YOKOGAWA

Strategic initiatives for excellence

ANNUAL REPORT 2007

For the year ended March 31, 2007

Yokogawa Electric Corporation

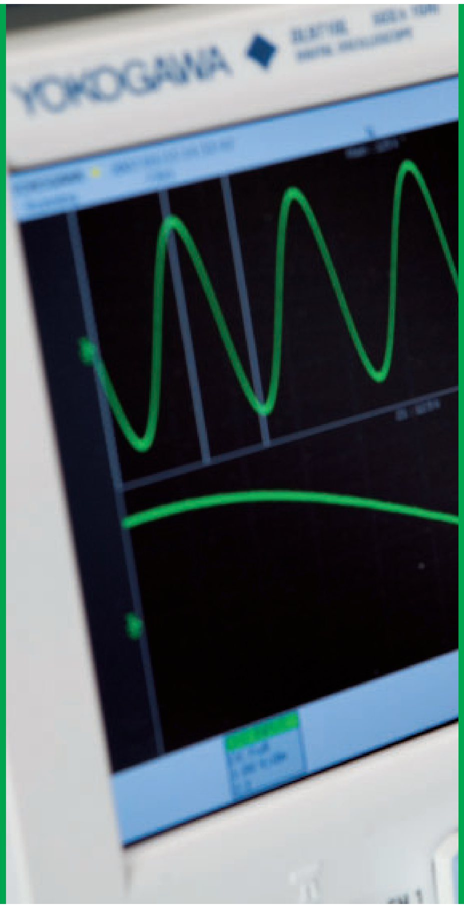
The Yokogawa Philosophy

As a company, our goal is to contribute to society through broad-ranging activities in the areas of measurement, control, and information.

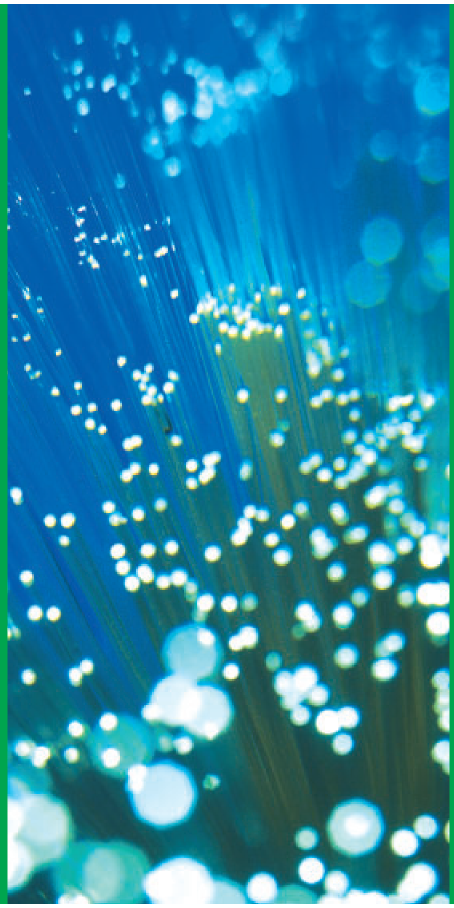
Individually, we aim to combine good citizenship with the courage to innovate.

Founded in 1915, Yokogawa Electric Corporation has over 90 years' experience in the measurement, control, and information businesses, and has contributed to industry and to the well being of society. We remain committed to achieving healthy and profitable operation in accordance with our VISION-21 & ACTION-21 corporate strategy.

Industrial automation and control business PAGE 12



Test and measurement business PAGE 14



New and other businesses PAGE 16

Yokogawa is presenting the Enterprise Technology Solutions (ETS) business concept to industry with the aim of becoming a global service company and ETS provider.

Enterprise Technology Solutions

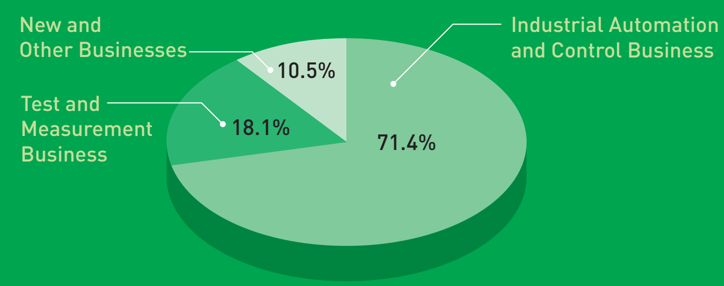
- This emphasizes Yokogawa's focus on the customer's enterprise as a means of providing optimum support.
- Customers can benefit from Yokogawa's latest and most sophisticated technological services.
- Yokogawa offers the solutions that best meet customers' expectations and needs.

Contents

Cautionary Statement Regarding Forward-looking Statements

Statements made in this annual report regarding Yokogawa's plans, estimates, strategies, beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of Yokogawa. These statements are based on management's assumptions and beliefs in the light of the information currently available to it and therefore readers should not place undue reliance on them. Yokogawa cautions that a number of important factors, such as general economic conditions and exchange rates, could cause actual results to differ materially from those discussed in the forward-looking statements.

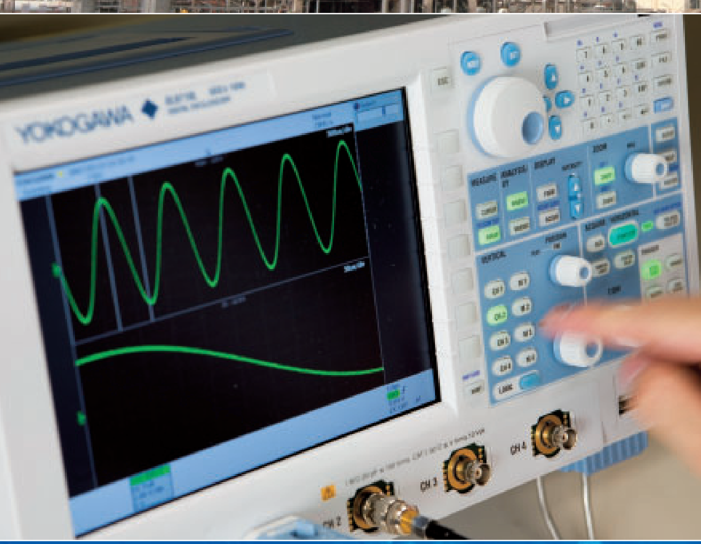
Business Overview



Sales in fiscal year 2006 were 433.4 billion yen.

Industrial Automation and Control Business

Yokogawa developed the world's first distributed production control system for the control and monitoring of production operations at facilities such as petroleum and petrochemical plants. With its excellent project execution capabilities, the Yokogawa Group has won the confidence of customers and, as a leader in the industrial automation and control business, has supported the development of industries as varied as petroleum, petrochemicals, iron and steel, paper and pulp, pharmaceuticals, food, and electric power. The Group offers a comprehensive range of solutions including field instruments such as differential pressure/pressure transmitters, flowmeters, and analyzers; the market leading CENTUM brand of distributed control systems; and a variety of software tools.



Test and Measurement Business

Measurement is the starting point for any technology. With its long background in this field, Yokogawa is contributing to industry by providing measuring instruments that convert physical quantities such as voltage, current, electric power, optical power, and wavelength into visible information and analyze it. In the measuring instrument business, which is indispensable to the development and production of electrical and electronic products as well as the installation and maintenance of communications infrastructure, we offer a rich product lineup and are the top manufacturer in Japan, with an extensive calibration and service system. We also were an early entrant in the semiconductor tester business and have developed products for the latest high-speed and high-performance semiconductors. We always offer the latest test solutions.

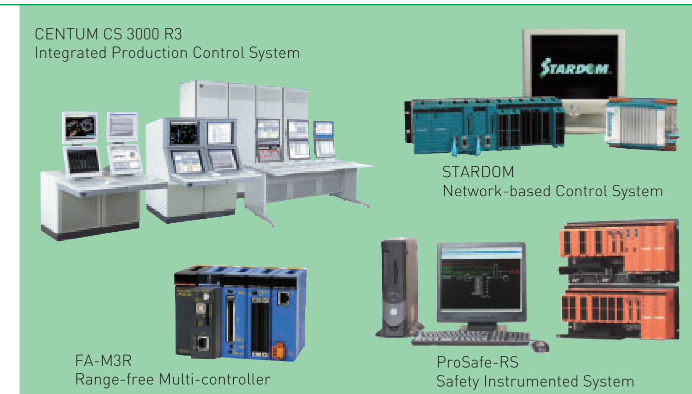
New and Other Businesses

Yokogawa has grown with its measurement, control, and information technologies, and has used these to develop new technologies and products for a variety of applications. We meet a wide range of customer needs with a product lineup that brings together many leading-edge technologies, including optical communications devices that enable ultra high-speed, high-capacity communications; XY stages for devices that test and manufacture flat panel displays (FPDs) and semiconductors; confocal scanners, which are grabbing attention in the biotechnology sector; and aviation and marine equipment.

INDUSTRIAL AUTOMATION AND CONTROL BUSINESS

Production Control Systems

CENTUM distributed control systems for the control and monitoring of plant operations have been delivered to some 19,000 projects in more than 75 countries since this product series was first launched in 1975. Responding to increasing demand for improved plant safety, Yokogawa has recently released the ProSafe-RS safety instrumented system, which is designed to ensure plant safety in full integration with a plant's production control system.

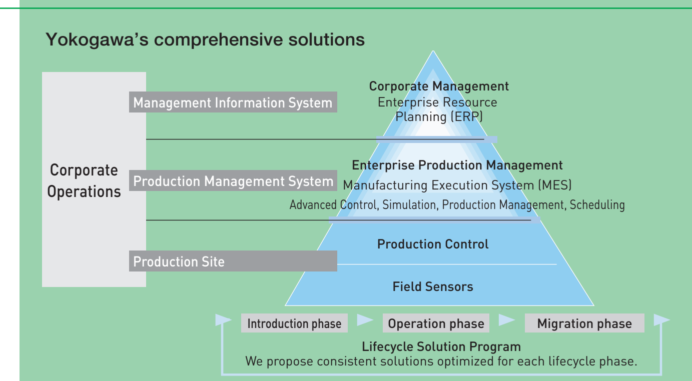


Field Instruments and Recorders

Field instruments are used on production lines to measure parameters such as pressure, temperature, and flow rate. In addition to the DPharp EJA/EJX differential pressure/pressure transmitter and the ADMAG AXF magnetic flowmeter, Yokogawa supplies analytical instruments such as pH meters and process gas chromatographs. We are also introducing paperless recorders that store measurement data in electronic form.

Production Support Solutions

Yokogawa is expanding its software product lineup in the manufacturing execution system (MES) domain, which is narrowing the gap between corporate management information and production information and thereby improving the overall efficiency of management. We also develop process data servers and production optimization software as well as equipment diagnosis systems, facility maintenance and management systems, and other solutions that support safe plant operation. We contribute to the realization of real-time management by offering our customers total solutions not only for their plants but also for their overall business activities.



Medical Information Systems

Medical institutes are rapidly building medical information systems to take advantage of the increasing functionality of diagnostic devices and improve the level of patient service. Yokogawa is committed to helping them with the system integration technologies it has developed in the control systems and production information sectors. We offer image information systems that digitize medical images for on-screen diagnosis, information systems that improve the efficiency of hospital operations and information safety; electronic chart systems, and medical information integration systems that enable regional collaboration. Our systems are highly praised by many medical institutions.

TEST AND MEASUREMENT BUSINESS

Semiconductor Testers and Handlers

To satisfy the needs of customers in the rapidly changing semiconductor industry, Yokogawa provides high-performance and highly functional semiconductor testers that are designed to lower the cost of testing various types of logic, mixed signal, and memory integrated circuits (ICs). We have a particularly large share of the market for FPD driver testers and front-end process memory testers. We also have a wide-ranging lineup of handlers which sort defective ICs from those that meet specifications speedily and accurately. We provide an optimum testing solution through the combination of testers and handlers. We are also promoting the adoption of the Standard Test Interface Language (STIL), and have formed a consortium with semiconductor device manufacturers and other organizations to standardize test description languages. Our goal in this undertaking is to shorten the IC development cycle and reduce IC development costs.

TS6000H+
High-speed SOC Test System

ST6730
FPD Driver Test System

HS2000
Pick and Place IC Handler

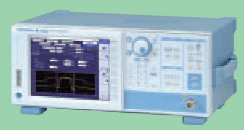
MT6121
Memory Test System

Electronic Measuring Instruments

In addition to a wide range of voltage, current, electric power, optical power, and other basic measuring instruments, Yokogawa offers instruments used in the measurement of waveforms and optical communications, and is focused on markets where there is active investment in development, including information appliances, electronic devices, automobiles, mechatronics, and next-generation communication networks. In response to its customers' requirements, the Group creates measuring instruments using key components that have been designed in-house, thus differentiating itself from its rivals. In the digital oscilloscope, power meter, and optical communications measuring instrument categories, we have a high share of the global market.

DL9710L
Mixed Signal Scope

VC3300
Wireless Communication Tester

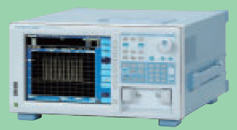


WT3000
Precision Power Analyzer

SL1400
ScopeCorder LITE

AQ7270
Optical Time Domain Reflectometer (OTDR)

AQ6370
Optical Spectrum Analyzer

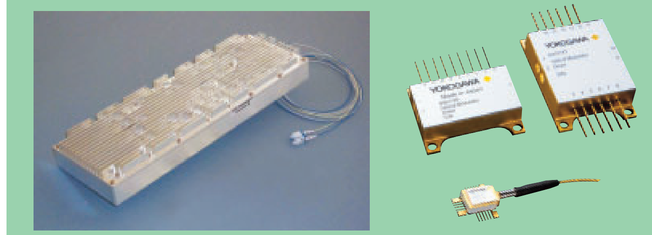


NEW AND OTHER BUSINESSES

Optical Communications Equipment

For the backbone optical communications market, Yokogawa provides optical communications modules and subsystems that use the latest compound semiconductor technologies. We were among the first to develop modules capable of high communication speeds of 40 gigabits per second (Gbps). We have developed an optical transmitter and receiver module with Fujitsu that has a range of over 800 kilometers, eight times that of conventional modules. We have also developed and practically demonstrated a 40Gbps optical packet network system that directly switches optical signals and enables ultra high-speed, large-capacity communications. We are now working to commercialize this technology.

Optical Modules

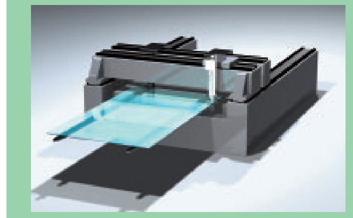


Advanced Stage

Yokogawa produces an ultra-precise XY stage featuring nanometer-level positioning accuracy for today's increasingly miniaturized semiconductor manufacturing and testing systems. We offer a large-scale positioning system that can accommodate eighth-generation (2,160 × 2,400 mm) and later mother glass substrates for flat panel display (FPD) manufacturing and testing processes. We also provide image quality inspection systems that test FPDs and image sensors for blotches and other image irregularities (mura), and direct drive motors that are a core component of positioning devices. These products have been created using the latest precision mechatronics technologies, supported by Yokogawa's measurement and control technologies.

XY Stage

Large-scale Precision XY Stage

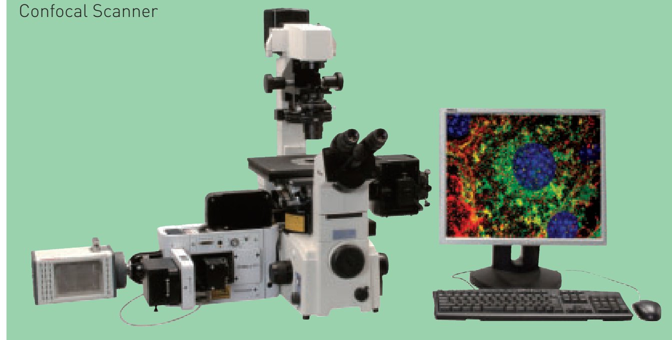


Direct Drive Motors

Life Science-related Equipment

Combined with optical microscopes, Yokogawa's confocal scanners make it possible to observe the movement of live cells in real time. Our confocal scanners are highly regarded in the biotechnology field and are used by leading-edge research institutes around the world in a wide variety of research, including the observation of protein movement and investigation of biological phenomena. When used in combination with precision positioning technologies, these confocal scanners have also led to advances in the new drug discovery field. We are also engaged in R&D efforts focused on the detection of weak magnetic fields created by brain activity and are targeting research and clinical applications relating to the physiological functions and disorders of the brain.

CSU-X1
Confocal Scanner



Aviation Equipment

Yokogawa supplies monitoring equipment and sensors for aircraft engines and fuel systems, leveraging its highly reliable proprietary technologies. Flat panel color LCDs for cockpit use enable the display of highly detailed data in a variety of conditions, from darkness to direct sunlight, and are also highly environmentally resistant. Thanks to these features, Airbus uses Yokogawa displays in its latest aircraft.

Flat Panel Display for Aviation Use

To Our Stakeholders

In May 2006, the Yokogawa Group announced the targets for fiscal year 2010, the Second Milestone for the VISION-21 & ACTION-21 corporate strategy. The Group has identified the five-year period starting in fiscal year 2006 as a major business growth phase, building on the strong business foundation established through the structural reforms of the First Milestone phase. Its targets for fiscal year 2010 are consolidated sales of 600 billion yen and consolidated operating income of 75 billion yen. In fiscal year 2006, the first year of this growth phase, the performance of the industrial automation and control business, our main business, was very strong. We achieved consolidated sales of 433.4 billion yen and consolidated operating income of 29.3 billion yen, reaching record levels in both categories for the fourth straight year.

On April 1, 2007, President and Chief Executive Officer Isao Uchida was named Chairman and Chief Executive Officer, and Director Shuzo Kaihori was named President and Chief Operating Officer. Under this new management, Yokogawa will continue its efforts to attain healthy and profitable operation. We ask for the continued understanding and support of our stakeholders.

Isao Uchida
Isao Uchida
Chairman and
Chief Executive Officer

Shuzo Kaihori
Shuzo Kaihori
President and
Chief Operating Officer

Advance

Achieving the Targets of the Second Milestone

Interview with the President

Working with greater speed and efficiency and thoroughly executing our business strategies to hit the Second Milestone targets

Shuzo Kaihori
President and Chief Operating Officer

In fiscal year 2006, your orders, sales, and operating income all increased greatly. Please explain in detail.

Fiscal year 2006 was the first year of the Second Milestone phase of our VISION-21 & ACTION-21 corporate strategy. Thanks to extremely strong performance in the industrial automation and control business, our main business, we achieved consolidated orders totaling 456.5 billion yen, consolidated sales of 433.4 billion yen, and consolidated operating income of 29.3 billion yen, greatly exceeding the results of the previous year. We achieved our highest ever consolidated sales and operating income for the fourth straight year.

Orders were strong, surpassing our expectations and exceeding the previous fiscal year's total by 56 billion yen (14.0%). Even after upwardly revising our plan in January, we exceeded the target by 6.5 billion yen. Consolidated sales also grew, and were up 44.5 billion yen (11.5%) against the previous fiscal year, exceeding our target by 23.4 billion yen. Since orders greatly exceeded sales, we were able to build a large order backlog that will tie into future sales growth.

Although our operating income grew by 4 billion yen (15.6%) against the previous year, we did not reach our target of 31 billion yen. The main causes for this were that, although our costs continued to fall, they did not reach our target values, and we also increased investment in new businesses. While it is extremely regretful that we did not achieve the target operating income, our industrial automation and control business remains strong and we are steadily creating commercially viable new businesses. We are confident that we will continue to increase our sales and operating income.

Our consolidated ordinary income was 29.6 billion yen, a 3.2 billion yen (12.2%) increase against the previous year. Our net income of 12.6 billion yen was down 9 billion yen (41.7%) against the previous year, which included 14.4 billion yen in extraordinary income from the sale of Group companies and other income.

The performance of the industrial automation and control business remains strong. What is driving the growth of this business, and how are its prospects for the future?

The market environment for our industrial automation and control business is extremely favorable worldwide. In our international markets, there is active investment in projects to construct petroleum, petrochemical, natural gas, and other types of plants, spurred by high petroleum prices and increasing energy demand in China, India, and other countries. Since 2003, Yokogawa has been running a marketing campaign directed at the international industrial automation and control market. The Vigilance campaign expresses our commitment to supporting our customers' plants around the clock, 365 days a year. Yokogawa's international recognition has increased greatly thanks to the success of this campaign, and our customers' high regard for the reliability of our products and our project-execution capabilities.

Amidst these initiatives, Yokogawa is signing preferential supply agreements and strategic partnership agreements with global corporations in all fields, including the oil and chemical sectors, and we continue to receive orders for large-scale projects around the world.

Meanwhile, there has been new capital investment in Japan, as companies replace existing equipment and invest in new equipment. While enhancing project management and building a strong foundation for earnings, we are expanding our business domain in high added-value businesses by offering comprehensive solutions from the customer perspective and are striving to increase orders.

Thanks to these factors, our industrial automation and control business is performing very strongly. Our target is to become the top global company by 2010. In fiscal year 2007, we plan to work actively to further increase our competitiveness, enhance our operating facilities, and invest in development.

How will you grow the test and measurement business?

In fiscal year 2006, orders, sales, and operating income for our test and measurement business all fell short of the previous fiscal year's levels. The largest cause of this decline was a drop in demand for one of our main products of the semiconductor tester business, flat panel display (FPD) driver testers, caused by a slump in capital investment in the LCD market. We expect LCD-related capital investment to recover as we head into the 2008 Beijing Olympics, and I believe that we can expand our orders and sales. In the tester business, we plan to concentrate our resources in our strongest fields, including memory testers, FPD driver testers, and SOC testers, and bring competitive new products to market.

Meanwhile, in the communications and measurement business we see signs of recovery in the markets for optical fiber installation, maintenance-service streamlining, and the like, as the construction of next-generation communication networks begins to move into full swing. We were quick to see this trend and brought high-performance optical fiber testing equipment to market, earning the praise of our customers. In our communications and measurement business, we have identified the following key markets that have expectations for growth: mechatronics and energy, electronics and semiconductors, and communications and networks. We will strive to grow our business by focusing our resources on speeding up development in these three fields, and by timing the introduction of new products to match the growth of these markets.

How are the new businesses progressing?

Sales in our photonics business are growing, as we receive orders for communications modules and subsystems for 40 gigabit per second (Gbps) optical communications networks. We have recently developed an optical transceiver for 40Gbps high-speed communications in partnership with Fujitsu that has a transmission range of 800 km — that is eight times the range of conventional modules. Through this technology, we are offering solutions for the high-speed optical communications networks being built by major telecommunications carriers worldwide. We are expanding this business and are building a mass-production facility at our Sagamihara Office, which began operations this March.

Orders are steadily increasing in our advanced stage business, which offers precision positioning devices for semiconductor manufacturing, LCD manufacturing, and other sectors. We are working to expand the market share for this business by maintaining the world's most advanced technology

Profile

Shuzo Kaihori

Born on January 31, 1948, he began his career at Yokogawa in 1973 after completing a Masters in Engineering at Keio University that same year. Since joining the Company, he has chiefly worked in the industrial automation and control business, focusing on technology, engineering, and services. He was named President of Yokogawa Corporation of America in 2000. In 2005, he became Vice President and Head of the Industrial Automation Business Headquarters. He was promoted to Senior Vice President and Head of the Industrial Automation Business Headquarters in April 2006, and became a Director that year. He was named President and Chief Operating Officer in April 2007.

in this field. We are doing this by focusing our development investment on such fundamental technologies as precision positioning, high-function and high-performance control, and algorithms that determine image quality.

In the life science business, we are striving to increase orders and sales by bringing a new confocal scanner with greatly improved performance to market, while at the same time focusing on the development of new drug discovery support systems, the market for which is expected to grow.

Please tell us about your actions and the challenges you face in achieving the Second Milestone targets.

Our industrial automation and control business is growing much faster than originally planned. In fiscal year 2006, this business met the fiscal year 2008 target that had been initially set under the Second Milestone plan. We will strive to further enhance the competitiveness of our products in this business, and continue to grow the business in order to become the top global company.

We are working to make our test and measurement business more profitable by concentrating our resources in the sectors where we are strongest, and developing competitive products. Although orders are strong in our new businesses, the burden of investing in the development of these businesses and the resulting depreciation expenses of the Sagamihara Office will be significant in fiscal year 2007. We will strive to speed commercialization, while quickly establishing a mass-production capability and expanding sales.

Our targets for fiscal year 2010 remain unchanged: consolidated orders of 610 billion yen, consolidated sales of 600 billion yen, and operating income of 75 billion yen. In light of the current state of these businesses, however, we have set our targets for fiscal year 2007 to consolidated orders of 470 billion yen, consolidated sales of 450 billion yen, and operating income of 35 billion yen. For fiscal year 2008, we are targeting consolidated orders of 510 billion yen, consolidated sales of 490 billion yen, and operating income of 50 billion yen.

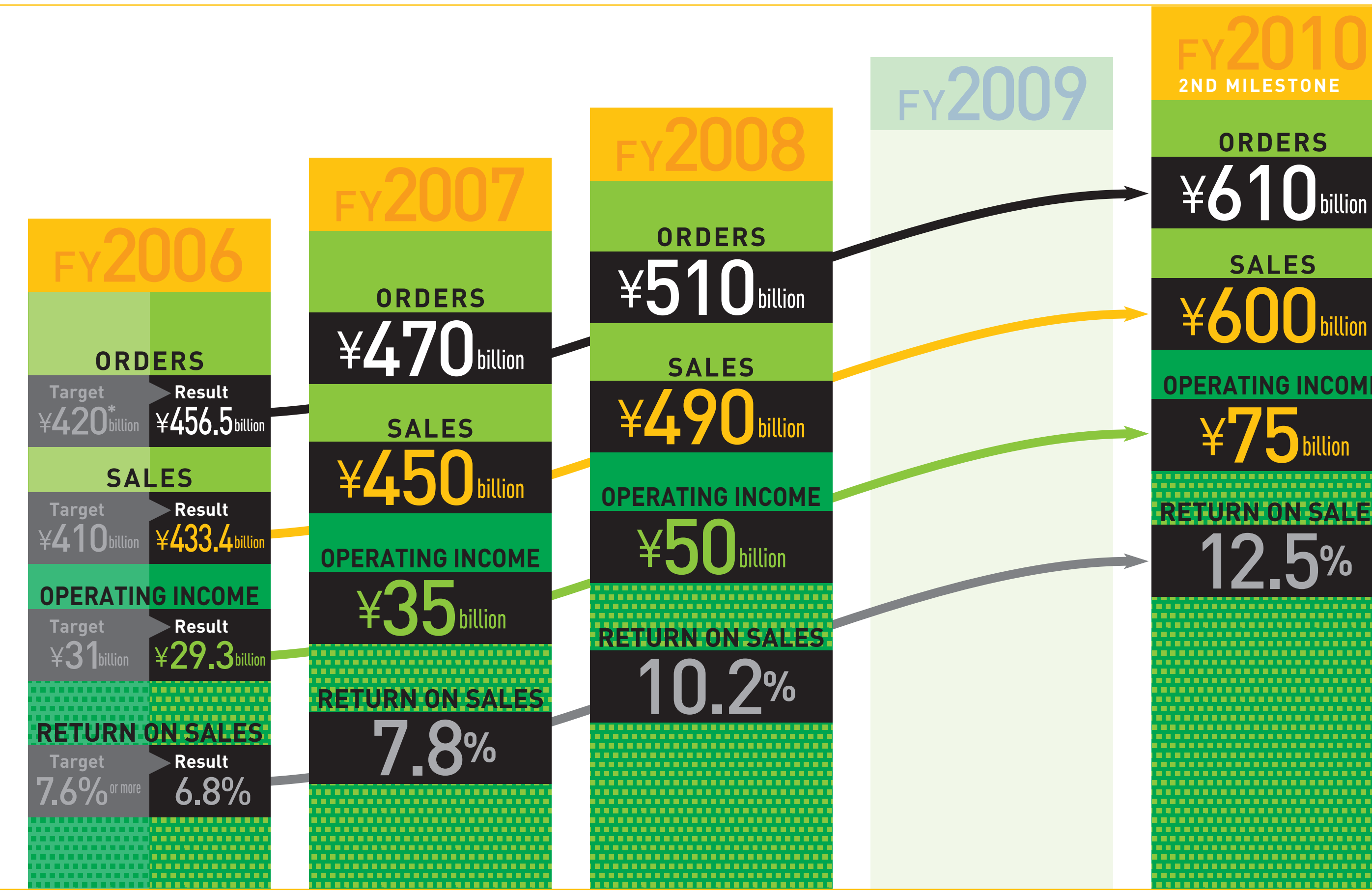
In closing, do you have a message for your stakeholders?

I will certainly continue to implement our business strategy based on the VISION-21 & ACTION-21 corporate strategy put forward by our previous president, Isao Uchida. I see my role being to increase our speed and efficiency, thoroughly execute our strategy, and achieve its targets. Our fundamental stance of contributing to society in the fields of measurement, control, and information remains unchanged. We will aim to continue to innovate and achieve sustained growth, without allowing ourselves to become complacent due to past or present successes.

We are fully committed to increasing our corporate value, and we ask for your continued understanding and support.

Grow

Our Commitment to Healthy and Profitable Operation



*Revised upward to 450 billion yen on October 31, 2006

Toward Our Second Milestone

In fiscal year 2006, Yokogawa's orders and sales both were significantly higher than planned. While operating income grew by 15.6% from the previous fiscal year, it fell short of the target. Although the fiscal year 2010 targets of 610 billion yen in orders, 600 billion yen in sales, and 75 billion yen in operating income remain unchanged, the Group has revised its fiscal year 2007 and 2008 plans.

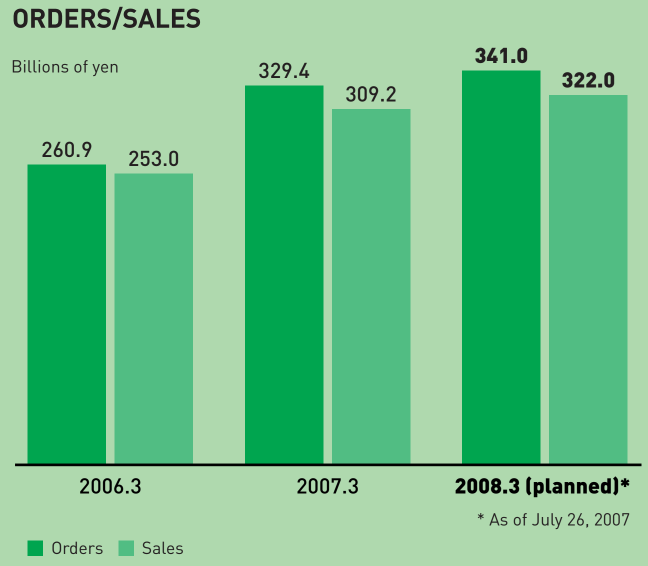
Considering the increase in development investment to support high-level and stable growth of the industrial automation and control business and the accelerated depreciation of part of the plant and equipment costs for new businesses, Yokogawa revised the fiscal year 2007 business plan. The Group targets orders of 470 billion yen, sales of 450 billion yen, and operating income of 35 billion yen.

For fiscal year 2008, the Group will strive to attain orders of 510 billion yen, sales of 490 billion yen, and operating income of 50 billion yen, based on expected growth in orders and sales – especially in the industrial automation and control business – and a reduced depreciation and R&D investment burden. The entire Group is united in its commitment to reaching the targets of this plan, and achieving healthy and profitable operation.

Respond

Expanding Business in the Global Markets

INDUSTRIAL AUTOMATION AND CONTROL BUSINESS



The newly completed Singapore Office, hub of our international industrial automation and control business


The Houston Office, a key facility in North America

Overview of business results

In the international markets, there was active investment in large-scale petroleum, petrochemical, natural gas, and other projects, spurred by increasing energy demand and high petroleum prices. Capitalizing on this, Yokogawa has rolled out the Vigilance marketing campaign expressing its commitment to major industrial companies and other customers. These efforts have greatly increased Yokogawa's recognition in the market, and the Group has received many orders for large-scale projects throughout the world.

In the Middle East, Yokogawa has received an order to supply plant control systems for the Rabigh Project, a joint undertaking by Saudi Aramco and Sumitomo Chemical to construct an integrated oil refinery and petrochemical plant. This project represents the single largest order to date for the Group. In Russia, Yokogawa has signed a Strategic Partnership Agreement with Sibur Holding, the largest petrochemical and chemical corporate group in Russia. This is for the priority use of Yokogawa control systems and other products at this group's 24 plants. We have also signed an agreement with Shell to be the exclusive supplier of monitoring and control, safety shutdown, and fire and gas detection systems for a project to upgrade their offshore petroleum and natural gas production facilities by the year 2011.

The Japan market has been active in investment to upgrade and improve the efficiency of production equipment in the basic materials industry. Yokogawa is committed to solidifying its earnings by working actively to win orders, while enhancing its project execution capabilities.

As a result of these initiatives, the Group has greatly increased its orders, sales, and operating income in this business from the previous year.

Outlook and strategic initiatives

Yokogawa's target is to become the top global supplier in the industrial automation and control business by the year 2010. In order to achieve this target, the Group will focus on product development to further improve the competitiveness of its control systems and major sensors, while striving to offer high added-value solutions and services.

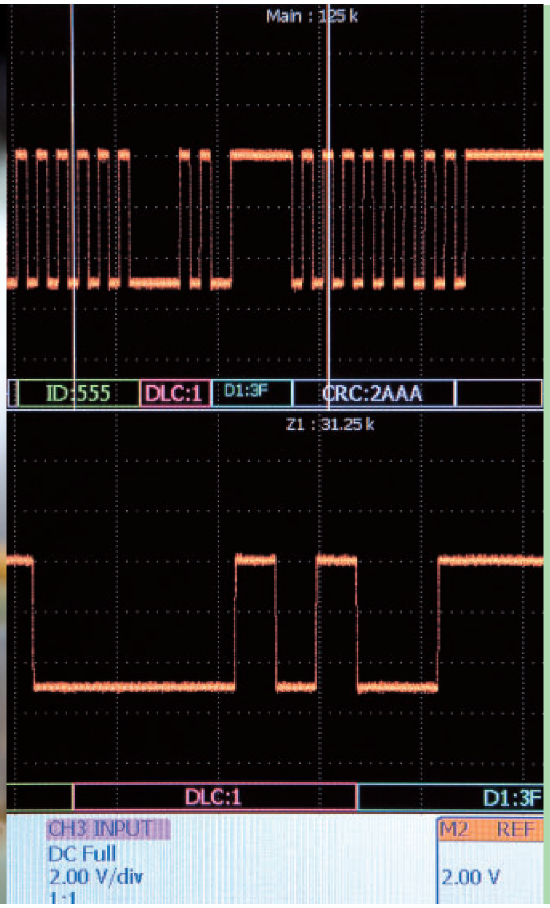
Internationally, the Vigilance campaign has greatly increased the market's recognition and trust of Yokogawa. Leveraging this opportunity, Yokogawa is developing new customers and markets by enhancing its product lineup based on VigilantPlant. This is our vision of the ideal plant for our customers, and it presents solutions for Safety Excellence, Asset Excellence, and Production Excellence. The Group is also harnessing its excellent resources worldwide to enhance its engineering organization and improve its development setup.

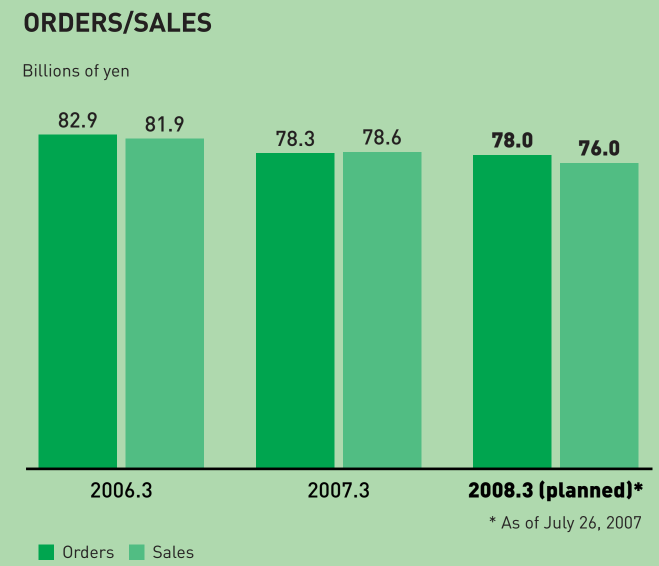
In the Japanese market, companies are expected to begin full-scale upgrades of plants built in the 1980s and 90s. Yokogawa will strive to increase its orders by offering comprehensive solutions that include consulting. The Group is also expanding its business domain by offering Manufacturing Execution Systems (MES), Enterprise Resource Planning (ERP), and other services.

Respond

Launching New Products that Exactly Meet Market Needs

TEST AND MEASUREMENT BUSINESS





High orders expected for the ST6730 FPD Driver Test System

The AQ7270 Optical Time Domain Reflectometer (OTDR) optical fiber testing system, well positioned for growth from construction of next-generation communications networks

Overview of business results

Semiconductor testers are a key sector of the test and measurement business. In this sector, memory testers performed well, buoyed by strong capital investment in DRAM. However, the situation was severe for the tester business as a whole, due to sluggish sales following the shrinking of the market for FPD driver test systems. The Group has created a foothold for increased sales starting in the coming fiscal year thanks to the market penetration of Yokogawa's reliable new ST6730 FPD Driver Test System. A contributing factor has been a recovery in market share due in part to the cultivation of new customers.

In the communications and measurement business, there are signs of a clear recovery in the markets for optical fiber installation and maintenance services related to the construction of next-generation communication networks. Yokogawa was quick to spot this market upswing, and in November 2006 launched the new AQ7270 Optical Time Domain Reflectometer (OTDR), a high-performance optical fiber testing system. This launch contributed to increased sales.

The test and measurement business as a whole has been greatly affected by the sluggish sales in the semiconductor tester business, and orders, sales, and operating income have all declined.

Outlook and strategic initiatives

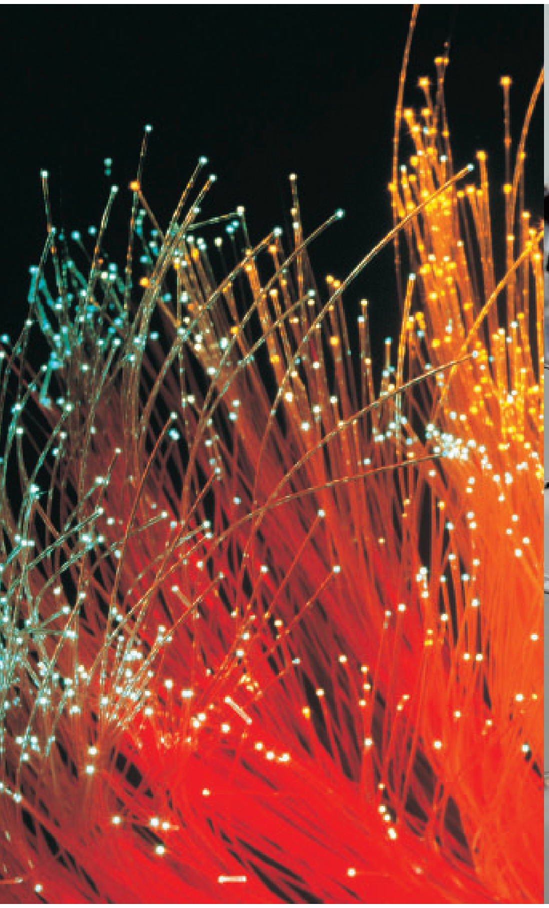
In the semiconductor tester business, Yokogawa will leverage the Group's comprehensive capabilities and strengthen its proposal of solutions for all test processes, from the semiconductor design environment to service. With the mainstay memory testers, the Group will focus on development to reinforce product competitiveness, cost reduction to enhance cost competitiveness, sales expansion, engineering and service networks, and thereby increase market share. With FPD driver testers, the Group will move to develop new technology and strengthen systems for customer oriented application support, with a view to achieve further growth in market share. With SOC testers, new product development is to be accelerated, and international target markets are to be expanded.

In the communications and measurement business, the Group will define key sectors and concentrate its development resources accordingly. Yokogawa will target the mechatronics and energy market, which is booming thanks to the increasing use of automotive electronics and the development of alternative fuels; the electronics and semiconductor market, which is driven by the increasing use of highly functional and high value-added digital information appliances; and the communications and networking market, which is expanding due to the full-scale construction of next-generation optical communications networks. Yokogawa is committed to accelerating the pace of product development and expanding this business on the foundation of its leading-edge measurement and semiconductor technologies.

Respond

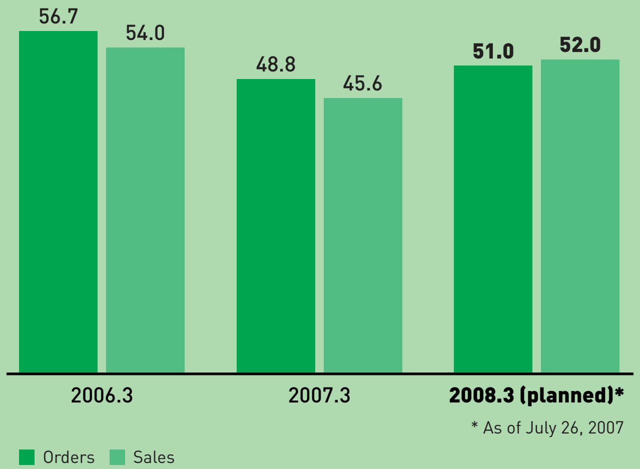
Leveraging Leading Edge Technology to Expand into New Markets

NEW AND OTHER BUSINESSES

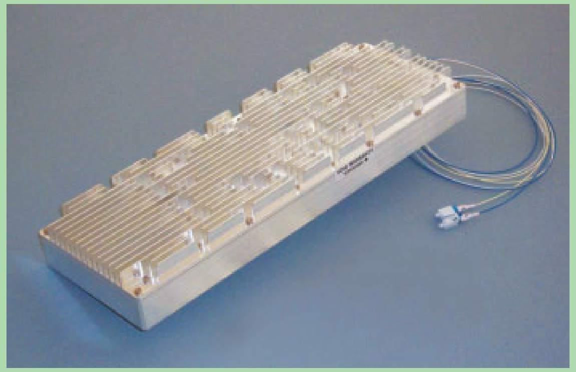


ORDERS/SALES

Billions of yen



The Sagamihara Office, newly operational in March 2007



The optical transceiver developed jointly with Fujitsu

Overview of business results

As one of our new businesses, the photonics business centering on 40Gbps optical communications networks is steadily expanding. The Company is confident that this business will grow dramatically as it is based on a technology that is expected to play a key social infrastructure support role. Yokogawa was the first in the world to successfully develop 40Gbps optical communications technologies. During the fiscal year under review, it partnered with Fujitsu to develop an optical transceiver based on this technology that enables communications over distances exceeding 800 km — eight times the range that is possible with conventional 40Gbps communications. In December 2006, the Company completed construction of its Sagamihara Office, and the production of optical communication modules commenced in March 2007.

In the advanced stage business, the Company has developed new products based on ultra-precise positioning technologies for the semiconductor and LCD manufacturing markets. It is expanding these technologies' applications as a new business, and steadily increasing orders.

In the life science business, Yokogawa has striven to increase orders for confocal scanners, which are ideally suited for the task of monitoring live cells. In the aviation instruments business, we are working to expand our businesses such as the provision of flat panel displays to Airbus for use in their latest aircraft.

Orders and sales were up for our new businesses. At the same time, orders, sales, and operating income were down overall for the new and other businesses segment. This can be explained by the fact that we made strategic withdrawals from certain businesses and increased investment in new businesses.

Outlook and strategic initiatives

In the photonics business, Yokogawa has been working to expand sales in the backbone optical communications market by creating businesses for its next-generation optical modules and optical communication subsystems. Additionally, it has worked to increase sales for its optical packet network business, for which demand is expected to increase rapidly as this technology is applied to next-generation computers and the like. In fiscal year 2006, the Company successfully developed an optical module that enables long-range communications, in partnership with Fujitsu. Using this module, the Group will offer commercial solutions to major telecom carriers worldwide.

In the advanced stage business, Yokogawa is working to expand its share of the LCD and semiconductor manufacturing markets. The Company is accomplishing this by maintaining the world's most advanced technologies. Accordingly, it is focusing investment on the development of such core technologies as precision positioning, high-function and high-performance control, and image quality algorithms.

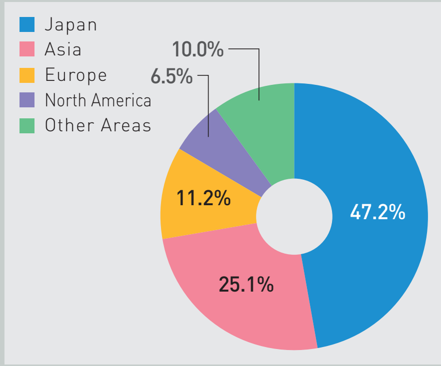
In the life science business, the Group plans to expand its business involving confocal scanners, which are used by research institutions around the world. It aims to achieve growth in the new drug discovery sector as well by combining this technology with precision positioning technologies.

Lead

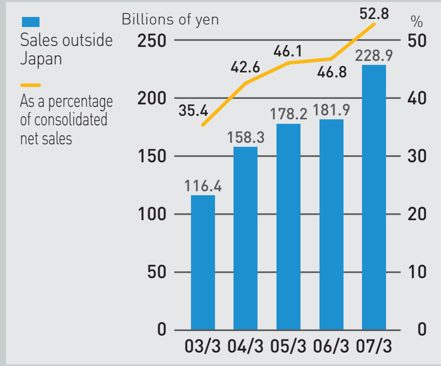
Aspiring to Become a Top Global Company

GLOBAL OPERATIONS

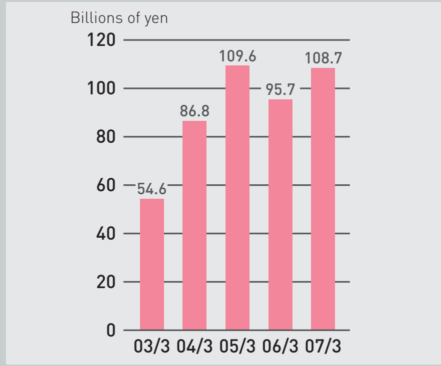
Sales by Geographic Area (March 2007)



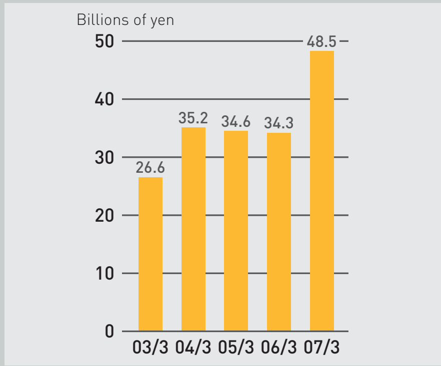
Sales Outside Japan



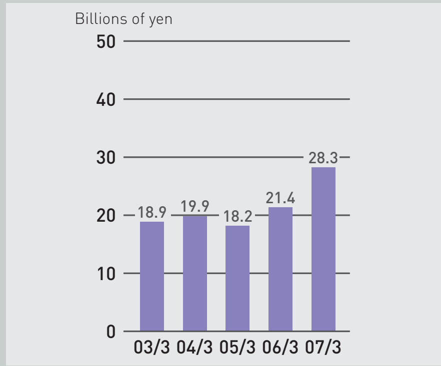
Sales by Customer Location (Asia)



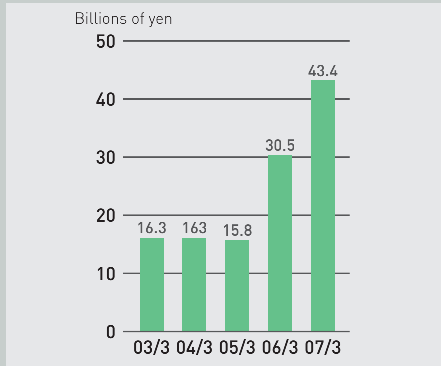
Sales by Customer Location (Europe)



Sales by Customer Location (North America)



Sales by Customer Location (Other Areas)



Global network supporting business growth

Yokogawa is establishing global manufacturing, engineering, sales, and service infrastructure to raise the operating efficiency of the entire Yokogawa Group and provide customers around the world with optimum solutions. We have established a global manufacturing network that enables us to produce the right products in the right places and which secures a stable supply of competitive, high quality products. We are raising our engineering efficiency through the optimum distribution of engineering resources and the improvement of productivity, with the Global Engineering Center playing a core role in this. To capitalize on the increasing number of large petroleum, petrochemical, and natural gas projects in the Middle East, we have established engineering companies over the past two years in Bahrain, the United Arab Emirates, and Saudi Arabia. The Group has also strengthened its engineering capabilities by expanding its facility in Houston, Texas, a world center for the energy industry, and has built a new office in Korea. In Singapore, where our international operations headquarters is located, we have also built a new office building that houses all functions, including research and development.

The Group's service network spans the globe. Our core Global Response Center in Japan provides around-the-clock customer support 365 days a year, and we have response centers in seven other countries as well. These strengths combined with our highly reliable products and comprehensive manufacturing, engineering, and service capabilities are leading Yokogawa to increase its market share worldwide.

Rapidly expanding business worldwide

With 84 Group companies in 33 countries, Yokogawa's operations span the globe. International business makes up an increasingly large proportion of our total business: in the fiscal year ended March 2007, sales outside Japan accounted for 52.8% of consolidated net sales.

With regard to the industrial automation and control business, large plants are being constructed worldwide, mainly in the petroleum, petrochemical, and natural gas sectors. The Vigilance marketing campaign has successfully communicated the Yokogawa Group's commitment to supporting customers' plants around the clock, 365 days a year, helping create added value over the long term through the provision of high-quality, highly reliable products and services. Our customers around the world hold us in high esteem for the reliability of our products, our extensive project-execution capabilities, and the accuracy of our solutions. In the fiscal year under review, we have won several orders for large projects, including an ultra-large petrochemical plant in Rabigh, Saudi Arabia, a large coal-fired power plant in Australia, and several petroleum and natural gas exploration facilities in the Gulf of Mexico.

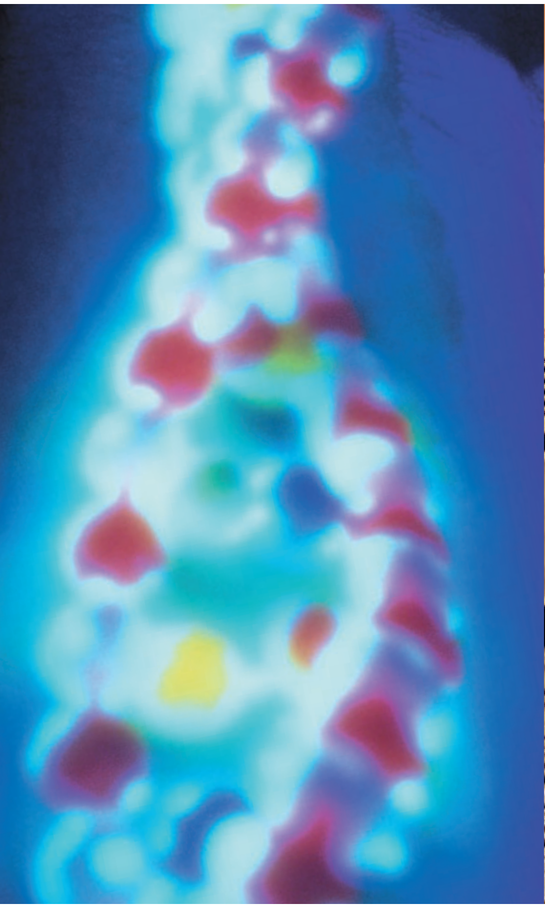
In the semiconductor tester sector of the test and measurement business, although investment in FPD driver testers has been sluggish, memory testers have been selling well in the global market. Sales are also up worldwide for the Group's communications and measurement business, buoyed by the launch of new high-performance optical fiber test devices for the construction of next-generation communications networks.

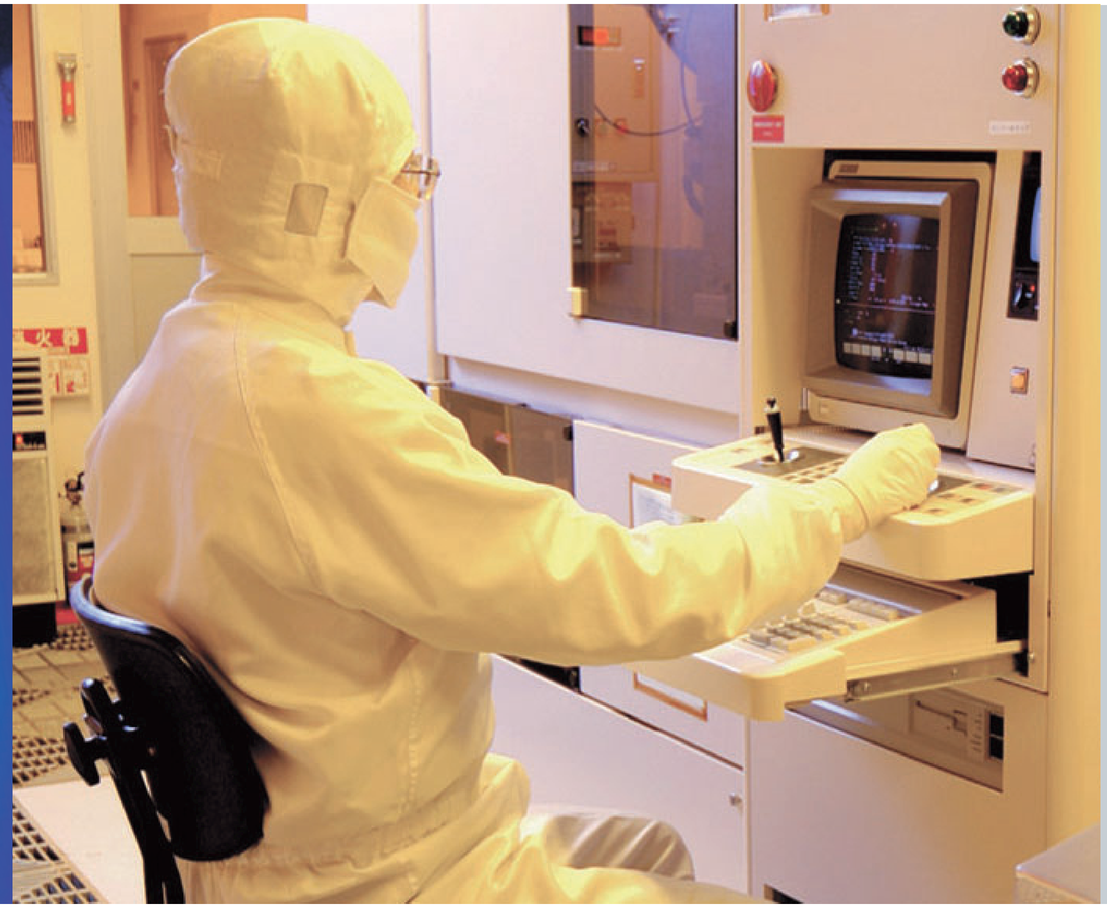
Yokogawa will continue to offer high added-value solutions to its customers around the world and strive to increase orders in the global market.

Seek

Committed to Being a Leading Edge Technology Pioneer

R&D / INTELLECTUAL PROPERTY

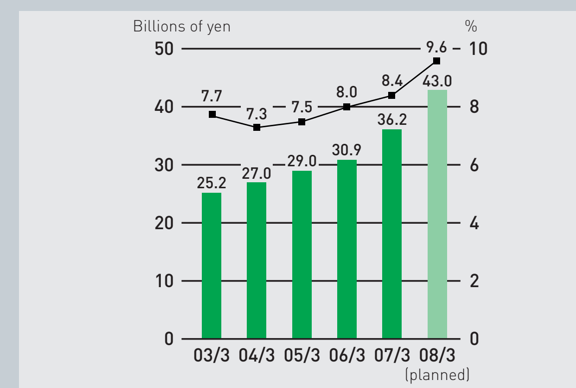




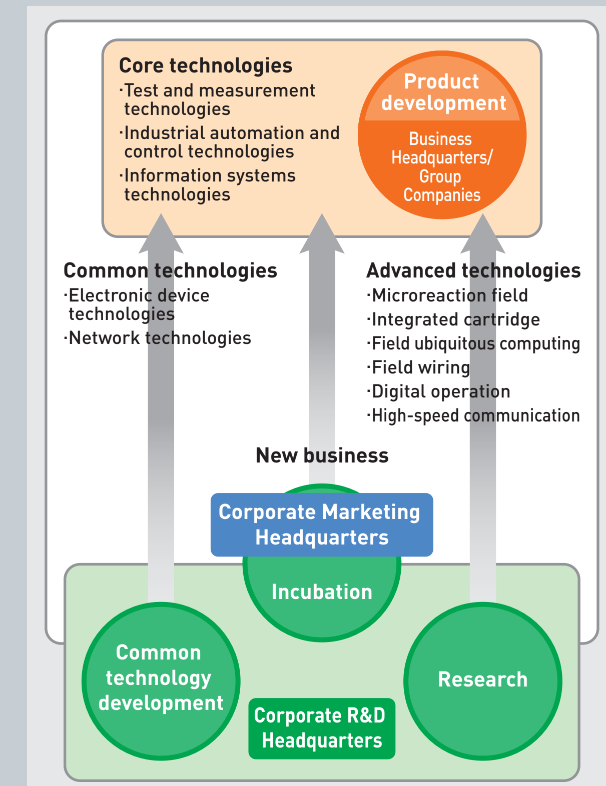
Registrations and applications for patents and other intellectual property rights (as of March 31, 2007)

	In Japan			Outside Japan			
	Registrations	Applications	Subtotal	Registrations	Applications	Subtotal	Total
Patent	1,927	3,088	5,015	678	588	1,266	6,281
Utility model	31	0	31	—	—	0	31
Design	153	9	162	2	—	2	164
Trademark	739	25	764	374	78	452	1,216
Total	2,850	3,122	5,972	1,054	666	1,720	7,692

R&D investment / R&D investment to net sales



Functions and roles of R&D



Research and development activities

To provide leading edge "mother tools" and basic technologies to industry, Yokogawa recognizes that the future-oriented development of new technologies is one of its most important challenges. The Group seeks to develop technologies for the core domains of test and measurement, industrial automation and control, and information systems. We focus on technologies that can guarantee high reliability and performance over the long term.

The Group's research and development operation is classified by function. Our Corporate R&D Headquarters is responsible for research and incubation of common basic technologies that will become tomorrow's Leading Edge Technology. The Corporate Marketing Headquarters has the task of commercializing them. The other business headquarters and the Group companies are also involved in conducting R&D to enhance existing products and assist the solution business.

To spur innovation, Yokogawa performs research in six key Leading Edge Technology fields: microreaction fields, integrated cartridges, field ubiquitous computing, field wiring, digital operation, and high-speed communications, as well as supporting device and network-related technologies.

We have already developed some of the world's leading technologies in these fields. One example is a microreactor that initiates chemical reactions by pushing materials through tiny channels. Applications for this are expected in such fields as fine chemicals. In the optics field, we have developed technologies such as an ultra high-speed optical packet switch that uses compound semiconductors, and this will serve as a key technology in next-generation optical communications systems. In the genetic measurement field, we were the first to succeed in automatically detecting DNA by means of a completely integrated cartridge.

Intellectual property strategies

Yokogawa is making a three-pronged effort by linking intellectual property strategies with R&D and business strategies. As competition in the global market becomes fierce, Yokogawa's intellectual property strategies are playing an increasingly crucial role, both to ensure the preeminence of its unique technologies, and to contribute technically to international standardization. When launching new businesses, we strive to create and quickly patent intellectual property relating to next-generation technologies. In our existing businesses, we patent intellectual property in order to ensure the preeminence of our products and improve brand recognition.

As a company that operates globally, Yokogawa has a long-standing and active commitment to obtaining patents, trademarks, and other intellectual property rights outside Japan as well, and is also focused on international standardization efforts. By playing a leading role in standardization, we strive to gain international penetration for our products and services, including offering compatibility with third-party products. Through these efforts, we ensure the competitiveness of our businesses, while contributing to the formation of healthy markets.

Yokogawa has established Invention Handling Regulations, an in-house system relating to intellectual property activities. Under this system, aimed at preventing compensation disputes over inventions and offering proper incentives for employees to come up with inventions, we pay rewards to inventors when a patent is applied for and when it is registered.

As of the end of March 2007, we hold 2,850 intellectual property rights in Japan, and 1,054 outside Japan.

Care

A Commitment to Making a Better World

CORPORATE SOCIAL RESPONSIBILITY

Yokogawa's Environmental Management

Major activities for contributing to society

Children participating in experiments with safe chemicals in our science classes

A large turnout from local schoolchildren for our rugby class

Promoting environmental management

We are committed to environmental management, and have identified conservation of the global environment as one of our most important challenges. The Group has a three-pronged commitment to reducing environmental impact and carrying out recycling-based operations, helping its customers protect the environment by offering them sound solutions and products, and striving to protect the environment as a corporate citizen.

Since fiscal year 2000, Yokogawa has used the Eco-Point index to calculate and reduce its environmental impact. This index enables us to understand the impact of our operations on the environment and take appropriate measures.

Yokogawa is safeguarding the environment by establishing a guideline for environmentally friendly products and other design guidelines. At the same time, we are promoting the reduction of hazardous chemical substances and aim for zero emissions, recycling more than 99% of waste.

In fiscal year 2006, the Kofu Factory of Yokogawa Manufacturing Corporation reduced its annual electricity consumption by 1,680 kilowatt-hours (a 47.1% decrease against the previous year) by making changes to the monitoring systems on its analytical instrument inspection line. The factory also reduced by 950 kilograms the amount of toluene xylene used on its differential pressure/pressure transmitter manufacturing line. This was done by using a urethane resin coating.

Additionally, Yokogawa's headquarters building has introduced green power generated by biomass via the Green Power Certification System* of Japan Natural Energy Company Limited.

*Green Power Certification System
This system enables trading of the added environmental value of electricity generated from such natural sources of energy as wind, hydro, and biomass via "certificates of green power."

Contributing to society

Yokogawa contributes to society through its business operations and out of a sense of social responsibility, based on the themes of heart, intellect, and body. On the heart theme, the Company promotes well-being by nurturing individuals and supporting traditional culture and the arts. On the intellect theme, it supports career development and science and research. On the body theme, it supports the development of healthy bodies, engages in disaster relief, and provides health care.

Based on the intellect theme, since 2004 Yokogawa has supported the Japan Science & Engineering Challenge, a contest held by the Asahi Shimbun newspaper for students of high schools and specialized vocational high schools. In fiscal year 2006, the Company also began offering Yokogawa Science Classes in collaboration with the board of education of Musashino City. The first such class was held in December. Fifth and sixth-grade children from Musashino City conducted experiments and listened to lectures on the topic of fluorescent illumination.

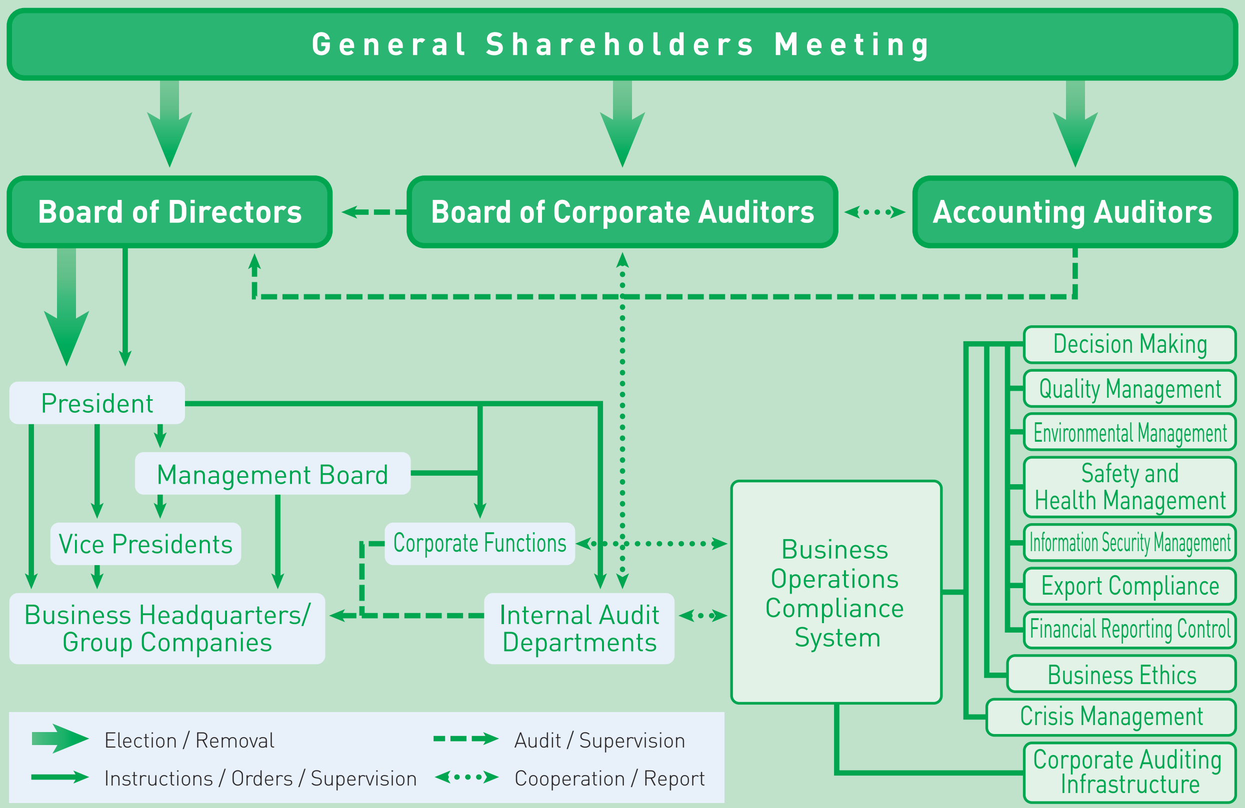
On the body theme, the Company held a rugby festival and gave rugby classes for elementary, junior high, and high school students on its athletic field. This was done in collaboration with the Musashino City Rugby Association.

On the heart theme, the Company funded the painting of a mural titled "Dragon with the Clouds" on the ceiling of the Zen teaching hall (*hatto*) at the Kenchoji Temple in Kamakura. It also funded a painting titled "Twin Dragons" at the Kenninji Temple in Kyoto. The Company is currently funding the creation of paintings for the main temple of the Todaiji Temple in Nara.

All around the world, the Yokogawa Group is a responsible corporate citizen, donating products to educational and research institutions, and conducting community and environmental activities.

Corporate Governance

Corporate Governance Structure



Governance structure

Yokogawa considers the fundamental mission of corporate management to be ensuring sustainable healthy growth, and responding to the trust of its shareholders and all other stakeholders. The Yokogawa Group is thus committed to enhancing its corporate governance, as a key measure for achieving a healthy and profitable operation.

The Company's board of directors manages the Company at the behest of its shareholders. It strives to speed decision-making and improves transparency through discussions between directors with intimate knowledge of the Group's businesses, and highly independent directors. The board of corporate auditors, a majority of which are outside corporate auditors, strictly audits the execution of business operations by the board of directors, and strives to enhance the auditing of management.

In order to ensure the correct and efficient execution of daily operations according to the management policy and business plan, as well as in compliance with laws and regulations, the Group is introducing an internal control system. For example, the Group is enhancing its business ethics rules and the president frequently gives addresses emphasizing the importance of observing business ethics. Similarly, through the activities of the departments responsible for compliance, the Group is seriously endeavoring to ensure that all Group employees understand and put into practice its policy on compliance. The Group is also implementing its risk management activities by defining and assigning organizations that will assume responsibility for quality management, environmental management, and export compliance. Further, its internal audit departments are periodically conducting inspections to determine whether its internal control system is functioning effectively.

Internal Control

In order to ensure compliance with laws, ordinances, and Articles of Incorporation of any actions taken by directors in the execution of their duties and appropriateness of the Company operation, the board of directors adopted the following in accordance with Article 362, Paragraph 4, Item 6 of the Corporation Law, and Article 100 Paragraphs 1 and 3 of the Enforcement Regulations of the Corporation Law.

1. System for assuring compliance of directors' performance of duties with laws, ordinances, and the Articles of Incorporation

A code of business ethics has been implemented, and the President repeatedly affirms his commitment to upholding it. Through education and training led by the compliance promotion organization, it is ensured that the Company attitude toward compliance is understood by all. Also, an internal reporting system has been in place.

An audit department implements internal audits and renders reports on the implementation status of thorough compliance to the board of directors and the board of corporate auditors.

With rules on directors' performance of duties in place, a mechanism has been set up for directors including outside directors, as members of the board of directors, to exercise supervisory responsibility for the execution of duties. There is a system in place in which corporate auditors including outside corporate auditors audit the directors' performance of duties.

2. System for assuring the efficient execution of directors' duties

Rules on decision-making have been introduced to deepen deliberations at the board of directors and to delegate authority outside the board of directors.

Companywide goals have been set up and shared with directors and employees, and are promoted throughout the Company. Authority has been delegated to each organization in pursuit of such goals. The board of directors receives reports on the attainment status, calls for activities to eliminate or reduce obstacles to greater efficiency, and deploys mechanisms for the Company as a whole to pursue efficiency and thereby to achieve the goals. Also management information systems have been established and improved to ensure that information on management is understood and shared in a timely manner.

3. System for storing and controlling information concerning the directors' execution of duties

Rules on storing and controlling information are defined and observed, such as types of information to be stored, handling of such information, storage media, retention period, and appointment of responsible personnel in charge.

4. System for assuring compliance of employees' performance of duties with laws, ordinances, and the Articles of Incorporation

Through the introduction of a code of business ethics, repeated affirmation of the commitment to this by the president and education and training led by the compliance promotion organization, the posture of the Company toward compliance is understood throughout the Company. An internal reporting system has also been set up.

To ensure the thorough implementation of compliance, the internal audit department conducts internal audits with reports on the status rendered to the board of directors and the board of the corporate auditors.

5. Rules and other systems for crisis management

The Group's management rules have been introduced, and responsibilities by category are assigned to departments responsible for such items as quality, environment, and export control, to support the Group's overall responses. A system is in place so that all important risk related information is reported to the board of directors.

The audit department conducts internal audits of the Group's risk control situation, rendering reports on the status to the board of directors and the board of corporate auditors. A crisis management mechanism has been defined including contingency plans, with the implementation of rules for emergency communication and structure.

6. System for ensuring the appropriateness of business activities carried out by the Group (the Company and its subsidiaries)

Through the introduction of Group-wide business ethics policies and education and training led by the compliance promotion organization, the posture of the Company toward compliance is communicated throughout the Company. An internal reporting system has also been set up.

Group management policies have been introduced, and responsibilities by category are assigned to departments responsible for items such as quality, environment, and export control, to support Group's overall responses and meet the expectations of stakeholders.

Group policies on internal audits have been defined whereby the internal audit department conducts internal audits with reports rendered to the board of directors and the board of corporate auditors.

Corporate auditors are allowed to obtain information directly or from Group company auditors for the purpose of verification to make decisions on important matters in Group companies.

7. System for directors and employees to report to corporate auditors, and other systems for reporting to corporate auditors

Directors and employees shall report the following matters to corporate auditors:

(a) Violations of laws, ordinances, and the Articles of Incorporation
(b) Important matters concerning the internal audit situation and risk management
(c) Matters that could cause significant losses to the Company
(d) Important matters concerning decision-making
(e) Important matters concerning the management situation
(f) Matters concerning information reported via the internal reporting system
(g) Other important matters related to compliance

8. Other systems for ensuring effective auditing by corporate auditors

Views are periodically exchanged among the representative directors, president, audit department and accounting auditors.

Opportunities are provided for interviews with directors and important employees.

As necessary, outside specialists can be appointed.

9. Matters concerning requests by the corporate auditors to assign assistants to support roles

A corporate auditors' office has been set up, and assistants, including those who work there on a full time basis, are to be assigned.

10. Matters concerning the assistants' independence from directors

Personnel transfers related to the corporate auditors' office require prior approval from the board of corporate auditors.

Assessment of the assistants working in the corporate auditors' office is conducted by corporate auditors designated by the board of corporate auditors.

Directors, Corporate Auditors, and Officers (as of June 27, 2007)

Directors

Isao Uchida
Representative Director
Chairman and
Chief Executive Officer

Shuzo Kaihori
Representative Director
President and
Chief Operating Officer

Kazunori Yagi
Director
Executive Vice President
Management Administration Headquarters

Kazuhiko Kimura
Director
Executive Vice President
Industrial Solutions Business Headquarters

Teruyoshi Minaki
Director
Executive Vice President
International Business Headquarters

Takashi Fujii
Director
Senior Vice President
ATE Business Headquarters

Junji Yamamoto
Director
Senior Vice President
Corporate Marketing Headquarters

Yoh Narimatsu
Director

Masahisa Naito
Outside Director

Yasuro Tanahashi
Outside Director

Corporate Auditors

Fumio Mizoguchi

Taiki Utsumi

Takahide Sakurai*

Toru Hashimoto*

Shigeru Hikuma*

*Outside Corporate Auditors

Officers

Akihiko Anyouji
Senior Vice President
Advanced Stage Business Headquarters

Hiroyuki Tanaka
Senior Vice President
Sourcing and Manufacturing Business Headquarters

Takafumi Koyanagi
Senior Vice President
Audit and Compliance Headquarters

Toshiaki Shirai
Senior Vice President
Corporate Research and Development Headquarters

Satoru Kurosu
Senior Vice President
Industrial Automation Business Headquarters

Toshiki Okuzumi
Vice President
Quality Assurance Headquarters

Kiyoaki Okino
Vice President
Business Ethics Headquarters

Kazutomo Nishimura
Vice President
Industrial Solutions Business Headquarters

Takashi Yoshida
Vice President
Communications and Measurement Business Headquarters

Hiroshi Yuhara
Vice President
Industrial Automation Business Headquarters

Sumihide Matsumoto
Vice President
Industrial Solutions Business Headquarters

Yasunori Kawata
Vice President
ATE Business Headquarters

Shuhei Sakuno
Vice President
Management Administration Headquarters

Tomoatsu Shibata
Vice President
Industrial Solutions Business Headquarters

Nobumasa Hamaguchi
Vice President
Industrial Solutions Business Headquarters

Shin-ichi Takigishi
Vice President
Life Science Business Headquarters

Kazumichi Murakami
Vice President
Industrial Automation Business Headquarters

Akira Miura
Vice President
Photonics Business Headquarters

Kiyoshi Makino
Vice President
ATE Business Headquarters

Yasuhiko Muramatsu
Vice President
Design to Cost Engineering Headquarters

Makoto Torii
Vice President
Aerospace Products Business Headquarters

Makoto Otake
Vice President
Industrial Solutions Business Headquarters

Masatoshi Nakahara
Vice President
Industrial Automation Business Headquarters

Dota Aizawa
Vice President
Management Administration Headquarters

The Company's board of directors consists of 10 directors, including two outside directors and one highly independent director. Masahisa Naito, one of the Company's outside directors, provides advice with high insight based on abundant managerial experience mainly as an outside director at global companies. Although Yoh Narimatsu does not meet the requirements for serving as an outside director defined in the Corporation Law, he acts as a highly independent director, and does not have any role in the Company's executive management. Yasuro Tanahashi was appointed as a new outside director at the Company's annual general meeting of shareholders held on June 27, 2007.

The board of corporate auditors consists of five corporate auditors, including three outside corporate auditors. Takahide Sakurai, one of the outside corporate auditors, provides advice with high insight from the standpoint of abundant managerial experience and a wide range of activity in the business world. Toru Hashimoto, who is also an outside corporate auditor, provides advice with high insight based on abundant managerial experience and international experience. Similarly, Shigeru Hikuma, who is also an outside corporate auditor, provides advice with high insight based on deep knowledge of corporate finances, discernment, and abundant experience.

The Company's outside directors and corporate auditors sign agreements limiting their liability under Article 423, Paragraph 1 of the Corporation Law, in accordance with Article 427, Paragraph 1 of that law.

Global Network

Subsidiaries and Affiliated Companies in Japan

Yokogawa Manufacturing Corporation
Yokogawa Field Engineering Service Corporation
Yokogawa & Co., Ltd.
Yokogawa Denshikiki Co., Ltd.
Morioka Tokki Corporation
Yokogawa Information Systems Corporation
YDC Corporation
Yokogawa Control Engineering Corporation
Yokogawa Human Create Corporation
Yokogawa Digital Computer Corporation
Kokusai Chart Corporation
Nippon System Gijutsu Co.
Yokogawa Meters & Instruments Corporation
Yokogawa Denyo Corporation
Yokogawa Pionics Co., Ltd.
Yokogawa Sertec Co., Ltd.
Omega Simulation Co., Ltd.
Yokogawa Office Service Corporation
Yokogawa Foundry Corporation

🟠 Industrial Automation and Control Business / Test and Measurement Business
🔵 Industrial Automation and Control Businesses
🟡 Test and Measurement Business
🟢 Other Businesses

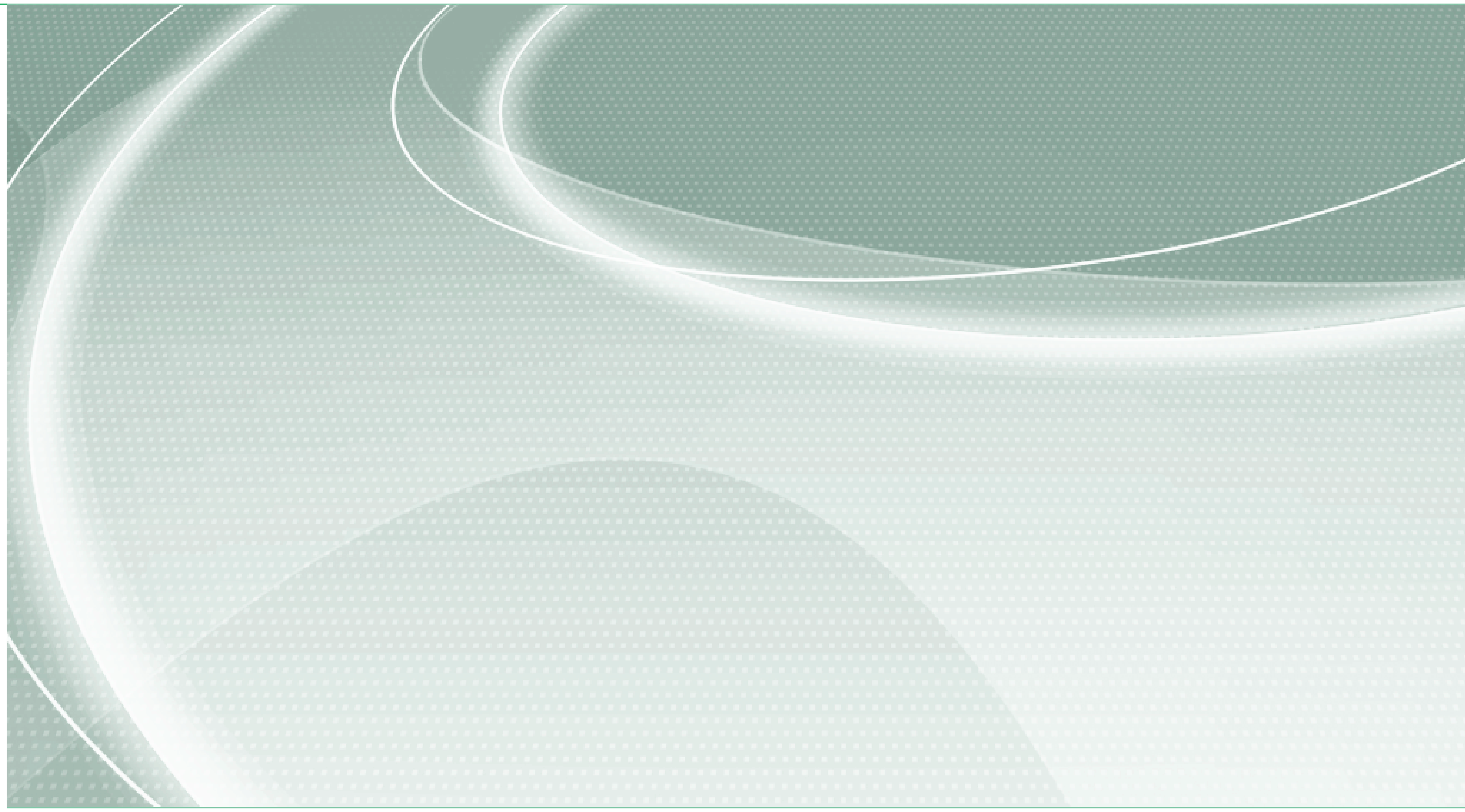
Area	Country/Location	Company Name	Production	Sales	Engineering	Others
North America	United States	Yokogawa Corporation of America	🟠	🟠	🟠	
		Yokogawa USA Inc.				🟢
	Canada	Yokogawa Canada, Inc.		🔵	🔵	
	Mexico	Yokogawa de Mexico, S. A. de C. V.		🔵	🔵	
		Yokogawa Engineering Services de Mexico, S. A. de C. V.			🔵	
South America	Brazil	Yokogawa America do Sul Ltda.	🟠	🟠	🔵	
		Yokogawa Service Ltda.			🔵	
Europe	Netherlands	Yokogawa Europe B. V.	🔵	🟠	🔵	
		Yokogawa Nederland B. V.		🔵	🔵	
		Yokogawa System Center Europe B.V.	🔵	🔵	🔵	
	Austria	Yokogawa GesmbH Central East Europe		🔵	🔵	
	Hungary	Yokogawa Hungaria Kft.		🔵	🔵	
	Belgium	Yokogawa Belgium N. V. /S. A.		🔵	🔵	
	Italy	Yokogawa Italia S. r. l.		🟠		
	Spain	Yokogawa Iberia, S. A.		🟠	🔵	
	Germany	Yokogawa Deutschland GmbH		🔵	🔵	
		Yokogawa Measurement Technologies GmbH		🟡		
		Rota Yokogawa GmbH & Co. KG	🔵	🔵		
	United Kingdom	Yokogawa United Kingdom Limited		🔵	🔵	
		Yokogawa Measurement Technologies Ltd.		🟡		
		Yokogawa Marex Limited		🔵	🔵	
	Sweden	Yokogawa Measurement Technologies AB		🟡		
	France	Yokogawa France S. A. S.		🔵	🔵	
	Russia	Yokogawa Electric CIS Ltd.		🟠	🔵	
		Yokogawa Electric Sakhalin Ltd.		🔵	🔵	
	Ireland	Yokogawa Reinsurance Ltd.				🟢
Africa	South Africa	Yokogawa South Africa (Pty) Ltd.		🟠	🔵	
Middle East	Bahrain	Yokogawa Middle East B. S. C. (c)		🟠	🔵	
		Yokogawa Engineering Bahrain SPC			🔵	
	United Arab Emirates	Yokogawa Engineering Middle East FZE			🔵	
	Saudi Arabia	Yokogawa Saudi Arabia Ltd.		🔵	🔵	
		Yokogawa Service Saudi Arabia Ltd.			🔵	
Asia	Singapore	Yokogawa Electric International Pte. Ltd.				🟢
		Yokogawa Engineering Asia Pte. Ltd.		🟠	🔵	
		Yokogawa Measurementation Pte. Ltd.		🔵	🔵	
		Plant Electrical Instrumentation Pte. Ltd.				🟢
		Yokogawa Electric Asia Pte. Ltd.	🔵			
	Thailand	Yokogawa (Thailand), Ltd.		🟠	🔵	
		E and I Solution Co., Ltd.				🟢
	Malaysia	Yokogawa Electric (Malaysia) Sdn. Bhd.		🟠	🔵	
		MIE Industrial Sdn. Bhd.				🟢
		Yokogawa Kontrol (Malaysia) Sdn. Bhd.		🟠	🔵	
		Yokogawa Industrial Safety Systems Sdn. Bhd.		🔵	🔵	
	Vietnam	Yokogawa Vietnam Company Limited			🔵	
	Indonesia	P. T. Yokogawa Indonesia		🟠	🔵	
		P. T. Yokogawa Manufacturing Batam	🔵			
	Philippines	Yokogawa Philippines Inc.		🟠	🔵	
	China	Yokogawa China Co., Ltd.		🟠	🔵	
		Yokogawa Electric China Co., Ltd.	🔵			
		Yokogawa Xiyi Co., Ltd.	🔵	🟠	🔵	
		Suzhou Yokogawa Meter Company	🟡	🟡		
		Yokogawa Shanghai Instrumentation Co., Ltd.	🔵	🔵		
		Shanghai Yokogawa Petrochemical Instrumentation Co., Ltd.		🔵	🔵	
		Yokogawa Sichuan Instrument Co., Ltd.	🔵	🔵		
		Yokogawa Shanghai Trading Co., Ltd.		🟡	🟡	
		Yokoshin Software Engineering (WUXI) Co., Ltd.			🔵	
	Korea	Yokogawa Electric Korea Co., Ltd.		🔵	🔵	
		Yokogawa Measuring Instruments Korea Corp.		🟡	🟡	
		Yokogawa Electronics Manufacturing Korea Co., Ltd.	🟠			
	Taiwan	Yokogawa Taiwan Corp.		🔵	🔵	
	India	Yokogawa India Ltd.	🔵	🟠	🔵	
		Yokogawa IA Technologies India Private Limited				🔵
Oceania	Australia	Yokogawa Australia Pty. Ltd.		🟠	🔵	
		TechComm Simulation Pty. Ltd.		🔵	🔵	
	New Zealand	Yokogawa New Zealand Ltd.		🟠		

History

1915	Tamisuke Yokogawa, Doctor of Architectural Engineering, established an electric meter research institute in Shibuya, Tokyo with Ichiro Yokogawa and Shin Aoki
1917	First to produce and sell electric meters in Japan
1920	Incorporated as Yokogawa Electric Works Ltd.
1933	Started research and manufacture of aircraft instruments and flow, temperature, and pressure controllers
1948	Made the public offering of the Company's stock
1950	Developed Japan's first electronic recorder
1955	Signed a technical assistance agreement for industrial instruments with Foxboro, USA
1957	Established Yokogawa Electric Works, Inc. as North American sales office
1964	Made a full-scale entry into the industrial analyzer market
1966	Developed and started manufacture and sale of vortex flowmeter
1974	Established Yokogawa Electric Singapore Pte. Ltd. as Singapore plant
	Established Yokogawa Electric (Europe) B. V. as European sales office
1975	Released CENTUM, the world's first distributed process control system
1983	Formed Yokogawa Hokushin Electric Corp. through merger with Hokushin Electric Works, Ltd.
1984	Released Model 3520 Analog LSI Test System and entered IC tester field
1986	Established Xiyi Yokogawa Co., Ltd. in Xian, China, jointly with Xian Instruments Factory
	Changed the Company name to Yokogawa Electric Corporation
1988	Entered the high-frequency measuring instrument business
1990	Established Yokogawa Middle East E.C. in Bahrain
1996	Released confocal scanner and entered biotechnology business
1997	Announced the Enterprise Technology Solutions business concept
2000	Announced the new VISION-21 & ACTION-21 corporate strategy
2001	Released the world's first 40Gbps optical communication module and entered the next-generation optical fiber communication field
2002	Acquired 100% of Ando Electric's stock
2004	Developed 40Gbps optical packet switch
	Fully integrated Ando Electric's business
2005	Established Yokogawa Electric International Pte. Ltd. in Singapore to oversee global industrial automation business
2006	Announced the Second Milestone of the VISION-21 & ACTION-21 corporate strategy

Financial Section

YOKOGAWA ELECTRIC CORPORATION AND ITS SUBSIDIARIES
FOR THE YEAR ENDED MARCH 31, 2007



Contents

Consolidated 5-year Summary

YOKOGAWA ELECTRIC CORPORATION AND ITS SUBSIDIARIES

FOR THE YEAR ENDED MARCH 31, 2007

	Billions of yen					Millions of US dollars (Note 3)
	March					March
	2003	2004	2005	2006	**2007**	**2007**
For the year:						
Net sales	¥ 328.8	¥ 371.9	¥ 387.1	¥ 388.9	**¥ 433.4**	**$ 3,671**
Cost of sales	219.0	241.4	250.0	245.9	**275.9**	**2,338**
Selling, general and administrative expenses	108.2	112.2	112.3	117.6	**128.2**	**1,086**
Operating income	1.6	18.3	24.8	25.3	**29.3**	**248**
Operating income ratio (%)	0.5	4.9	6.4	6.5	**6.8**	**—**
Net income	(26.2)	24.3	9.4	21.6	**12.6**	**106**
At year-end:						
Total assets	364.7	397.4	400.3	417.8	**438.7**	**3,716**
Debt	230.1	233.2	227.0	188.3	**199.8**	**1,692**
Interest-bearing debt	108.7	99.6	100.3	61.3	**59.6**	**505**
Shareholders' equity	131.8	160.3	168.8	224.6	**234.3**	**1,984**
Shareholders' equity ratio (%)	36.1	40.3	42.2	53.7	**53.4**	**—**
Earnings per share:						
Net income (yen/US dollars)	(108.39)	99.84	38.43	87.45	**47.79**	**0.40**
Dividends (yen/US dollars)	7.50	7.50	7.50	15.00	**15.00**	**0.13**
Shareholders' equity (yen/US dollars)	542.20	658.97	693.75	854.24	**891.08**	**7.55**
Stock information:						
Stock price at the end of the term (yen/US dollars)	788	1,544	1,452	2,095	**1,806**	**15.30**
Aggregate market value	200.1	392.1	368.8	562.8	**485.1**	**4,110**
Number of shares (shares)	253,967,991	253,967,991	253,967,991	268,624,510	**268,624,510**	**—**

Unification of the accounting periods of non-Japan consolidated subsidiaries

In the past, for consolidated subsidiaries that had different closing dates, financial statements as of the applicable closing date have been used, and adjustments required by consolidation have been conducted for important transactions that were conducted during the time from the applicable closing date to the consolidated closing date.

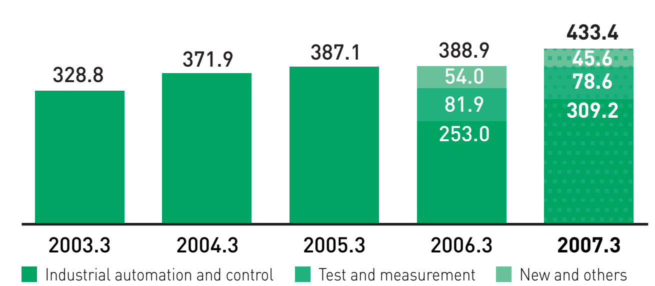
To conduct more appropriate administration of consolidated operations, beginning with the consolidated accounting period under review, financial statements based on the provisional settlement of accounts implemented as of the consolidated closing date are being used for Yokogawa Electric China Co., Ltd., and 10 other non-Japan subsidiaries, and the closing date for Yokogawa USA, Inc., and 47 other non-Japan subsidiaries, has been changed to the consolidated closing date. Through these changes, 13 consolidated subsidiaries have a 15-month accounting period (January 1, 2006 to March 31, 2007), and 46 consolidated subsidiaries have a 13-month accounting period (March 1, 2006 to March 31, 2007).

Due to these changes to the accounting period, compared to the usual standard, the consolidated statement of income shows a 22.088 billion yen increase in net sales, a 1.368 billion yen increase in operating income, a 1.249 billion yen increase in ordinary income, a 1.275 billion yen increase in net income before taxes and other adjustments, and a 985 million yen increase in current net income.

*The financial figures on pages 6–37 are rounded to the nearest 100 million yen. On pages 39–62, amounts less than one million yen are omitted.

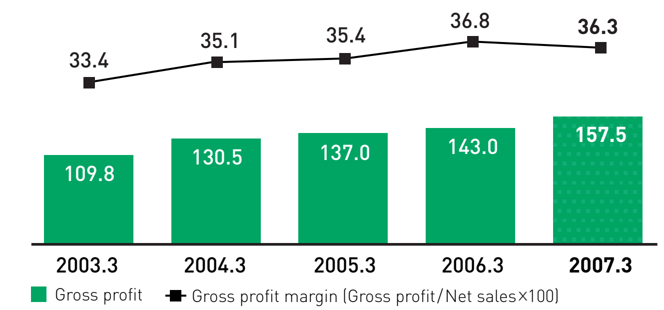
Sales by Segment*1

Billions of yen



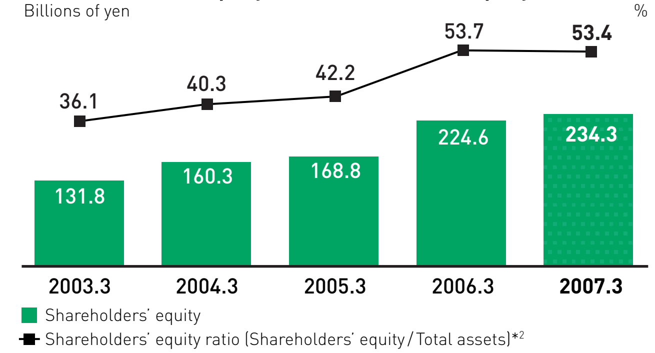
Gross Profit / Gross Profit Margin

Billions of yen



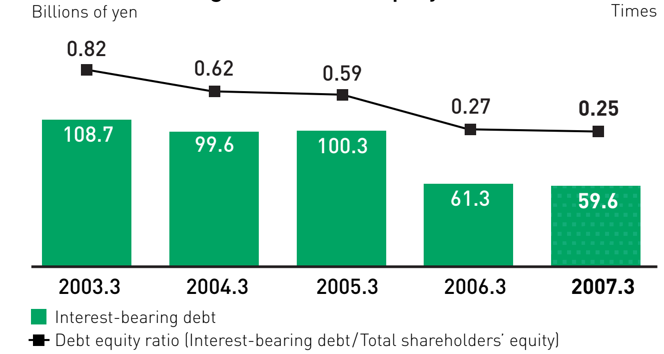
Shareholders' Equity / Shareholders' Equity Ratio

Billions of yen



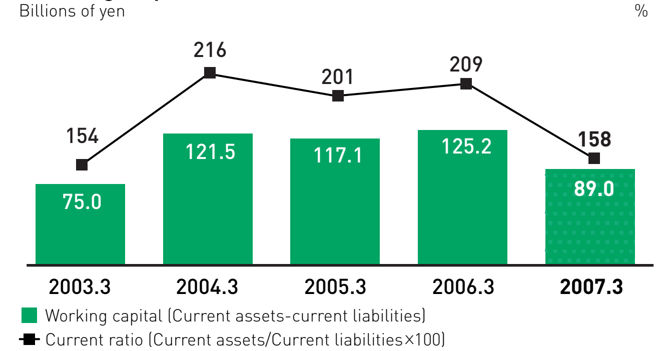
Interest-bearing Debt / Debt Equity Ratio

Billions of yen



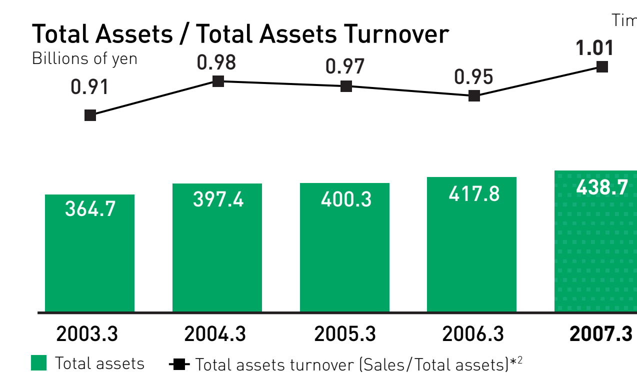
Working Capital / Current Ratio

Billions of yen



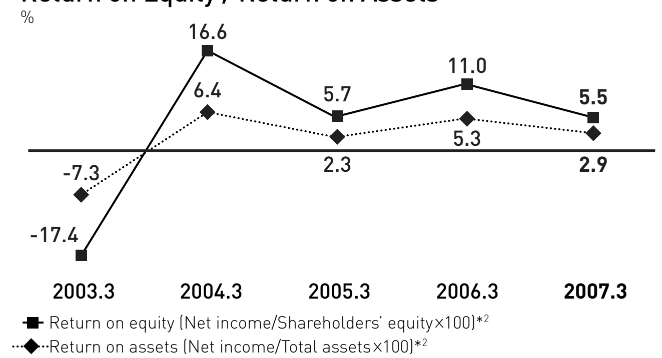
Total Assets / Total Assets Turnover

Billions of yen



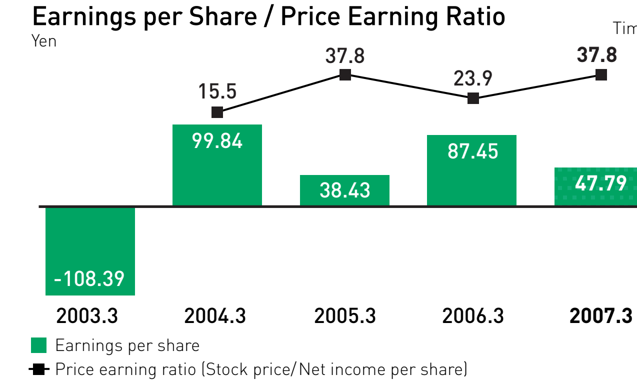
Return on Equity / Return on Assets

%



Earnings per Share / Price Earning Ratio

Yen



*1 In the fiscal year under review, new business segmentation was introduced. From fiscal year 2005, the data was retroactively restated under the new segmentation.
*2 Calculated using average amount of the beginning and the end of the fiscal year

Management's Discussion and Analysis

YOKOGAWA ELECTRIC CORPORATION AND ITS SUBSIDIARIES

FOR THE YEAR ENDED MARCH 31, 2007

1. Overview

In the market of our core industrial automation and control business, the increase in energy demand and high oil prices outside Japan have resulted in active investment in petroleum, petrochemical, natural gas and other energy-related plants. In the Japanese market, there has also been active investment to replace production facilities as well as a trend toward investment in new facilities, resulting in a favorable trend for the overall business. In the semiconductor tester market, the main segment of the test and measurement business, investment was strong in memory, centered on DRAM, but a decline in the FPD market resulted in a drop in investment in FPD driver IC testers. On the other hand, in the communications and measurement instrument market, an upswing in optical communications, energy conservation and alternative energy, information appliances, and ubiquitous computing was evident. In the new photonics market, construction of a next-generation network based on 40Gbps backbone optical communications has started. Conditions are also strong in the advanced stage markets, chiefly in the semiconductor manufacturing segments.

In such circumstances, significant efforts were focused on executing the business strategy in this first year of activities directed toward 2010, the Second Milestone of the VISION-21 & ACTION-21 corporate strategy. Our efforts were directed at aggressively expanding sales by increasing orders from existing customers and developing new customers.

As a result, net sales in fiscal year 2006 increased year on year by 11.5%, or 44.5 billion yen (US$377 million), to reach 433.4 billion yen (US$3,671 million). Operating income also increased during the same period by 15.6%, or 4.0 billion yen (US$33 million), and totaled 29.3 billion yen (US$248 million). Similarly, ordinary income rose by 12.2%, or 3.2 billion yen (US$27 million), to reach 29.6 billion yen (US$251 million). On the other hand, net income declined by 41.7%, or 9.0 billion yen (US$76 million), and totaled 12.6 billion yen (US$106 million).

The sales breakdown by geographic area is as follows: net sales in Japan decreased year on year by 4.8%, or 12.5 billion yen (US$106 million), to reach 247.9 billion yen (US$2,100 million), while net sales in Asia increased during the same period by 62.1%, or 33.0 billion yen (US$280 million), to reach 86.1 billion yen (US$730 million). Net sales in Europe were up by 21.1%, or 7.3 billion yen (US$62 million), to 42.0 billion yen (US$356 million), and in North America net sales were up by 38.2%, or 7.6 billion yen (US$64 million), to 27.5 billion yen (US$233 million). Net sales in other areas increased by 43.8%, or 9.1 billion yen (US$77 million), to 29.9 billion yen (US$253 million), and this was mainly due to growth in the Middle Eastern market.

2. Consolidated Statements of Income

Operating income for fiscal year 2006 increased by 15.6%, or 4.0 billion yen (US$33 million), over the previous year to reach 29.3 billion yen (US$248 million).

Operating income increased in all geographic regions except North America owing to the excellent performance of the industrial automation and control business. In Japan, operating income increased year on year by 9.5%, or 1.4 billion yen (US$12 million), to 15.8 billion yen (US$134 million), while in Asia it increased 50.9%, or 2.7 billion yen (US$23 million), to 8.1 billion yen (US$69 million). In Europe, operating income increased by 14.4%, or 0.4 billion yen (US$4 million), to 3.5 billion yen (US$30 million). In North America, operating income declined by 37.5%, or 0.3 billion yen (US$2 million), to 0.5 billion yen (US$4 million) due to a temporary cost increase in orders for large-scale projects.

Sales by Geographic Area

	Billions of yen			Millions of US dollars
	March			March
	2005	2006	2007	2007
Japan	¥ 281.4	¥ 260.4	¥ 247.9	$ 2,100
Asia	42.5	53.1	86.1	730
Europe	30.3	34.7	42.0	356
North America	17.4	19.9	27.5	233
Other Area	15.5	20.8	29.9	253
Net Sales	387.1	388.9	433.4	3,671

Operating Results

	Billions of yen (percentage of net sales)						Millions of US dollars
	March						March
	2005		2006		2007		2007
Net sales	¥ 387.1	(100.0)	¥ 388.9	(100.0)	¥ 433.4	(100.0)	$ 3,671
Cost of sales	250.0	(64.6)	245.9	(63.2)	275.9	(63.7)	2,338
Selling, general and administrative expenses	112.3	(29.0)	117.6	(30.3)	128.2	(29.5)	1,086
Operating income	24.8	(6.4)	25.3	(6.5)	29.3	(6.8)	248
Ordinary income	22.4	(5.8)	26.4	(6.8)	29.6	(6.8)	251
Extraordinary income	3.5	(0.9)	14.4	(3.7)	0.5	(0.1)	5
Extraordinary expenses	11.5	(3.0)	7.9	(2.0)	5.0	(1.1)	43
Income before income taxes and minority interests	14.4	(3.7)	32.9	(8.5)	25.1	(5.8)	213
Income taxes	4.2	(1.1)	10.9	(2.8)	11.9	(2.7)	100
Minority interest in earnings of consolidated subsidiaries	(0.8)	(0.2)	(0.5)	(0.2)	0.7	(0.2)	6
Net income	9.4	(2.4)	21.6	(5.5)	12.6	(2.9)	106

Per Share Amounts

	Yen			US dollars
	March			March
	2005	2006	2007	2007
Net income - basic	¥ 38.43	¥ 87.45	¥ 47.79	$ 0.40
Cash dividends	7.50	15.00	15.00	0.13
Shareholders' equity	693.75	854.24	891.08	7.55

Operating Results by Business

	Billions of yen		Millions of US dollars
	March		March
	2006	2007	2007
Industrial Automation and Control Business			
Orders received	¥ 260.9	¥ 329.4	$ 2,790
Net sales	253.0	309.2	2,619
Operating income	25.2	36.0	305
Test and Measurement Business			
Orders received	82.9	78.3	663
Net sales	81.9	78.6	666
Operating income	3.6	0.6	5
New and Other Businesses			
Orders received	56.7	48.8	413
Net sales	54.0	45.6	386
Operating income	(3.5)	(7.3)	(62)

Despite foreign exchange losses, ordinary income increased over the previous year by 12.2%, or 3.2 billion yen (US$27 million), to reach 29.6 billion yen (US$251 million). This was due to an increase in dividend income. Net income declined by 41.7%, or 9.0 billion yen (US$76 million), to 12.6 billion yen (US$106 million). This decline is attributable to an extraordinary income of 14.4 billion yen (US$122 million) recorded for the previous year as a result of such factors as the sale of Group company shares. Consequently, earnings per share decreased by 39.66 yen (US$0.34 million) and totaled 47.79 yen (US$0.40).

3. Consolidated Statements of Cash Flows

The year-end outstanding balance of cash and cash equivalents on a consolidated basis decreased by 3.4 billion yen (US$29 million) to reach 38.2 billion yen (US$323 million). Free cash flow, which is the combination of cash flows from operating activities and investing activities, recorded a net inflow of 1.4 billion yen (US$12 million). This compares with the net inflow of 13.9 billion yen (US$118 million) for the previous year.

The interest coverage ratio* for this fiscal year was 31.8 times.

* Interest coverage ratio = operating cash flow / interest expenses

Cash flow from operating activities

Net cash flow from operating activities recorded a net inflow of 40.5 billion yen (US$343 million), which is a 14.8 billion yen (US$126 million) increase over the previous year. Income before income taxes and minority interests decreased by 7.8 billion yen (US$66 million) year on year. This decrease is attributable to the fact that the income before income taxes and minority interests for the previous year included an adjustment item (causing a decrease in cash) of 13.5 billion yen (US$115 million) that arose from a gain on the sale of Group company shares.

Cash flow from investing activities

Net cash flow from investing activities recorded a net outflow of 39.0 billion yen (US$331 million), which is an increase of 27.3 billion yen (US$231 million) over the previous year. The reason for this increase is that cash outflow for acquisition of property, plant, and equipment increased by 5.3 billion yen (US$44 million) to 27.2 billion yen (US$231 million). This is due to the investment related to the construction of the Sagamihara Office and acquisition of machinery and equipment to expand the photonics business. The cash flows from investing activities for the previous year included nonrecurring revenue of 15.8 billion yen (US$134 million) from the sale of Group company shares.

Cash flow from financing activities

Net cash flow from financing activities declined by 8.0 billion yen (US$68 million) and a net outflow of 6.1 billion yen (US$52 million) was recorded. This is attributable to the use of free cash flow to accelerate the repayment of funds borrowed during the previous year. Consequently, the free cash flow for the previous year amounted to 13.9 billion yen (US$118 million), which is 12.5 billion yen (US$106 million) more than the free cash flow for this consolidated fiscal year.

4. Financial Position

Total assets at the end of the fiscal year amounted to 438.7 billion yen (US$3,716 million), which is up 20.9 billion yen (US$177 million) over the previous year. As to assets, notes and accounts receivable increased by a total of 5.5 billion yen (US$46 million) to 134.5 billion yen (US$1,139 million), and inventory increased by 5.2 billion yen (US$44 million) to 50.1 billion yen (US$425 million). These increases are attributable to the rise in orders and net sales from the strong performance of the industrial automation and control business. As to fixed assets, as a result of the completion of the Sagamihara Office, buildings and structures increased by 9.9 billion yen (US$84 million) to 54.5 billion yen (US$462 million), and machinery and equipment increased by 9.6 billion yen (US$82 million) to 19.8 billion yen (US$168 million). Investment in securities decreased by 4.1 billion yen (US$35 million) to 50.6 billion yen (US$428 million) primarily due to a negative valuation difference incurred with respect to investment in securities held by the Company, part of which was recorded as a loss on the devaluation of investment securities. Total deferred tax assets decreased by 4.3 billion yen (US$36 million) to 20.2 billion yen (US$171 million), reflecting the decrease in tax loss carryforward caused by our recovery to profitability and the corresponding increase in taxable income.

On the liabilities and net assets side, other notes and accounts payable increased by 11.2 billion yen (US$95 million) to 23.2 billion yen (US$196 million). This increase is due to the increase in accounts payable related to the construction of the Sagamihara Office. On the other hand, long-term accounts payable decreased by 4.0 billion yen (US$34 million) to 16.1 billion yen (US$137 million). This is attributable to the settlement of amounts payable to employees made in conjunction with the shift to a defined contribution pension plan. With respect to the net assets, net unrealized gains on other securities decreased by 2.9 billion yen (US$25 million) to 11.9 billion yen (US$101 million) due to a decline in the prices of securities held by the Company. Interest-bearing debt amounted to 59.6 billion yen (US$505 million) and the debt equity ratio was 25.5%.

Cash Flow

	Billions of yen			Millions of US dollars
	March			March
	2005	2006	2007	2007
Net cash provided by operating activities	¥ 18.3	¥ 25.6	¥ 40.5	$ 343
Net cash used in investing activities	(11.2)	(11.7)	(39.0)	(331)
Free cash flow	7.1	13.9	1.4	12
Net cash used in financing activities	(1.3)	(14.1)	(6.1)	(52)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	1.6	1.2	10
Net (decrease) increase in cash and cash equivalents	5.7	1.5	(3.5)	(29)
Cash and cash equivalents at beginning of year	34.4	40.1	41.6	352
Increase for change in scope of consolidated subsidiaries	—	0.0	0.1	1
Cash and cash equivalents at end of year	40.1	41.6	38.2	323

Financial Position

	Billions of yen			Millions of US dollars
	March			March
	2005	2006	2007	2007
Total assets	¥ 400.3	¥ 417.8	¥ 438.7	$ 3,716
Working capital	117.1	125.2	89.0	754
Current ratio (%)	200.5	209.1	157.7	—
Interest-bearing debt	100.3	61.3	59.6	505
Shareholders' equity	168.8	224.6	234.3	1,984
Shareholders' equity ratio (%)	42.2	53.7	53.4	—
Debt to equity ratio (%)	59.3	27.3	25.5	—

Other Statistics

	Billions of yen			Millions of US dollars
	March			March
	2005	2006	2007	2007
Research and development investment	¥ 29.0	¥ 30.9	¥ 36.2	$ 307
Depreciation and amortization	14.3	15.1	16.5	140
Capital expenditures	18.6	29.5	40.3	341
Number of shares issued (thousands)	253,968	268,625	268,625	—
Number of shares outstanding (thousands)	243,208	262,885	262,891	—
Number of employees	18,972	17,858	19,286	—
Return on assets (%)	2.3	5.3	2.9	—
Return on equity (%)	5.7	11.0	5.5	—
Inventory turnover (times)	4.89	5.47	5.50	—
Total asset turnover (times)	0.97	0.95	1.01	—

Consolidated Balance Sheets

YOKOGAWA ELECTRIC CORPORATION AND ITS SUBSIDIARIES

AS OF MARCH 31, 2006 AND 2007

	Millions of yen		Thousands of US dollars (note 4)
	March 31		March 31
	2006	2007	2007
ASSETS			
Current Assets:			
Cash and time deposits (note 11)	¥ 42,194	¥ **38,819**	$ **328,837**
Marketable securities (note 13)	287	**253**	**2,138**
Notes and accounts receivable (notes 5, 11 and 12)			
Trade	129,002	**134,480**	**1,139,182**
Other	6,071	**4,708**	**39,881**
	135,073	**139,188**	**1,179,063**
Less: allowance for doubtful accounts	(1,443)	**(2,065)**	**(17,493)**
	133,630	**137,123**	**1,161,570**
Inventories (note 11)	44,963	**50,134**	**424,682**
Deferred tax assets - current (note 16)	11,420	**10,685**	**90,515**
Other current assets	7,387	**6,145**	**52,053**
Total current assets	239,881	**243,159**	**2,059,795**
Investments and Others:			
Investments in securities (notes 11, 13 and 14)	54,707	**50,561**	**428,299**
Long-term loans	153	**157**	**1,331**
Other (note 14)	8,903	**12,488**	**105,782**
Less: allowance for doubtful accounts	(759)	**(643)**	**(5,444)**
Total investments and others	63,004	**62,563**	**529,968**
Property, Plant and Equipment, at net book value (note 6):			
Buildings and structures (notes 7 and 11)	44,593	**54,512**	**461,768**
Machinery and equipment (notes 7 and 11)	10,185	**19,823**	**167,919**
Furniture and fixtures (note 7)	11,716	**11,532**	**97,691**
Land (notes 7 and 11)	19,573	**20,451**	**173,245**
Construction in progress	3,676	**2,813**	**23,826**
Total property, plant and equipment	89,743	**109,131**	**924,449**
Intangible Assets	12,090	**14,275**	**120,927**
Deferred Tax Assets - non-current (note 16)	13,088	**9,556**	**80,946**
	¥ 417,806	¥ **438,684**	$ **3,716,085**

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of US dollars (note 4)
	March 31		March 31
	2006	2007	2007
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Short-term bank loans (note 11)	¥ 8,056	¥ **7,815**	$ **66,200**
Bonds (note 10)	—	**20,000**	**169,420**
Current portion of long-term debt (note 10)	4,094	**10,542**	**89,298**
Notes and accounts payable (notes 5 and 11):			
Trade	40,587	**41,344**	**350,227**
Other	12,010	**23,171**	**196,276**
	52,597	**64,515**	**546,503**
Accrued expenses	15,783	**18,320**	**155,192**
Income taxes payable	3,322	**3,425**	**29,013**
Accrued bonuses	13,163	**14,852**	**125,812**
Advances received and other current liabilities	17,509	**14,717**	**124,674**
Deferred tax liabilities - current (note 16)	175	**2**	**13**
Total current liabilities	114,699	**154,188**	**1,306,125**
Long-term Debt (notes 10 and 11)	44,176	**21,274**	**180,211**
Deferred Tax Liabilities - non-current (note 16)	326	**440**	**3,729**
Reserve for Retirement Benefits:			
Employees (note 17)	7,314	**6,224**	**52,724**
Directors and corporate auditors	306	**328**	**2,775**
Long-term Accounts Payable (note 17)	20,167	**16,137**	**136,701**
Other Non-current Liabilities	1,254	**1,190**	**10,078**
Total non-current liabilities	73,543	**45,593**	**386,218**
Commitments and Contingent Liabilities (note 18)			
Net Assets			
Shareholders' Equity:			
Common stock:			
Authorized: 483,735,000 shares			
Issued: 268,624,510 shares at March 31, 2006 and 2007	43,401	**43,401**	**367,650**
Capital surplus	50,348	**50,355**	**426,559**
Retained earnings	123,311	**132,603**	**1,123,279**
Treasury stock, at cost, 5,739,993 shares and 5,737,599 shares at March 31, 2006 and 2007, respectively	(4,379)	**(4,389)**	**(37,182)**
Total shareholders' equity	212,681	**221,970**	**1,880,306**
Net unrealized gains on other securities (note 13)	14,864	**11,927**	**101,033**
Gain on deferred hedges	38	**6**	**53**
Foreign currency translation adjustments	(2,979)	**349**	**2,954**
Total revaluation and translation adjustments	11,923	**12,282**	**104,040**
Minority Interests in Consolidated Subsidiaries	4,960	**4,651**	**39,396**
Total net assets	229,564	**238,903**	**2,023,742**
	¥ 417,806	¥ **438,684**	$ **3,716,085**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

YOKOGAWA ELECTRIC CORPORATION AND ITS SUBSIDIARIES

FOR THE THREE YEARS ENDED MARCH 31, 2005, 2006, AND 2007

	Millions of yen			Thousands of US dollars (note 4)
	March 31			March 31
	2005	2006	**2007**	**2007**
Net Sales	¥ 387,053	¥ 388,877	**¥ 433,405**	**$ 3,671,370**
Cost of Sales (note 19)	250,035	245,917	**275,948**	**2,337,558**
Gross profit	137,018	142,960	**157,457**	**1,333,812**
Selling, General and Administrative Expenses (notes 17, 19 and 20)	112,261	117,639	**128,182**	**1,085,827**
Operating income	24,757	25,321	**29,275**	**247,985**
Other Income and Expenses:				
Interest and dividend income	1,751	1,762	**5,576**	**47,232**
Interest expenses	(810)	(768)	**(1,097)**	**(9,295)**
Net loss on disposal/write-down of inventories	(2,798)	(2,091)	**(3,077)**	**(26,067)**
Net gain (loss) on sale/write-down of investments in securities (note 13)	2,920	13,422	**(1,553)**	**(13,150)**
Foreign exchange (loss) gain	(364)	1,643	**(831)**	**(7,039)**
Net loss on sale/disposal of property, plant and equipment	(1,561)	(787)	**(1,060)**	**(8,978)**
Impairment loss on fixed assets (note 22)	—	(3,026)	**(776)**	**(6,572)**
Equity in earnings of affiliates	1,060	1,656	**878**	**7,435**
Loss on restructuring (note 21)	(4,428)	(1,786)	**(794)**	**(6,728)**
Gain from prior period impairment loss adjustment	—	—	**201**	**1,705**
Loss due to change in retirement benefit plan (note 17)	(2,951)	(294)	**—**	**—**
Other, net	(3,160)	(2,162)	**(1,621)**	**(13,731)**
Income before income taxes and minority interests	14,416	32,890	**25,121**	**212,797**
Income Taxes (note 16)				
Current	3,041	4,315	**4,926**	**41,725**
Deferred	1,193	6,546	**6,928**	**58,690**
	4,234	10,861	**11,854**	**100,415**
Minority Interests in Earnings of Consolidated Subsidiaries	(809)	(469)	**(704)**	**(5,960)**
Net income	9,373	21,560	**12,563**	**106,422**

	Yen			US dollars (note 4)
	March 31			March 31
	2005	2006	**2007**	**2007**
Per Share (note 24)**:**				
Net income - basic	¥ 38.43	¥ 87.45	**¥ 47.79**	**$ 0.40**
Net income - diluted	35.53	—	**—**	**—**
Cash dividends	7.5	15.0	**15.0**	**0.13**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

YOKOGAWA ELECTRIC CORPORATION AND ITS SUBSIDIARIES

FOR THE THREE YEARS ENDED MARCH 31, 2005, 2006, AND 2007

		Millions of yen										
		Shareholders' equity					Revaluation and translation adjustments					
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities	(Loss) gain on deferred hedges	Foreign currency translation adjustments	Total revaluation and translation adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance at March 31, 2004	243,293,547	¥ 32,306	¥ 35,446	¥ 99,211	¥ (8,046)	¥ 158,917	¥ 7,325	¥ (39)	¥ (5,896)	¥ 1,390	¥ 3,822	¥ 164,129
Dividends from surplus				(1,825)		(1,825)						(1,825)
Bonuses to directors				(35)		(35)						(35)
Net income				9,373		9,373						9,373
Increase of treasury stock	(85,523)				(138)	(138)						(138)
Gain on sales of treasury stock			17			17						17
Others				(60)		(60)						(60)
Items other than changes in shareholders' equity							1,049	(32)	25	1,042	693	1,735
Balance at March 31, 2005	243,208,024	32,306	35,463	106,664	(8,184)	166,249	8,374	(71)	(5,871)	2,432	4,515	173,196
Dividends from surplus				(3,344)		(3,344)						(3,344)
Bonuses to directors				(45)		(45)						(45)
Net income				21,560		21,560						21,560
Decrease of treasury stock	19,974				(1)	(1)						(1)
Gain on sales of treasury stock			27			27						27
Issuance of new shares and decrease in treasury stock due to execution of stock acquisition rights of convertible bonds	19,656,519	11,095	14,858		3,806	29,759						29,759
Change of accounting standard for pension obligation of subsidiaries outside Japan				(1,486)		(1,486)						(1,486)
Others				(38)		(38)						(38)
Items other than changes in shareholders' equity							6,490	109	2,892	9,491	445	9,936
Balance at March 31, 2006	262,884,517	43,401	50,348	123,311	(4,379)	212,681	14,864	38	(2,979)	11,923	4,960	229,564
Dividends from surplus				(3,286)		(3,286)						(3,286)
Bonuses to directors				(20)		(20)						(20)
Net income				12,563		12,563						12,563
Increase of treasury stock	15,998				(24)	(24)						(24)
Decrease of treasury stock	(13,604)		7		13	20						20
Others				35	1	36						36
Items other than changes in shareholders' equity							(2,937)	(32)	3,328	359	(309)	50
Balance at March 31, 2007	262,886,911	¥ 43,401	¥ 50,355	¥ 132,603	¥ (4,389)	¥ 221,970	¥ 11,927	¥ 6	¥ 349	¥ 12,282	¥ 4,651	¥ 238,903

	Thousands of US dollars (note 4)										
	Shareholders' equity					Revaluation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities	Gain on deferred hedges	Foreign currency translation adjustments	Total revaluation and translation adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance at March 31, 2006	$ 367,650	$ 426,498	$ 1,044,562	$ (37,091)	$ 1,801,619	$ 125,910	$ 321	$ (25,232)	$ 100,999	$ 42,014	$ 1,944,632
Dividends from surplus			(27,838)		(27,838)						(27,838)
Bonuses to directors			(169)		(169)						(169)
Net income			106,422		106,422						106,422
Increase of treasury stock				(203)	(203)						(203)
Decrease of treasury stock		61		111	172						172
Others			302	1	303						303
Items other than changes in shareholders' equity						(24,877)	(268)	28,186	3,041	(2,618)	423
Balance at March 31, 2007	$ 367,650	$ 426,559	$ 1,123,279	$ (37,182)	$ 1,880,306	$ 101,033	$ 53	$ 2,954	$ 104,040	$ 39,396	$ 2,023,742

Notes: *1 The consolidated statements of changes in net assets for the fiscal year ended March 31, 2005 and 2006 are presented under the new standard.
*2 "Number of shares issued" represents shares issued less treasury stock shares.

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

YOKOGAWA ELECTRIC CORPORATION AND ITS SUBSIDIARIES

FOR THE THREE YEARS ENDED MARCH 31, 2005, 2006, AND 2007

	Millions of yen			Thousands of US dollars (note 4)
	March 31			March 31
	2005	2006	2007	2007
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 14,416	¥ 32,890	**¥ 25,121**	**$ 212,797**
Depreciation and amortization	14,332	15,124	**16,484**	**139,634**
(Decrease) increase in allowance for doubtful accounts	(8)	(607)	**389**	**3,296**
(Decrease) increase in reserve for retirement benefits	(10,161)	1,087	**(1,393)**	**(11,801)**
Increase in accrued bonus	1,187	1,930	**1,564**	**13,245**
Interest and dividend income	(1,751)	(1,762)	**(5,576)**	**(47,232)**
Interest expenses	810	768	**1,097**	**9,295**
Equity in earnings of affiliates	(1,060)	(1,656)	**(878)**	**(7,435)**
Write-down of investments in securities	120	79	**1,608**	**13,621**
Gain on sale of investments in securities	(3,040)	(13,528)	**(55)**	**(470)**
Loss on disposal of property, plant and equipment	996	980	**891**	**7,545**
Impairment loss on fixed assets	—	3,026	**776**	**6,572**
Decrease (increase) in trade receivables	974	(11,309)	**690**	**5,845**
Decrease (increase) in inventories	743	7,900	**(4,176)**	**(35,375)**
(Decrease) increase in trade payables	(7,983)	(5,900)	**966**	**8,182**
Loss on change in equity interest in affiliates	2	3	**2**	**21**
Increase (decrease) in accounts payable due to change in retirement benefit plan	6,130	(3,881)	**(4,189)**	**(35,484)**
Other, net	2,925	1,879	**7,536**	**63,842**
Subtotal	18,632	27,023	**40,857**	**346,098**
Interest and dividend income received	3,401	3,858	**5,646**	**47,827**
Interest expenses paid	(866)	(751)	**(1,077)**	**(9,120)**
Income taxes paid	(2,891)	(4,494)	**(4,964)**	**(42,054)**
Net cash provided by operating activities	18,276	25,636	**40,462**	**342,751**
Cash Flows from Investing Activities:				
Payments for deposit in time deposits	(792)	(840)	**(1,797)**	**(15,219)**
Proceeds from return on time deposits	781	924	**1,811**	**15,342**
Acquisition of property, plant and equipment	(14,299)	(21,995)	**(27,244)**	**(230,785)**
Proceeds from sale of property, plant and equipment	1,736	913	**1,290**	**10,927**
Acquisition of investments in securities	(71)	(3,600)	**(2,589)**	**(21,930)**
Proceeds from sale of investments in securities	3,674	15,817	**106**	**903**
Acquisition of intangible assets	(4,938)	(3,789)	**(6,127)**	**(51,904)**
Other, net	2,688	845	**(4,489)**	**(38,030)**
Net cash used in investing activities	(11,221)	(11,725)	**(39,039)**	**(330,696)**
Cash Flows from Financing Activities:				
Decrease in short-term bank loans, net	(973)	(7,128)	**(4,812)**	**(40,764)**
Increase (decrease) in commercial paper, net	8,000	(3,000)	**(5,000)**	**(42,355)**
Proceeds from issuance of long-term debt	607	200	**8,098**	**68,594**
Repayment of long-term debt	(6,830)	(248)	**(542)**	**(4,596)**
Redemption of bonds	—	(240)	**—**	**—**
Payment for purchase of treasury stock	(163)	(28)	**(24)**	**(203)**
Cash dividends paid to minority shareholders	(188)	(394)	**(546)**	**(4,623)**
Cash dividends paid	(1,822)	(3,341)	**(3,290)**	**(27,868)**
Other, net	64	88	**20**	**173**
Net cash used in financing activities	(1,305)	(14,091)	**(6,096)**	**(51,642)**
Effect of Exchange Rate Change on Cash and Cash Equivalents	(76)	1,646	**1,221**	**10,338**
Net Increase (Decrease) in Cash and Cash Equivalents	5,674	1,466	**(3,452)**	**(29,249)**
Cash and Cash Equivalents at Beginning of Year	34,417	40,091	**41,565**	**352,100**
Increase due to Change in Scope of Consolidated Subsidiaries	—	8	**66**	**561**
Cash and Cash Equivalents at End of Year	¥ 40,091	¥ 41,565	**¥ 38,179**	**$ 323,412**

Reconciliation between cash and cash equivalents at year-end and the account booked on the balance sheets for years ended March 31, 2005, 2006, and 2007 are as follows:

	Millions of yen			Thousands of US dollars (note 4)
	March 31			March 31
	2005	2006	2007	2007
Cash and Time Deposits	¥ 40,720	¥ 42,194	**¥ 38,819**	**$ 328,837**
Time Deposits Whose Maturity Periods Exceed Three Months	(629)	(629)	**(640)**	**(5,425)**
	¥ 40,091	¥ 41,565	**¥ 38,179**	**$ 323,412**

Significant non-cash transactions for the years ended March 31, 2005, 2006, and 2007 are as follows:

	Millions of yen			Thousands of US dollars (note 4)
	March 31			March 31
	2005	2006	2007	2007
Credited to Common Stock	¥ —	¥ 11,095	**¥ —**	**$ —**
Credited to Capital Surplus	—	14,858	**—**	**—**
Debited to Treasury Stock	—	3,806	**—**	**—**
Debited to Convertible Bonds	¥ —	¥ 29,759	**¥ —**	**$ —**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION AND ITS SUBSIDIARIES

FOR THE THREE YEARS ENDED MARCH 31, 2007

1 Basis of Presenting the Consolidated Financial Statements

(1) Accounting Principles

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Yokogawa Electric Corporation (the "Company") and its subsidiaries. The Company and its consolidated subsidiaries in Japan have maintained their accounts and records in accordance with the provisions set forth in the Company Law of Japan and the Securities and Exchange Law and in conformity with generally accepted accounting principles and practices in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The consolidated subsidiaries outside Japan have maintained their accounts and records in conformity with generally accepted accounting principles and practices in their respective countries. Although certain differences exist in the accounting principles employed by the subsidiaries outside Japan, essentially, no adjustments have been made to their accounts in order to conform to accounting principles and practices generally accepted in Japan in the accompanying consolidated financial statements.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(2) Unification of Fiscal Year Ends of Subsidiaries Outside Japan

Commencing in the year ended March 31, 2007, 11 consolidated subsidiaries outside Japan closed their books as of March 31 for consolidated reporting purposes and 48 consolidated subsidiaries outside Japan changed the fiscal year-end to March 31. Accordingly, the results of operations for 13 consolidated subsidiaries outside Japan include 15 months (from January 1, 2006 to March 31, 2007) of operations and the results of operations for 46 consolidated subsidiaries outside Japan include 13 months (from March 1, 2006 to March 31, 2007) of operations. The effect of this change on the consolidated statement of income is discussed in Note 3.

2 Summary of Significant Accounting Policies

(1) Scope of Consolidation

The consolidated financial statements include the accounts of the Company and its 78 subsidiaries as of March 31, 2007 (80 for fiscal year 2006).

(2) Elimination and Combination

In elimination, any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability, as the case may be, and amortized over a period within 20 years on a straight-line basis. Any differences between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary has been charged or credited to income in the year in which it occurs, in the case that such a difference is not material.

The assets and liabilities of consolidated subsidiaries are revalued to fair market value as of the date of establishment of control.

(3) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The equity method is applied to the investments in 3 (5 for fiscal year 2006) unconsolidated subsidiaries and 8 (9 for fiscal year 2006) affiliates. As the investments in the other unconsolidated subsidiaries and remaining affiliates do not have a material effect on consolidated net income and retained earnings in the consolidated financial statements, the equity method is not applied to the investments in these subsidiaries and affiliates.

(4) Foreign Currency Translation and Transactions

Foreign currency transactions are translated using foreign exchange rates prevailing at the respective transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting transaction gains or losses are taken into current income .

All the assets and liabilities of subsidiaries and affiliates outsite Japan are translated at the foreign exchange rates prevailing at the respective balance sheet dates, and all the income and expense accounts are translated at the average foreign exchange rates for the respective periods. Foreign currency financial statement translation differences are included in the consolidated balance sheets under "Foreign currency translation adjustments" and "Minority Interests in Consolidated Subsidiaries."

(5) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows is composed of cash on hand, bank deposits that are able to be withdrawn on demand, and short-term investments with an original maturity of three months or less and with a minor risk of significant fluctuations in value.

(6) Inventories

Finished goods and work in progress are mainly stated at cost, cost being determined by the specific identification method. Other inventories are mainly stated at cost, cost being determined by the average cost method.

(7) Financial Instruments

(a) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see (c) Hedge Accounting below).

(b) Securities

Securities held by the Company and its subsidiaries are classified into three categories:

Held-to-maturity debt securities that the Company and its subsidiaries intend to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, which are amortized over the period to maturity.

Other securities whose fair value is available are valued at the market value prevailing at the end of the fiscal year. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount. Cost of sales is primarily determined using the moving-average method.

Other securities whose fair value is not available are valued at cost, primarily determined using the moving-average method.

(c) Hedge Accounting

All derivatives are stated at fair value. Gains and losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred and reported as a separate component of net assets at a net-of-tax amount. If forward exchange contracts and currency swaps meet the conditions for hedge accounting, the difference between the contract rate and spot rate as at the date of the contract is recognized over the period from the contract date to the settlement date. If interest-rate swaps meet the conditions for hedge accounting and their nominal amount, terms of interest and contract period are substantially the same as those of hedged items, they are not stated at fair value but accrued, net of the swap interest paid and received.

Derivatives designated as hedging instruments by the Company are principally forward exchange contracts and currency swaps to reduce the exposure to the risk of foreign currency exchange rate fluctuation in respect of loans and such future transactions, denominated in foreign currencies. In addition, the Company uses interest-rate swaps to reduce the exposure to the risk of interest rate fluctuation, in respect of loans issued by the Company.

The Company has a policy of utilizing the above hedging instruments in order to reduce the Company's exposure to the risk of fluctuation of foreign currency exchange rates and interest rates.

The Company evaluates the effectiveness of its hedging activities in reference to the accumulated gains and losses on the hedging instruments and the related items from the commencement of the hedges.

(8) Property, Plant and Equipment

Depreciation is mainly calculated using the declining-balance method based on the estimated useful lives of the assets.

Effective March 31, 1999, the Company and its consolidated subsidiaries in Japan reduced the estimated useful lives of buildings, excluding related equipment and leasehold improvements, using the straight-line method to calculate depreciation expenses for buildings acquired on or after April 1, 1998.

Range of estimated useful lives:

Buildings and structures	3 - 50 years
Machinery and equipment	4 - 10 years

(9) Intangible Assets

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over an estimated useful life (mainly over 5 years).

(10) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 - "Application Guidance on Accounting Standards for

Impairment of Fixed Assets." These standards are effective from the fiscal years beginning April 1, 2005.

The Company and its consolidated subsidiaries in Japan adopted these standards in the fiscal year ended March 31, 2006.

As a result, an impairment loss of fixed assets increased operating income by ¥35 million and reduced income before income taxes and minority interests by ¥2,980 million.

Note that accumulated impairment loss is deducted directly from each asset, in accordance with the revised regulations on consolidated financial statements.

(11) Allowance for Doubtful Accounts

An allowance for doubtful accounts is made against potential losses on collection at an amount measured using a historical bad debt ratio, plus an amount individually measured on the collectibility of accounts receivable that are expected to be uncollectible due to bad financial condition or insolvency.

(12) Accrued Bonuses

Accrued bonuses to employees are provided for the estimated amounts which the Company and its subsidiaries are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(13) Reserve for Retirement Benefits

The main consolidated subsidiaries generally provide for a reserve for retirement benefits (employees' portion), which represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets less unrecognized actuarial differences and unrecognized prior service costs.

Unrecognized actuarial differences are amortized on a straight-line basis over the average remaining service life of the employees (mainly over 10 years) from the next year in which they arise. Unrecognized prior service costs are charged to expenses on a straight-line basis over the average remaining service life of the employees (mainly over 10 years).

In the year ended March 31, 2005, certain consolidated subsidiaries in Japan changed their retirement benefit plans from defined benefit plans to defined contribution plans. The Company and its consolidated subsidiaries in Japan applied Financial Accounting Standards Implementation Guidance No.1 "Accounting for Transfers between Retirement Benefit Plans" and released a portion of the reserve for retirement benefits.

The main consolidated subsidiaries generally provide for a reserve for retirement benefits to directors and corporate auditors based on their internal rules.

The Company revised the compensation structure for retirement benefits to directors and corporate auditors and a motion to provide them with retirement benefits to which they are entitled was resolved at the general shareholders' meeting held on June 25, 2004.

Pursuant to the resolution, retirement benefits were fully paid out and the reserve was reserved accordingly.

(14) Accounting for Leases

Finance leases other than those for which the ownership of the leased assets are considered to be transferred to lessees are accounted for as operating leases.

(15) Income Taxes

The income taxes of the Company and its consolidated subsidiaries in Japan consist of corporate income taxes, local inhabitant taxes, and enterprise taxes. Income taxes are determined using the asset and liability approach, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements.

(16) Consumption Taxes

Consumption taxes are imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).

The consumption tax withheld upon sales is not included in net sales in the accompanying consolidated statements of income but is recorded as a liability. The balances of consumption tax withheld and consumption tax paid (an asset item), which is borne by the Company and its consolidated subsidiaries on purchases of goods and services, are not included in revenue and expenses in the consolidated statements of income but are offset, and the net balance is included in "Other current assets" or "Advances received and other current liabilities" in the consolidated balance sheets at March 31, 2006 and 2007.

(17) Reclassification of Accounts

Certain prior year amounts have been reclassified to conform to the current year's presentation.

3 Accounting Changes and Adoption of New Accounting Standards

(1) Unification of Fiscal Year-Ends of Consolidated Subsidiaries Outside Japan with the Consolidation Fiscal Year-End

Through the year ended March 31, 2006, in consolidating the subsidiaries, which had a year-end different from the consolidation year-end of March 31, the financial statements of each of these subsidiaries were used with adjustments necessary in consolidation for material transactions that occurred between the year-ends of the above subsidiaries and the consolidated year-end.

Commencing in the year ended March 31, 2007 in order to better administer consolidated financial results, Yokogawa Electric China Co., Ltd. and 10 consolidated subsidiaries outside Japan closed their books at March 31 for consolidation reporting purpose, and Yokogawa USA, Inc. and 47 consolidated subsidiaries outside Japan changed the fiscal year-end to March 31. Accordingly, the results of operations for 13 consolidated subsidiaries outside Japan include 15 months (from January 1, 2006 to March 31, 2007) of operations and the results of operations for 46 consolidated subsidiaries outside Japan include 13 months (from March 1, 2006 to March 31, 2007) of operations.

The effect of this change on the consolidated statement of income was to increase net sales, operating income, income before income tax, and net income by ¥22,089 million (US$187,112 thousand), ¥1,368 million (US$11,591 thousand), ¥1,276 million (US$10,805 thousand) and ¥985 million (US$8,345 thousand), respectively.

(2) Adoption of New Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)", and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Guidance No.8)" both issued by the Accounting Standard Board of Japan on December 9, 2005.

The amount corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥234,246 million (US$ 1,984,293 thousand).

"Net assets" in the balance sheets for this year is presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated April 25, 2006. Furthermore, the Company presented its net assets in the balance sheets using the new presentation as of March 31, 2005 and 2006.

(3) Adoption of New Accounting Standard for Directors' Bonus

Effective from the year ended March 31, 2007, the Company has applied the "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No.4 issued on November 29, 2005 by the Accounting Standards Board of Japan).

The adoption of this standard did not have a material effect on the consolidated financial statements.

(4) Adoption of New Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company has applied "Accounting standard for statement of changes in net assets (Accounting Standards Board of Japan Statement No.6)", and "Implementation guidance for Accounting standards for statement of changes in net assets (Accounting Standards Board of Japan Statement No.9)" both issued by the Accounting Standard of Japan on December 27, 2005, (collectively, the "New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the New Accounting Standards. The Company also voluntarily prepared the statements of changes in net assets for the years ended March 31, 2005 and 2006 in accordance with the New Accounting Standards for the convenience of the reader.

4 United States Dollar Amounts

The Company maintains its accounting records in Japanese yen. The US dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating Japanese yen to US dollars on the basis of ¥118.05 = US$1, the approximate effective rate of exchange prevailing at March 31, 2007. The inclusion of such US dollar amounts is solely for the convenience of the reader and is not intended to imply that Japanese yen amounts have been or could be converted, realized or settled in US dollars at that or any other rate.

5 Notes Maturing on the Final Day of the Consolidated Accounting Period

The settlement of notes receivable and payable maturing on the final day of the consolidation accounting period is accounted on the actual clearing date.

For the year ending March 31, 2007, the final day of the consolidation accounting period was a holiday for financial institutions. The following notes that matured on the final day of the consolidation accounting period are included in the accompanying consolidated balance sheets.

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Notes receivable	¥ —	¥ 195	$ 1,649
Notes payable	¥ —	¥ 380	$ 3,217

6 Accumulated Depreciation

Accumulated depreciation deducted from cost of property, plant and equipment in the accompanying consolidated balance sheets amounted to ¥124,651 million and ¥132,090 million (US$1,118,937 thousand) at March 31, 2006 and 2007, respectively.

7 Idle Property, Plant and Equipment

Idle assets included in property, plant and equipment are as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Buildings and structures	¥ 723	¥ 383	$ 3,246
Machinery and equipment	5	2	19
Furniture and fixtures	17	12	100
Land	972	961	8,139
Total	¥ 1,717	¥ 1,358	$ 11,504

8 Lease Transactions

The Company and its subsidiaries have various lease agreements whereby it acts as a lessee. The finance lease contracts of the Company and its subsidiaries in Japan which are not deemed to transfer the ownership of the leased assets are accounted for by the method applicable to ordinary operating leases. Significant leased assets under the above lease contracts of the Company and its subsidiaries in Japan for the year ended March 31, 2006 and 2007 are as follows:

(1) Finance Lease Contracts Without Ownership Transfer

	Millions of yen		
	2006		
	Acquisition cost	Accumulated depreciation	Balance as of March 31, 2006
Buildings and structures	¥ 16	¥ 8	¥ 8
Machinery and equipment	1,704	974	730
Furniture and fixtures	1,647	1,039	608
Intangible assets	374	183	191
Total	¥ 3,741	¥ 2,204	¥ 1,537

	Millions of yen				Thousands of US dollars
	2007				2007
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Balance as of March 31, 2007	Balance as of March 31, 2007
Buildings and structures	¥ 160	¥ 154	¥ —	¥ 6	$ 55
Machinery and equipment	1,469	952	135	382	3,232
Furniture and fixtures	1,408	800	—	608	5,152
Intangible assets	389	234	—	155	1,315
Total	¥ 3,426	¥ 2,140	¥ 135	¥ 1,151	$ 9,754

Acquisition cost includes the imputed interest expense portion.

Future lease payments, interest included in lease contracts as of March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Due within one year	¥ 617	¥ 497	$ 4,216
Due after one year	920	654	5,538
Total	¥ 1,537	¥ 1,151	$ 9,754
Balance of allowance for impairment loss on leased assets	¥ —	¥ 106	$ 898

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Lease rental expenses for the year	¥ 886	¥ 744	$ 6,300
Reversal of allowance for impairment loss on leased assets	¥ —	¥ 29	$ 245
Amount equivalent to depreciation expense	¥ 886	¥ 744	$ 6,300
Impairment loss	¥ —	¥ 135	$ 1,142

The amount equivalent to depreciation expense is computed using the straight-line method over the lease terms assuming no residual value.

(2) Operating Lease Contracts

Future lease payments as of March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Due within one year	¥ 2,943	¥ 1,681	$ 14,241
Due after one year	3,685	3,516	29,786
	¥ 6,628	¥ 5,197	$ 44,027

9 Commitment Line Agreements

The Company has commitment line agreements with three financial institutions in order to obtain funds for operations in a stable and efficient manner. During the fiscal year ended March 31, 2005, the Company entered into four-year term commitment line agreements with thirteen financial institutions.

The commitment line of credit as of March 31, 2006 and 2007 is as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Total commitment line of credit	¥ 40,000	¥ 40,000	$ 338,839
Outstanding borrowings	—	—	—
Net outstanding credit	¥ 40,000	¥ 40,000	$ 338,839

10 Long-term Debt

Long-term debt as of March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Loans from banks and other financial institutions with mortgage and collateral	¥ 28,270	¥ 31,816	$ 269,509
0.850 percent. bonds due on July 19, 2007	10,000	10,000	84,710
0.740 percent. bonds due on December 19, 2007	10,000	10,000	84,710
	48,270	51,816	438,929
Less: current portion	4,094	30,542	258,718
	¥ 44,176	¥ 21,274	$ 180,211

Annual maturities of long-term loans from banks and other financial institutions are as follows:

	Millions of yen	Thousands of US dollars
Within one year	¥ 10,542	$ 89,299
Over one year, less than two years	10,789	91,388
Over two years, less than three years	414	3,510
Over three years, less than four years	8,220	69,626
Over four years, less than five years	184	1,562
Thereafter	1,667	14,124
Total	¥ 31,816	$ 269,509

The annual average interest rate on long-term loans (excluding current portion) from banks was 1.122%.

11 Collateral and Secured Debt

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Collateral:			
Cash and time deposits	¥ 12	¥ 13	$ 105
Buildings and structures	1,131	1,104	9,349
Land	90	90	763
Investments in securities	3	2	19
Assets in subsidiaries outside Japan (*1)	3,879	4,282	36,276
Total	¥ 5,115	¥ 5,491	$ 46,512

Note: *1 Assets in subsidiaries outside Japan represents an aggregate amount of buildings and structures put into business in such subsidiaries.

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Secured debt:			
Notes and accounts payable	¥ 21	¥ 21	$ 178
Short-term bank loans	558	203	1,717
Long-term debt	526	323	2,737
Total	¥ 1,105	¥ 547	$ 4,632

12 Liquidation of Receivables

The Company and certain subsidiaries liquidated their notes and accounts receivable based on an asset transfer agreement. The balance of those receivables whose settlement date has not been reached as of March 31, 2006 and 2007 is as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Notes and accounts receivable	¥ 18,469	¥ 24,355	$ 206,308
(with recourse, included in above)	(3,819)	(5,698)	(48,270)

13 Marketable Securities and Investments in Securities

(1) The book value, market value, and unrealized gains or losses for held-to-maturity debt securities with market value as of March 31, 2006 and 2007 are as follows:

	Millions of yen						Thousands of US dollars		
	March 31						March 31		
	2006			2007			2007		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Market value over book value:									
Government and municipal bonds	¥ —	¥ —	¥ —	¥ 170	¥ 172	¥ 2	$ 1,441	$ 1,459	$ 18
Subtotal	—	—	—	170	172	2	1,441	1,459	18
Market value equal to or less than book value:									
Government and municipal bonds	1,300	1,283	(17)	1,048	1,040	(8)	8,875	8,805	(70)
Subtotal	1,300	1,283	(17)	1,048	1,040	(8)	8,875	8,805	(70)
Total	¥ 1,300	¥ 1,283	¥ (17)	¥ 1,218	¥ 1,212	¥ (6)	$ 10,316	$ 10,264	$ (52)

(2) The cost, book value, and unrealized gains or losses for other securities with market value as of March 31, 2006 and 2007 are as follows:

	Millions of yen						Thousands of US dollars		
	March 31						March 31		
	2006			2007			2007		
	Cost	Book value	Unrealized gains (losses)	Cost	Book value	Unrealized gains (losses)	Cost	Book value	Unrealized gains (losses)
Book value over cost:									
Equity securities	¥ 9,159	¥ 34,238	¥ 25,079	¥ 11,431	¥ 31,082	¥ 19,651	$ 96,834	$ 263,292	$ 166,458
Other	44	168	124	26	33	7	220	281	61
Subtotal	9,203	34,406	25,203	11,457	31,115	19,658	97,054	263,573	166,519
Book value equal to or less than cost:									
Equity securities	144	140	(4)	47	46	(1)	396	393	(3)
Other	21	17	(4)	22	17	(5)	187	146	(41)
Subtotal	165	157	(8)	69	63	(6)	583	539	(44)
Total	¥ 9,368	¥ 34,563	¥ 25,195	¥ 11,526	¥ 31,178	¥ 19,652	$ 97,637	$ 264,112	$ 166,475

No impairment loss was recorded for the year ended March 31, 2006.

Impairment losses of ¥100 million (US$ 850 thousand) for other securities with market value and ¥1,506 million (US$ 12,755 thousand) for unlisted equity securities were recorded in the year ended March 31, 2007.

For other securities whose market value is available, impairment loss is recognized when the decline in the market value compared to the book value is more than 30%. In such cases, the market value of securities is considered to have "substantially declined" and the book value is written down unless the decline is deemed temporary.

For other securities whose market value is not available, impairment loss is recognized when the decline in the net asset at fair value compared to the book value is more than 50%. In such cases, net asset value is considered to have "substantially declined" and the book value is written down unless the decline is deemed temporary.

(3) Other securities sold during the year ended March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Proceeds from sale of other securities	¥ 3,519	¥ 76	$ 646
Gross realized gain on sale of other securities	2,806	53	446
Gross realized loss on sale of other securities	0	3	25

(4)The book value of major securities without market value as of March 31, 2006 and 2007 is as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Other securities			
Unlisted equity securities	¥ 15,436	¥ 13,980	$ 118,425
Unlisted debt securities	37	—	—

(5) Schedule for redemption of held-to-maturity debt securities and other securities with maturities:

	Millions of yen								Thousands of US dollars			
	March 31								March 31			
	2006				2007				2007			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Debt securities												
Government and municipal bonds	¥ 251	¥ 1,057	¥ —	¥ —	¥ 252	¥ 962	¥ —	¥ —	$ 2,138	$ 8,147	$ —	$ —
Corporate bonds	36	—	—	—	—	—	—	—	—	—	—	—
Total	¥ 287	¥ 1,057	¥ —	¥ —	¥ 252	¥ 962	¥ —	¥ —	$ 2,138	$ 8,147	$ —	$ —

14 Investments in Unconsolidated Subsidiaries and Affiliates

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Investments in securities	¥ 3,657	¥ 4,427	$ 37,496
Investments and others - Other	250	255	2,163
Total	¥ 3,907	¥ 4,682	$ 39,659

15 Fair Value Information on Derivative Transactions

Derivative transactions are used in order to manage exchange risks and the risks of market rate fluctuations which occur in the normal course of business. The Company does not use these for speculative purposes or for highly leveraged transactions.

The contracted amounts, fair values and valuation gains or losses for derivative transactions related to currencies as of March 31, 2006 and 2007 are as follows:

	Millions of yen, March 31, 2006: Contract amount etc. Total	Over one year	Fair value	Valuation gains (losses)
Forward exchange contracts				
Selling contracts				
US dollar	¥ 923	¥ —	¥ 894	¥ 29
Other	672	—	640	32
Buying contracts				
US dollar	320	—	327	7
Other	53	—	54	1
Currency options				
Selling contracts				
Yen put-US dollar call	2,370	—	17	5
(Option premium)	22	—		
Buying contracts				
US dollar put-yen call	2,250	—	8	(14)
(Option premium)	22	—		
Total				(60)

(1) Currency Instruments

	Millions of yen, March 31, 2007: Contract amount etc. Total	Over one year	Fair value	Valuation gains (losses)	Thousands of US dollars, March 31, 2007: Contract amount etc. Total	Over one year	Fair value	Valuation gains (losses)
Forward exchange contracts								
Selling contracts								
US dollar	¥ 4,996	¥ —	¥ 4,823	¥ 173	$ 42,315	$ —	$ 40,854	$ 1,461
Other	2,588	—	2,731	(143)	21,924	—	23,136	(1,212)
Buying contracts								
US dollar	638	—	626	(12)	5,404	—	5,301	(103)
Other	91	—	91	0	771	—	773	2
Currency options								
Selling contracts								
Call								
US dollar	14,588	—	9	15	123,573	—	76	125
(Option premium)	(24)	—			(201)			
Put								
US dollar	2,933	—	90	(43)	24,842	—	762	(362)
(Option premium)	(47)	—			(400)			
Buying contracts								
Put								
US dollar	6,719	—	30	6	56,915	—	253	54
(Option premium)	(24)				(199)			
Call								
US dollar	3,357		49	2	28,436		416	16
(Option premium)	(47)	—			(400)	—		
Currency swaps								
	2,012	486	2,012	0	17,046	4,120	17,047	1
Total				(2)				(18)

(2) Interest Rate Instruments

	Millions of yen, March 31, 2007: Contract amount etc. Total	Over one year	Fair value	Valuation gains (losses)	Thousands of US dollars, March 31, 2007: Contract amount etc. Total	Over one year	Fair value	Valuation gains (losses)
Interest rate swaps								
Pay fixed/ Receive floating	¥ 312	¥ 263	¥ (2)	¥ (2)	$ 2,647	$ 2,224	$ (19)	$ (19)
Total				(2)				(19)

The above amounts exclude outstanding derivative contracts, which are assigned to monetary rights and obligations, in accordance with the Japanese Accounting Standards for derivative financial instruments.

There was no disclosure made related to interest-related derivative contracts because all outstanding contracts were assigned to monetary rights and obligations as of March 31, 2006 in accordance with the Japanese Accounting Standards for derivative financial instruments.

For the year ended March 31, 2007, the amounts of currency instruments and interest rate instruments include those designated to hedge intercompany receivables and payables which are eliminated in consolidation.

Fair value was estimated based on the trading value quoted by correspondent financial institutions.

16 Income Taxes

The significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Deferred Tax Assets			
Excess amount of tax deductible for reserve for retirement benefits	¥ 1,654	¥ 1,984	$ 16,805
Net operating loss carry forwards	20,770	23,161	196,199
Excess amount of tax deductible for loss on devaluation of investments in securities	727	1,223	10,356
Excess amount of tax deductible for accrued bonus	4,762	5,230	44,306
Excess amount of tax deductible for loss on write-down of inventories	3,004	2,645	22,406
Excess amount of tax deductible for accrued expenses due to change in retirement benefit	8,695	6,964	58,994
Excess amount of tax deductible for loss on devaluation of investments in subsidiaries and allowance for doubtful accounts	15,390	13,309	112,744
Other items	5,199	5,616	47,572
Subtotal -deferred tax assets	60,201	60,132	509,382
Valuation allowance	(20,772)	(26,110)	(221,179)
Total deferred tax assets	38,429	34,022	288,203
Deferred Tax Liabilities			
Special tax-purpose reserve	(1,548)	(1,490)	(12,624)
Subsidiaries outside Japan	(1,810)	(3,763)	(31,875)
Net unrealized gain on other securities	(10,229)	(7,646)	(64,766)
Other items	(834)	(1,324)	(11,220)
Total deferred tax liabilities	(14,421)	(14,223)	(120,485)
Net deferred tax assets	¥ 24,008	¥ 19,799	$ 167,718

The reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2006 and 2007 is as follows:

	March 31	
	2006	2007
Statutory tax rate	40.7 %	40.7 %
Permanent differences:		
Non-deductible expenses such as entertainment expenses	11.6	5.8
Equity in earnings of affiliates	(2.1)	(1.4)
Valuation allowance for deferred tax assets	3.4	5.3
Impairment on investments and receivables in certain subsidiaries	(15.9)	(1.2)
Statutory tax rate differences between the Company and subsidiaries	(4.5)	(4.4)
Others	(0.2)	2.4
Effective tax rate	33.0 %	47.2 %

17 Reserve for Retirement Benefits

The Company and certain subsidiaries transferred their retirement plan from a defined benefit plan to a defined contribution plan. The Company terminated its pension plan (which covers a portion of the governmental pension) on March 31, 2004, and terminated its qualified pension plan and lump-sum retirement payment plan on April 1, 2004. Eight subsidiaries in Japan transferred their retirement plan from a defined benefit plan to a defined contribution plan in the fiscal year ended March 31, 2005.

As a result, the Company and certain subsidiaries currently adopt a defined contribution plan, and certain subsidiaries adopt a defined benefit plan.

In certain circumstances, additional payments are made upon the retirement of employees. Certain subsidiaries outside Japan also have defined benefit retirement plans.

The reserve for retirement benefits as of March 31, 2006 and 2007 is analyzed as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2006	2007	2007
Projected benefit obligations	¥ (14,428)	¥ (15,986)	$ (135,418)
Plan assets	7,096	9,933	84,146
Unfunded projected benefit obligations	(7,332)	(6,053)	(51,272)
Unrecognized actuarial differences	148	(37)	(310)
Unrecognized prior service costs	(130)	(36)	(309)
Accrued pension costs	(7,314)	(6,126)	(51,891)
Prepaid pension cost	—	98	833
Reserve for retirement benefits	¥ (7,314)	¥ (6,224)	$ (52,724)

Notes: 1 Certain consolidated subsidiaries provide for the retirement allowance by using simplified methods. For some small and medium sized companies, simplified methods are allowed; for employees, the allowance is provided at the amount which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date, in certain cases such amounts would be discounted for the period of remaining service years, and for pensioners, the allowance is provided at the amount of the actuarial obligation calculated for the funding purpose.
2 Consolidated subsidiaries which participated in joint pension funds and could not calculate the value of their own plan assets by a reasonable method, expensed their contribution amount to the funds as pension expenses. The aggregate amounts of the plan assets of the funds are ¥3,469 million, and ¥3,583 million (US$30,348 thousand) at March 31, 2006 and 2007, respectively.
3 The Company and certain subsidiaries have adopted a defined contribution plan and have no projected benefit obligation balance as of March 31, 2006 and 2007.

The net pension expense related to retirement benefits for the years ended March 31, 2005, 2006 and 2007 is as follows:

	Millions of yen			Thousands of US dollars
	March 31			March 31
	2005	2006	2007	2007
Service cost (*1, 2)	¥ 2,657	¥ 1,776	¥ 1,331	$ 11,273
Interest cost	418	328	472	4,000
Expected return on plan assets	(291)	(246)	(330)	(2,798)
Amortization of actuarial differences	149	127	76	646
Amortization of prior service costs	(16)	(14)	(8)	(65)
Additional retirement benefit, etc.	274	53	110	927
Contribution to defined contribution plan	4,540	5,387	6,136	51,977
Subtotal	7,731	7,411	7,787	65,960
Loss on change of retirement plan to defined contribution plan (*3, 4)	2,951	294	66	562
Net pension expense	¥ 10,682	¥ 7,705	¥ 7,853	$ 66,522

Notes: *1 Employees' contributions to the contributory pension plan (which covers a portion of the governmental pension) were deducted.
*2 The pension expense of consolidated subsidiaries which applied the simplified method is included in "Service cost."
*3 A loss on the change in retirement benefit plan recognized in the fiscal year ended March 31, 2005 was accounted for by the Company and certain subsidiaries in Japan.
*4 A loss on the change in retirement benefit plan recognized in the fiscal year ended March 31, 2006 and 2007 was accounted for by certain subsidiaries in Japan.

The assumptions used in calculation of the above information are as follows:

	March 31		
	2005	2006	2007
Discount rate	Mainly 2.0%	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets	Mainly 1.5%	Mainly 1.5%	Mainly 1.5%
Method of attributing the projected benefits to periods of service	Mainly straight line amortization	Mainly straight line amortization	Mainly straight line amortization
Amortization of unrecognized prior service costs	Mainly 10 years	Mainly 10 years	Mainly 10 years
Amortization of unrecognized actuarial differences	Mainly 10 years	Mainly 10 years	Mainly 10 years

18 Commitments and Contingent Liabilities

The Company guaranteed housing loans from financial institutions for its employees in the amount of ¥202 million and ¥182 million (US$1,544 thousand) as of March 31, 2006 and 2007, respectively.

The Company also guaranteed overdrafts of employees' bank accounts for company use (advance payments, etc) in the amount of ¥2 million and ¥2 million (US$19 thousand) as of March 31, 2006 and 2007, respectively.

The Company has an agreement with a financial institution to guarantee a bank loan of a third-party company in the amount of ¥580 million and ¥380 million (US$3,219 thousand) as of March 31, 2006 and 2007, respectively, if the financial institution deemed it necessary.

The Company has an agreement with a bank to guarantee the overdraft of employees' bank accounts for company use (advance payments, etc) in the amount of ¥80 million and ¥53 million (US$447 thousand) as of March 31, 2006 and 2007, respectively, if the financial institution deemed it necessary.

The Company would be required to satisfy customers lease obligations in the event of default. The maximum amount to be paid in such event is ¥2,833 million and ¥2,330 million (US$19,737 thousand) as of March 31, 2006 and 2007, respectively.

19 Research and Development Cost

The research and development cost incurred during the years ended March 31, 2005, 2006 and 2007 included in "Cost of Sales" and "Selling, General, and Administrative Expenses," aggregated to ¥28,998 million, ¥30,917million and ¥36,223 million (US$306,846 thousand), respectively.

20 Selling, General and Administrative Expenses

The major elements of selling, general and administrative expenses for each of the three years ended March 31, 2005, 2006 and 2007 are as follows:

	Millions of yen			Thousands of US dollars
	2005	2006	2007	2007
Salaries	¥ 42,918	¥ 42,968	¥ 48,803	$ 413,410
Provision for accrued bonuses	3,834	5,303	5,596	47,400

21 Loss on Restructuring

For the years ended March 31, 2005, 2006 and 2007, the Company and certain subsidiaries recorded a restructuring charge of ¥4,428 million, ¥1,786 million and ¥794 million (US$6,728 thousand), respectively, that consisted primarily of employee termination benefits, losses on disposal of property and equipment, and costs related to the removal of property and equipment, in order to reorganize operational and manufacturing structures.

22 Impairment Loss on Fixed Assets

Impairment losses were recognized for the following groups of assets during the years ended March 31, 2006 and 2007:

	Use	Category	Locations
2006	Business assets	Buildings, land, and other	Kamisu City, Ibaraki prefecture, and three others
	Leased assets to others	Land and other	Oome City, Tokyo, and other
	Idle assets	Buildings, land, and other	Hachioji City, Tokyo, and nine others
2007	Business assets	Machineries and other	Okegawa City, Saitama prefecture, and other
	Assets held for sale	Buildings and other	Hamamatsu City, Shizuoka prefecture
	Idle assets	Buildings and other	Inchon City, Korea and other

For the year ended March 31, 2006, due to the low profitability of business assets and leased assets to others and due to significant decline in market price of certain idle assets, an impairment loss of ¥3,026 million was recorded.

For the year ended March 31, 2007, due to the business restructuring of subsidiaries in Japan, business assets were reviewed for impairment. Idle assets and the assets which are held for sale were reviewed for impairment. The carrying amounts of these assets were reduced to a recoverable amount. As a result, an impairment loss of ¥776million (US$6,572 thousand) was recognized.

	Millions of yen		Thousands of US dollars
	2006	2007	2007
Category			
Buildings	¥ 570	¥ 340	$ 2,877
Machineries	—	402	3,404
Land	1,989	—	—
Other	467	34	291
Total	¥ 3,026	¥ 776	$ 6,572

Grouping of assets

Business assets are grouped on the basis of managerial accounting purposes, which are the minimum cash generating units. Leased assets to others, idle assets, and assets held for sale are grouped individually.

Measurement of recoverable value

The recoverable value is determined by net selling value. For the year ended March 31, 2006, the net selling value is based on conventional appraisal provided by professional real estate assessors or property tax assessment amount, considering the materiality of the asset.

For the year ended March 31, 2007, the net selling value of business assets of certain domestic subsidiaries is set as zero, because the possibility of the sale cannot be foreseen. Assets held for sale have been evaluated according to the sales price.

The consolidated subsidiaries outside Japan have recognized impairment loss in accordance with generally accepted accounting principle and practices in their respective countries.

23 Related Party Transactions

Disclosure of related party transactions has been omitted as there were no significant transactions with related parties.

24 Per Share Data

(1) Net income per share

The net income per share shown for each year in the accompanying consolidated statements of income is based upon the weighted average number of shares of common stock outstanding during each year.

The basis for the calculation of net income per share for the years ended March 31, 2005, 2006, and 2007 is as follows:

	Millions of yen			Thousands of US dollars
	2005	2006	2007	2007
Net income	¥ 9,373	¥ 21,560	¥ 12,563	$ 106,422
Less: components not pertaining to common shareholders				
Bonuses to directors and corporate auditors	(26)	—	—	—
Net income pertaining to common stock	9,347	21,560	12,563	106,422
Average outstanding shares of common stock (shares)	243,243,513	246,527,449	262,885,934	262,885,934

(2) Net assets per share

The net assets per share for the year ended March 31, 2007 is as follows:

	yen	US dollars
	2007	2007
Net assets per share	¥ 891.08	$ 7.55

The net assets per share is based upon the number of shares of common stock outstanding at the end of the year.

The basis for the calculation of net assets per share for the years ended March 31, 2007 is as follows:

	Millions of yen	Thousands of US dollars
	2007	2007
Net assets	¥ 238,903	$ 2,023,742
Less: components not pertaining to common shareholders		
Warrant	—	—
Minority interests in consolidated subsidiaries	(4,651)	(39,396)
Net assets pertaining to common stock	234,252	1,984,346
Outstanding shares of common stock (shares)	262,886,911	262,886,911

(3) Dividends per share

The cash dividends per share shown for each year in the accompanying consolidated statements of income represents dividends declared as applicable to the respective years, rather than those paid in the respective years.

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, were approved at a general meeting of the shareholders of the Company held on June 27, 2007:

	Millions of yen	Thousands of US dollars
	2007	2007
Cash dividends (¥7.5 per share)	¥ 1,972	$ 16,702

25 Segment Information

(1) Industry segment information

Net sales, operating income, and total assets of the measurement, control, and information equipment business constituted more than 90% of the consolidated totals for the years ended March 31, 2005, 2006, and 2007. Thus, the disclosure of industry segment information has been omitted.

The measurement, control, and information equipment business produces and sells a wide range of products including integrated production control systems; distributed control systems; flowmeters; differential pressure and pressure transmitters; analyzers; programmable logic controllers; LSI test systems; optical measuring instruments; digital oscilloscopes; signal generators; electric power, temperature, and pressure measuring instruments; optical communication equipment; XY stages; confocal scanners; megnetoencephalographs; flat panel displays for aviation use; navigation equipment; and meteorological and hydrological observation equipment.

Other business consists principally of a real estate operation and temporary personnel services.

(2) Geographic Segment Information

Segment information classified by geographic area (inside and outside Japan) for each of the three years ended March 31, 2005, 2006, and 2007, is summarized as follows:

	Millions of yen					
	2005					
	Sales to outside customers	Inter-segment sales	Total sales	Operating expenses	Operating income	Assets
Japan	¥ 281,416	¥ 38,925	¥ 320,341	¥ 303,260	¥ 17,081	¥ 279,871
Asia	42,452	25,220	67,672	63,693	3,979	49,147
Europe	30,254	2,874	33,128	30,452	2,676	22,127
North America	17,431	1,772	19,203	18,603	600	7,765
Others	15,500	1,054	16,554	16,344	210	10,016
Total	387,053	69,845	456,898	432,352	24,546	368,926
Elimination or unallocated	—	(69,845)	(69,845)	(70,056)	211	31,342
Consolidated Total	¥ 387,053	¥ —	¥ 387,053	¥ 362,296	¥ 24,757	¥ 400,268

	Millions of yen					
	2006					
	Sales to outside customers	Inter-segment sales	Total sales	Operating expenses	Operating income	Assets
Japan	¥ 260,404	¥ 45,224	¥ 305,628	¥ 291,199	¥ 14,429	¥ 284,469
Asia	53,127	24,650	77,777	72,397	5,380	56,993
Europe	34,654	3,753	38,407	35,360	3,047	22,102
North America	19,887	2,178	22,065	21,292	773	9,720
Others	20,805	672	21,477	20,418	1,059	10,748
Total	388,877	76,477	465,354	440,666	24,688	384,032
Elimination or unallocated	—	(76,477)	(76,477)	(77,110)	633	33,774
Consolidated Total	¥ 388,877	¥ —	¥ 388,877	¥ 363,556	¥ 25,321	¥ 417,806

	Millions of yen						Thousands of US dollars	
	2007						2007	
	Sales to outside customers	Inter-segment sales	Total sales	Operating expenses	Operating income	Assets	Operating income	Assets
Japan	¥ 247,894	¥ 54,846	¥ 302,740	¥ 286,936	¥ 15,804	¥ 281,614	$ 133,872	$2,385,550
Asia	86,146	29,495	115,641	107,525	8,116	70,841	68,748	600,094
Europe	41,970	4,939	46,909	43,424	3,485	24,333	29,519	206,126
North America	27,474	1,386	28,860	28,377	483	12,114	4,095	102,616
Others	29,921	934	30,855	28,662	2,193	14,403	18,577	122,004
Total	433,405	91,600	525,005	494,924	30,081	403,305	254,811	3,416,390
Elimination or unallocated	—	(91,600)	(91,600)	(90,794)	(806)	35,379	(6,826)	299,695
Consolidated Total	¥ 433,405	¥ —	¥ 433,405	¥ 404,130	¥ 29,275	¥ 438,684	$ 247,985	$3,716,085

Notes: 1 Geographical distances are considered in classification of country or area.

2 Major countries or areas included in each segment except for Japan are as follows:

Asia	Singapore, China, Korea, etc.
Europe	The Netherlands, France, the United Kingdom, Germany, etc.
North America	USA, Canada
Others	Brazil, Australia, etc.

3 Unallocated assets included in "Elimination or unallocated" mainly consist of surplus funds (cash and marketable securities), long-term investments (investment in securities), and assets that belong to the administrative department of the Company.

(3) Export sales and sales by overseas subsidiaries

	Millions of yen				
	2005				
	Asia	Europe	North America	Others	Total
Overseas sales	¥ 109,604	¥ 34,630	¥ 18,164	¥ 15,844	¥ 178,242
Consolidated sales	—	—	—	—	387,053
Ratio	28.3%	9.0%	4.7%	4.1%	46.1%

	Millions of yen				
	2006				
	Asia	Europe	North America	Others	Total
Overseas sales	¥ 95,706	¥ 34,339	¥ 21,377	¥ 30,461	¥ 181,883
Consolidated sales	—	—	—	—	388,877
Ratio	24.6%	8.8%	5.5%	7.9%	46.8%

	Millions of yen				
	2007				
	Asia	Europe	North America	Others	Total
Overseas sales	¥ 108,741	¥ 48,473	¥ 28,293	¥ 43,360	¥ 228,867
Consolidated sales	—	—	—	—	433,405
Ratio	25.1%	11.2%	6.5%	10.0%	52.8%

	Thousands of US dollars				
	2007				
	Asia	Europe	North America	Others	Total
Overseas sales	$ 921,145	$ 410,614	$ 239,669	$ 367,303	$1,938,731
Consolidated sales	—	—	—	—	3,671,370
Ratio	25.1%	11.2%	6.5%	10.0%	52.8%

Notes: 1 Geographical distances are considered in classification of country or area.
2 Major countries or areas included in each segment except for Japan are as follows:
Asia — Singapore, China, Korea, etc.
Europe — The Netherlands, France, the United Kingdom, Germany, etc.
North America — USA, Canada
Others — Brazil, Australia, etc.
3 Overseas sales represent those of the Company and consolidated subsidiaries to countries and areas outside of Japan.

Report of Independent Auditors

To the Board of Directors and Shareholders of Yokogawa Electric Corporation

We have audited the accompanying consolidated balance sheet of Yokogawa Electric Corporation and its subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yokogawa Electric Corporation and its subsidiaries as of March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 3, effective for the year ended March 31, 2007, Yokogawa Electric Corporation adopted the new accounting standard for Presentation of Net Assets in the Balance Sheet.

As described in Note 3, commencing in the year ended March 31, 2007, 11 overseas consolidated subsidiaries closed their books at March 31 for consolidation reporting purpose and 48 overseas consolidated subsidiaries changed the fiscal year-end to March 31.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

Misuzu Audit Corporation

Tokyo, Japan

Yusei Audit Corporation

Tokyo, Japan

June 27, 2007

Report of Independent Auditors

To the Board of Directors and Shareholders of Yokogawa Electric Corporation

We have audited the accompanying consolidated balance sheet of Yokogawa Electric Corporation and its subsidiaries as of March 31, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two years in the period ended March 31, 2006, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yokogawa Electric Corporation and its subsidiaries as of March 31, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

As described in Note 2, Yokogawa Electric Corporation and its domestic consolidated subsidiaries adopted "Accounting Standards for Impairment of Fixed Assets" in the fiscal year ended March 31, 2006.

Misuzu Audit Corporation

(formerly ChuoAoyama PricewaterhouseCoopers)
Tokyo, Japan

June 20, 2006

Corporate Information

Company Overview (as of March 31, 2007)

Corporate Name	Yokogawa Electric Corporation
Website	http://www.yokogawa.com/
Headquarters	2-9-32 Nakacho, Musashino-shi, Tokyo 180-8750, Japan
Founded	September 1, 1915
Incorporated	December 1, 1920
Paid-in Capital	43,401,056,425 yen
Number of Employees	19,286 (consolidated) 5,102 (non-consolidated)
Subsidiaries	19 subsidiaries (in Japan) 64 subsidiaries in 32 countries (outside Japan)

Share Information (as of March 31, 2007)

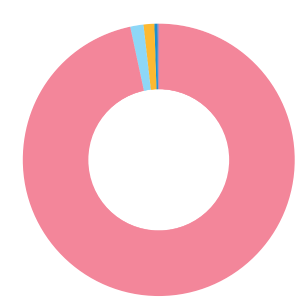
Number of Shares Authorized	483,735,000 (600,000,000 as of June 27, 2007)
Number of Shares of Common Stock Issued	268,624,510
Number of Shareholders	27,418
Stock Exchange Listings	Tokyo Stock Exchange
Administrator of the Register of Shareholders	The Mizuho Trust & Banking Co., Ltd. 1-2-1 Yaesu, Chuo-ku, 103-8670, Japan
Annual Meeting	The annual general meeting of shareholders of the Company is normally held in June each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders as necessary, giving at least two weeks' prior notice to shareholders.
Temporary Accounting Auditors	MISUZU Audit Corporation, YUSEI Audit & Co.*

*Deloitte Touche Tohmatsu was elected as the accounting auditor and the two temporary accounting auditors resigned on June 27, 2007.

Major Shareholders (Top 10)

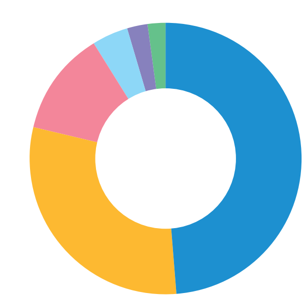
Shareholders	Number of shares held (shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	27,463,600	10.22
The Dai-ichi Mutual Life Insurance Company	22,697,000	8.45
Japan Trustee Service Bank, Ltd. (trust account)	17,583,900	6.55
Nippon Life Insurance Company	13,284,615	4.95
Retirement Benefit Trust in Mizuho Trust (Mizuho Corporate Bank,Ltd Account) Asset Management Service Trust for Beneficiary of Retrust	6,643,990	2.47
SSB Client Omnibus OM04	6,433,100	2.39
Yokogawa Electric Corporation	5,733,063	2.13
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,694,936	1.75
Retirement Benefit Trust in Mizuho Trust (Mizuho Bank,Ltd Account) Asset Management Service Trust for Beneficiary of Retrust	4,617,010	1.72
Japan Trustee Service Bank, Ltd. (trust account 4)	4,482,200	1.67

Shareholders by Category



Individual Investors	26,492	(96.62%)
Others	431	(1.57%)
Foreign Investors	352	(1.28%)
Financial Institutions	95	(0.35%)
Securities Companies	47	(0.17%)
Treasury Stock	1	(0.00%)

Shareholding by Category (thousand shares)



Financial Institutions	130,897	(48.73%)
Foreign Investors	80,570	(29.99%)
Individual Investors	33,341	(12.41%)
Others	11,537	(4.30%)
Securities Companies	6,543	(2.44%)
Treasury Stock	5,733	(2.13%)

YOKOGAWA

Yokogawa Electric Corporation

Public Relations & Investor Relations
2-9-32 Nakacho, Musashino-shi, Tokyo, 180-8750 Japan
Phone: 81-422-52-5530 Facsimile: 81-422-55-6492
http://www.yokogawa.com/

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