expenses 500 million yen over the previous year, to 11.7 billion yen, due to an outlay of 21.9 billion yen for the acquisition of tangible fixed assets such as the construction of offices and the purchase of production facilities, and income of 15.8 billion yen from the sale of investment securities.

As a result of repayment of debt and payment of dividends, cash flow from financing activities was 14 billion yen, an increase of expenses of 12.7 billion yen over the previous year.

As a result of the above, the balance of cash and cash equivalents at the end of the fiscal year ending in March 2006 showed an increase of 1.4 billion yen over the previous year, coming to 41.5 billion yen.

Trends in cash flow indicators are as follows.

	Year ending Mar. 31, 2003	Year ending Mar. 31, 2004	Year ending Mar. 31, 2005	Year ending Mar. 31, 2006
Shareholders' equity ratio (%)	36.1	40.3	42.2	53.7

Market value based shareholders' equity ratio (%)	52.5	94.5	88.2	131.8
Debt redemption schedule (years)	59.4	12.0	5.5	2.4
Interest coverage ratio (multiple)	1.0	7.4	21.1	34.1

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 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

<Consolidated Business Performance Forecasts (Yearly)>

Net Sales	410 billion yen (5.4% up from previous year)
Operating Income	31 billion yen (22.4% up from previous year)
Ordinary Income	28 billion yen (6.1% up from previous year)
Net Income	15 billion yen (30.4% down from previous year)

<Non-consolidated Business Performance Forecasts (Yearly)>

Net Sales	250 billion yen (6.1% up from previous year)
Operating Income	12 billion yen (18.0% up from previous year)
Ordinary Income	16.5 billion yen (21.4% down from previous year)
Net Income	7 billion yen (49.3% down from previous year)

Note: The consolidated business forecast assumes an average exchange rate of  
US\$1 = 110 yen, 1 Euro = 135 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 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 plants outside Japan, as well as new investment to replace production facilities in the Japanese market and investment in streamlining and other elements of new production facilities. In this way, the Company tends to be easily affected by trends in the economy that are the result of fluctuations in crude oil prices. Reductions in investments in the construction of plants due to decreased crude oil prices 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 the 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 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 outside Japan, with the result that the percentage of products that we produce outside Japan 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 can be adversely affected.

#### Risks Related to Competitive Relationships and Markets

While the Japanese market for the industrial automation and control business 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 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 currently being expanded in the Japanese market, it will be necessary in the future also to 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

Millions of yen

Item	Year ending March 31, 2005		Year ending March 31, 2006		Change
	Amount	Composition Ratio (%)	Amount	Composition Ratio (%)	
<b>ASSETS</b>	<b>400,268</b>	<b>100.0</b>	<b>417,805</b>	<b>100.0</b>	<b>17,537</b>
<b>I Current Assets</b>	<b>233,641</b>	<b>58.4</b>	<b>239,881</b>	<b>57.4</b>	<b>6,239</b>
1. Cash and time deposits	40,720		42,194		
2. Notes and accounts receivable	116,916		129,001		
3. Marketable securities	74		287		
4. Inventories	51,136		44,962		
5. Deferred tax assets – current	11,372		11,420		
6. Other current assets	15,200		13,457		
Allowance for doubtful accounts	(1,780)		(1,443)		
<b>II Fixed Assets</b>	<b>166,626</b>	<b>41.6</b>	<b>177,924</b>	<b>42.6</b>	<b>11,297</b>
1. Tangible fixed assets	77,825	19.4	89,743	21.5	11,917
(1) Buildings and structures	39,413		44,593		
(2) Machinery, transportation equipment	9,058		10,185		
(3) Tools, furniture, and fixtures	9,878		11,716		
(4) Land	17,453		19,572		
(5) Construction in progress	2,021		3,675		
2. Intangible fixed assets	13,627	3.4	12,089	2.9	(1,538)
Other	13,627		12,089		
3. Investments and other assets	75,173	18.8	76,091	18.2	917
(1) Investments in securities	42,514		54,706		
(2) Long-term loans	248		153		
(3) Deferred tax assets	23,850		13,087		
(4) Other	9,473		8,902		
Allowance for doubtful accounts	(913)		(758)		
<b>Total Assets</b>	<b>400,268</b>	<b>100.0</b>	<b>417,805</b>	<b>100.0</b>	<b>17,537</b>

Millions of yen

Item	Year ending March 31, 2005		Year ending March 31, 2006		Change
	Amount	Composition Ratio (%)	Amount	Composition Ratio (%)	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>227,001</b>	<b>56.7</b>	<b>188,279</b>	<b>45.1</b>	<b>(38,721)</b>
<b>I Current Liabilities</b>	<b>116,506</b>	<b>29.1</b>	<b>114,699</b>	<b>27.5</b>	<b>(1,807)</b>
1. Notes and accounts payable	37,585		40,587		
2. Short-term bank loans	14,244		12,150		
3. Income taxes payable	2,847		3,322		
4. Bonus allowances	11,085		13,162		
5. Other	50,743		45,476		
<b>II Fixed Liabilities</b>	<b>110,494</b>	<b>27.6</b>	<b>73,580</b>	<b>17.6</b>	<b>(36,914)</b>
1. Bonds	20,000		20,000		
2. Bonds with subscription rights to new shares	30,000		-		
3. Long-term bank loans	28,040		24,176		
4. Deferred tax liabilities	312		325		
5. Reserve for retirement payments	6,099		7,314		
6. Reserve for retirement payments of directors	324		305		
7. Long-term accounts payable	24,270		20,166		
8. Other	1,447		1,292		
(Minority interests in consolidated subsidiaries)	<b>4,515</b>	<b>1.1</b>	<b>4,959</b>	<b>1.2</b>	<b>444</b>
(Shareholders' equity)	<b>168,751</b>	<b>42.2</b>	<b>224,566</b>	<b>53.7</b>	<b>55,814</b>
<b>I Common Stock</b>	<b>32,306</b>	<b>8.1</b>	<b>43,401</b>	<b>10.4</b>	<b>11,094</b>
<b>II Capital Surplus</b>	<b>35,463</b>	<b>8.9</b>	<b>50,348</b>	<b>12.1</b>	<b>14,885</b>
<b>III Retained Earnings</b>	<b>106,663</b>	<b>26.6</b>	<b>123,310</b>	<b>29.5</b>	<b>16,646</b>
<b>IV Net Unrealized Gains on Other Securities</b>	<b>8,374</b>	<b>2.1</b>	<b>14,863</b>	<b>3.6</b>	<b>6,489</b>
<b>V Foreign Currency Translation Adjustments</b>	<b>(5,871)</b>	<b>(1.5)</b>	<b>(2,978)</b>	<b>(0.7)</b>	<b>2,892</b>
<b>VI Treasury Stock</b>	<b>(8,184)</b>	<b>(2.0)</b>	<b>(4,378)</b>	<b>(1.0)</b>	<b>3,805</b>
<b>Total liabilities and minority shareholders' interests and equity</b>	<b>400,268</b>	<b>100.0</b>	<b>417,805</b>	<b>100.0</b>	<b>17,537</b>

## (2) Consolidated Statements of Income

Millions of yen

Item	Year ending March 31, 2005		Year ending March 31, 2006		Change
	Amount	Composition Ratio (%)	Amount	Composition Ratio (%)	
I Net Sales	387,053	100.0	388,877	100.0	1,823
II Cost of Sales	250,035	64.6	245,917	63.2	(4,117)
<b>Gross profit</b>	<b>137,018</b>	<b>35.4</b>	<b>142,959</b>	<b>36.8</b>	<b>5,941</b>
III Selling, General and Administrative Expenses	112,261	29.0	117,639	30.3	5,377
<b>Operating income</b>	<b>24,756</b>	<b>6.4</b>	<b>25,320</b>	<b>6.5</b>	<b>564</b>
IV Non-operating Income	3,646	0.9	6,446	1.7	2,799
1. Interest income	379		403		
2. Dividend income	1,371		1,358		
3. Profit from investments according to the equity method	1,060		1,655		
4. Foreign exchange gain	-		1,643		
5. Other profit	834		1,385		
V Non-operating Expenses	6,001	1.5	5,364	1.4	(636)
1. Interest expenses	810		768		
2. Loss on disposal of inventories	586		812		
3. Loss on write-down of inventories	2,211		1,278		
4. Foreign exchange loss	364		-		
5. Other loss	2,029		2,505		
<b>Ordinary income</b>	<b>22,401</b>	<b>5.8</b>	<b>26,402</b>	<b>6.8</b>	<b>4,000</b>
VI Extraordinary Income	3,481	0.9	14,407	3.7	10,925
1. Gain on sale of fixed assets	221		203		
2. Gain on sale of marketable securities	3,060		13,528		
3. Other	200		674		
VII Extraordinary Losses	11,467	3.0	7,919	2.0	(3,547)
1. Loss on sale of fixed assets	791		10		
2. Loss on disposal of fixed assets	990		979		
3. Loss on impaired assets	-		3,025		
4. Loss on write-down of investments in marketable securities	120		105		
5. Loss on restructuring	4,428		1,786		
6. Loss due to change in retirement benefit plan	2,950		293		
7. Other	2,185		1,717		
<b>Net income before tax and other adjustments</b>	<b>14,416</b>	<b>3.7</b>	<b>32,889</b>	<b>8.5</b>	<b>18,473</b>
Corporate, resident and enterprise tax	3,055	0.8	4,350	1.1	1,295
Income tax refund	14	0.0	35	0.0	21
Adjustment of corporate tax, etc.	1,193	0.3	6,545	1.7	5,352
Minority shareholders' income (deduction)	808	0.2	469	0.1	(339)
<b>Net income</b>	<b>9,372</b>	<b>2.4</b>	<b>21,559</b>	<b>5.5</b>	<b>12,186</b>

## (3) Statements of Consolidated Retained Earnings

Millions of yen

	Year ending March 31, 2005	Year ending March 31, 2006	
Item	Amount	Amount	Change
<b>CAPITAL SURPLUS</b>			
I Capital Surplus at Beginning of Period	35,445	35,463	17
II Increase in Consolidated Balance	17	14,885	14,868
1. Issue of new shares through increase of capital	-	11,094	11,094
2. Gain on sale of treasury stock	17	3,790	3,773
III Capital Surplus at End of Period	35,463	50,348	14,885
<b>RETAINED EARNINGS</b>			
I Retained Earnings at Beginning of Period	99,210	106,663	7,452
II Increase in Retained Earnings	9,378	21,571	12,193
1. Net income	9,372	21,559	12,186
2. Other increases	5	12	6
III Decrease in Retained Earnings	1,925	4,925	2,999
1. Dividends	1,824	3,344	1,519
2. Bonuses to directors and corporate auditors	35	44	9
3. Amount of obligation for retirement payments for overseas subsidiaries	-	1,486	1,486
4. Other decreases	65	49	(15)
IV Retained Earnings at End of Period	106,663	123,310	16,646

## (4) Consolidated Cash Flow Statements

Millions of yen

	Year ending March 31, 2005	Year ending March 31, 2006	
Item	Amount	Amount	Change
<b>I Cash Flows from Operating Activities</b>			
Net income for the period under review before tax and other adjustments	14,416	32,889	
Depreciation and amortization	14,331	15,124	
Amortization of consolidated goodwill	2	-	
Changes in allowance for doubtful accounts	(7)	(607)	
Changes in accrued bonus	1,186	1,930	
Changes in reserve for retirement benefits	(10,161)	1,087	
Interest and dividend income	(1,751)	(1,762)	
Interest expenses	810	768	
Loss on write-down of marketable securities	120	79	
Gain on equity method	(1,060)	(1,655)	
Loss on change of holding ratio of subsidiaries	2	2	
Gain on sale of investments in securities	(3,040)	(13,528)	
Loss on disposal of fixed assets	996	979	
Loss on impaired assets	-	3,025	
Changes in trade receivables	974	(11,309)	
Changes in inventories	743	7,899	
Changes in trade payables	(7,982)	(5,899)	
Increase in accrued liabilities due to change in retirement benefit plan	6,130	(3,881)	
Other	2,921	1,878	
Subtotal	18,632	27,023	8,390
Interest and dividend income received	3,401	3,858	
Interest expenses paid	(866)	(751)	
Income taxes paid or refunded	(2,891)	(4,493)	
Cash flows from operating activities	18,275	25,636	7,360
<b>II Cash Flows from Investing Activities</b>			
Payments for deposit in time deposits	(792)	(840)	
Proceeds from return on time deposits	781	924	
Acquisition of tangible fixed assets	(14,298)	(21,994)	
Proceeds from sale of tangible fixed assets	1,735	912	
Acquisition of intangible fixed assets	(4,353)	(3,789)	
Acquisition of investments in marketable securities	(71)	(3,600)	
Proceeds from sale of investments in marketable securities	3,674	15,817	
Payment for business transfer	(585)	-	
Other	2,687	844	
Cash flows from investment activities	(11,221)	(11,724)	(503)

Millions of yen

	Year ending March 31, 2005	Year ending March 31, 2006	
Item	Amount	Amount	Change
III Cash Flows from Financing Activities			
Change in short-term bank borrowings, net	(973)	(7,128)	
Net reduction in balance of commercial paper	8,000	(3,000)	
Proceeds from issuance of long-term debt	606	200	
Repayment of long-term debt	(6,829)	(248)	
Payment for redemption of corporate bonds	-	(240)	
Payment for purchase of treasury stock	(162)	(28)	
Cash dividends paid	(1,822)	(3,340)	
Cash dividends paid to minority shareholders	(188)	(393)	
Other	63	88	
Cash flows from financing activities	(1,305)	(14,091)	(12,786)
IV Effect of Exchange Rate Change on Cash and Cash Equivalents	(75)	1,645	1,721
V Net Change in Cash and Cash Equivalents	5,673	1,465	(4,207)
VI Cash and Cash Equivalents at Beginning of Period	34,417	40,091	5,673
VII Increase in cash and cashequivalents due to changes in scope of consolidated subsidiaries	-	8	8
VIII Cash and Cash Equivalents at End of Period	40,091	41,565	1,474