

Embarking on the path toward growth

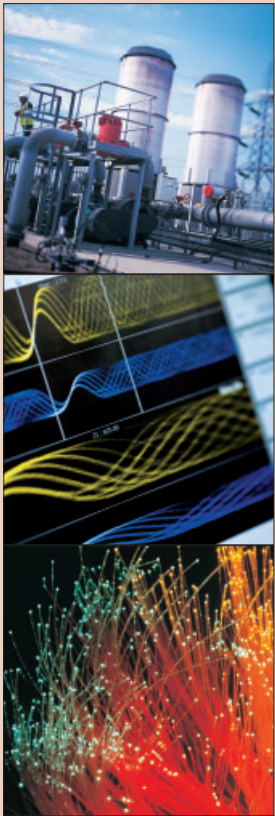
ANNUAL REPORT 2008
For the year ended March 31, 2008

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 provides leading-edge products and services to industry. The high added value created with our excellent technologies contributes not only to the development of industry, but also to the realization of an affluent society. We remain committed to the achievement of a healthy and profitable operation.

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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 currently available information, 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.

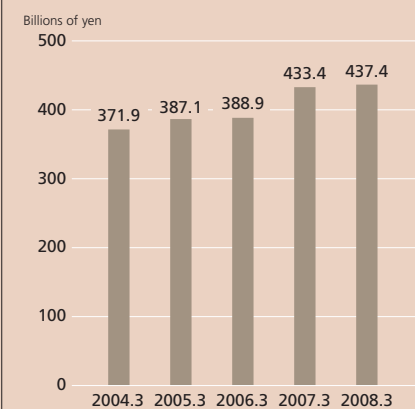
BUSINESS *at a glance*

Yokogawa is striving to reform its business model to achieve sustainable growth. We aim to change from being a manufacturer that merely provides products into a company that provides comprehensive and integrated solutions to enterprises. This is the Enterprise Technology Solutions (ETS) business concept. ETS is focused on providing extensive high-level solutions for all levels of an enterprise's operations, from management to the manufacturing site. We present comprehensive solutions to enterprises that improve efficiency, reduce costs, save energy, and protect the environment.

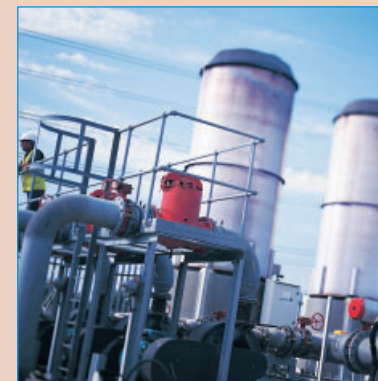
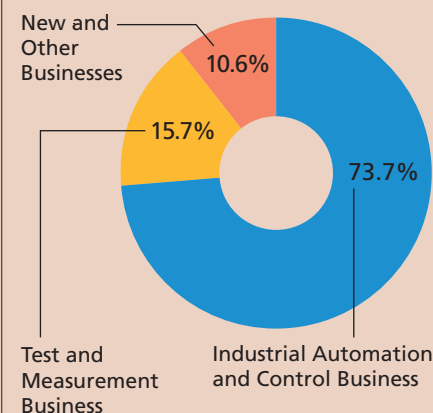


- This emphasizes Yokogawa's focus on the customer's enterprise as a means of providing optimum support.
- Customers can benefit from Yokogawa's latest and most sophisticated technological services.
- Yokogawa offers the solutions that best meet customers' expectations and needs.

Sales

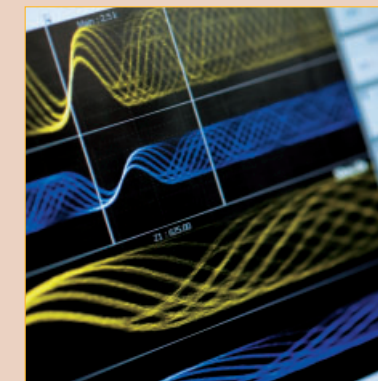


Sales by Business Segment



Industrial Automation and Control Business

Yokogawa developed the world's first distributed control system for the control and monitoring of production operations at plants. With its high product reliability and excellent project execution capabilities, the 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, pulp and paper, 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 as well as a variety of software tools and integrated production control systems, and supports them throughout the plant lifecycle, from installation to maintenance.



Test and Measurement Business

Measurement is the starting point for any technology. With its long background in this field, Yokogawa contributes to industry by providing measurement instruments that convert physical quantities such as voltage, current, electric power, optical power, and wavelength into visible information and analyze them. 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 an abundant lineup of high-performance and highly reliable products, with an extensive calibration and service system. In the semiconductor tester business, we have also developed products for the latest high-speed and high-performance semiconductors, and 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 semiconductor production systems; confocal scanners, which are gaining attention in the biotechnology sector; and aviation and marine equipment.

Industrial Automation and Control Business

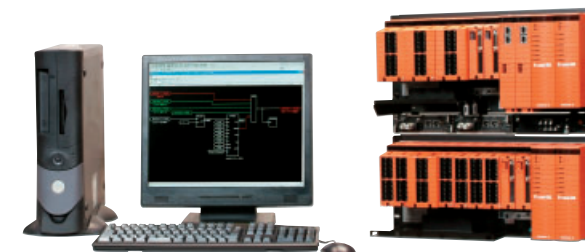
Production Control Systems

CENTUM distributed control systems for the control and monitoring of plant operations have been delivered to more than 20,000 projects in 94 countries since this product series was first launched in 1975. CENTUM VP, the most significant enhancement to this product series in the past 10 years, was released in 2008 and has further solidified CENTUM's position as

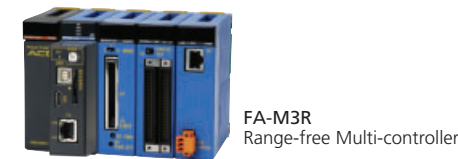
the leading global brand. To further support safe and efficient plant operations, Yokogawa also provides the ProSafe-RS safety instrumented system, which is designed to achieve full integration with the plant production control system, and the STARDOM network-based control system, which combines high reliability with general versatility and cost efficiency.



CENTUM VP
Integrated Production Control System



ProSafe-RS
Safety Instrumented System



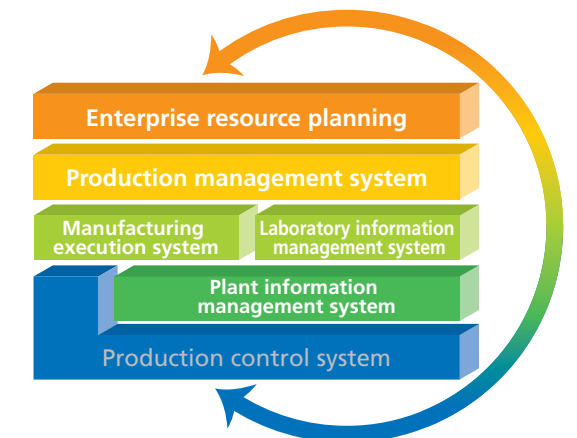
FA-M3R
Range-free Multi-controller



STARDOM
Network-based Control System

Solutions that directly connect production and management

Yokogawa provides IT systems solutions for each industry that are centered on its CIMVision Series Production Management Package.



Solutions for Manufacturers

With its wealth of experience and strong track record in manufacturing support, Yokogawa is expanding its business domains to include the provision of manufacturing management support to enterprises. We offer operating information management solutions that directly connect manufacturing sites and management, thus making the manufacturing site visible. We also offer manufacturing execution system (MES) solutions that achieve traceability and thorough quality management by standardizing operations, production management solutions that enable comprehensive management of operations at all plants based on management at individual plants, and enterprise resource planning (ERP) solutions that enable unified control of management information.

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.



PH450G
pH Meter



ADMAG AXF
Magnetic Flowmeter



DPharp EJX
Differential Pressure/
Pressure Transmitter



GC1000Mark II
Process Gas Chromatograph



DXAdvanced
Data Acquisition and Display Station

Energy Saving and Environmental Conservation Solutions

Yokogawa provides solutions that reconcile cost reduction and preservation of the global environment. This is accomplished by combining production efficiency improvement systems with the technologies and know-how acquired through our own efforts to conserve energy at Yokogawa's plants. We are having a major impact in reducing energy consumption by providing integrated consultation services that range from field investigation and diagnosis to the building, operation, and maintenance of energy-saving systems and the confirmation of results. Based on these results, we also propose measures that can yield additional improvements, thereby continuing the improvement cycle.



Econo-Pilot
Energy-saving system for
water pumps

Medical Information Systems

Medical institutions 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 industrial control systems and production information management sectors. We offer image information systems that display digitized medical images for on-screen diagnoses, information systems that improve the efficiency of hospital operations and utilize information safely and effectively, electronic chart systems, and medical information integration systems that enable regional collaboration. Our systems are highly praised by many medical institutions.



ShadeQuest/DIAG
Image Viewer

Test and Measurement Business

Semiconductor Testers

To satisfy the needs of customers in the rapidly changing semiconductor industry, Yokogawa provides high-performance and cost-effective semiconductor testers that are designed to lower the cost of testing various types of integrated circuits (ICs) such as logic, mixed signal, and memory. We have a particularly large share of the market for flat panel display (FPD) driver testers and wafer test process memory testers. We also meet wide-ranging measurement needs in the category of SoC testers, targeting ICs for consumer products.



MT6121
Memory Test System



ST6730
FPD Driver Test System



TS6000H+
High-speed SoC Test System

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 through its global sales network, and is focused on markets where there is active investment in development, including information appliances, electronic devices, automobiles, mechatronics, and next-generation communications networks. To meet its customers' requirements, the Yokogawa Group creates measuring instruments using key components that have been designed in-house, thus differentiating itself from its rivals. In the power meter and optical communications measuring instrument categories, we have a high share of the global market.



SB5710
Vehicle Serial Bus Analyzer



SL1000
High-speed Data Acquisition Unit



WT3000
Precision Power Analyzer



AQ6370
Optical Spectrum Analyzer

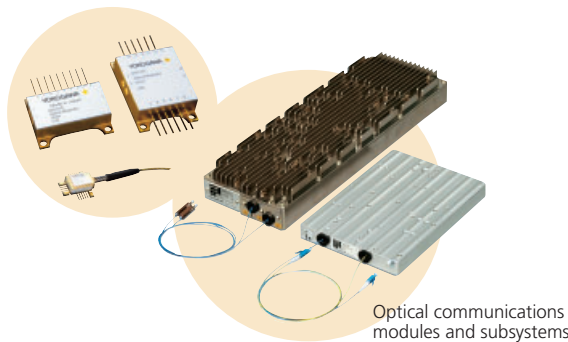


AQ7275
Optical Time Domain Reflectometer (OTDR)

New and Other Businesses

Optical Communications Equipment

For the backbone optical communications market, Yokogawa provides optical communications modules and subsystems that are capable of high-capacity communication at speeds of 40 gigabits per second (40Gbps). These make the most of compound semiconductor technologies that we cultivated over the past 25 years while developing semiconductors for installation in our products. They are drawing attention as a key technology for the realization of next-generation networks (NGNs). We have also developed an optical packet network system that enables high-speed networks with reduced power consumption to be established at broadcast stations and other facilities such as data centers where the transmission of large amounts of data is required. We are now working to commercialize this technology.



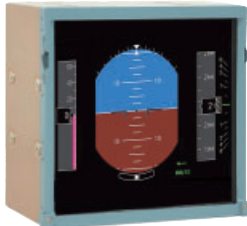
Optical communications
modules and subsystems

Aviation Equipment

Yokogawa supplies monitoring equipment and sensors for aircraft engines and fuel systems, leveraging its proprietary high-reliability technologies. Flat panel color LCDs for cockpit use feature high visibility 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.

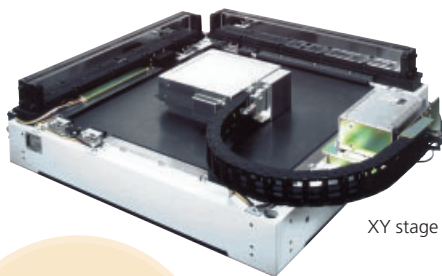


Flat panel displays for
aviation use



Advanced Stage

Yokogawa provides an ultra-precise XY stage featuring nanometer-level positioning accuracy for today's increasingly miniaturized semiconductor manufacturing systems. This XY stage has been highly praised by customers. 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 mechatronics technologies, supported by Yokogawa's measurement and control technologies.



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 institutions 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

To Our Stakeholders



The Yokogawa Group is committed to realizing a healthy and profitable operation in accordance with the VISION-21 and ACTION-21 corporate strategy, with One Global YOKOGAWA as our key initiative.

In fiscal year 2007, we achieved increased consolidated net sales for the sixth straight year thanks to the strong performance of the industrial automation and control business, our main business. However, consolidated operating income decreased year-on-year due to a decline in net sales of the test and measurement business and an increase in investment for launching new businesses. We failed to attain our targets for sales, operating income, and net income.

In fiscal year 2008, we aim to realize cost competitiveness that will enable us to win out in global competition by lowering our break-even point. This will be done by reducing fixed expenses and lowering our variable expense ratio. Yokogawa will continue its efforts to improve corporate value, and we ask for the continued support and encouragement of our stakeholders.

Isao Uchida
Isao Uchida
Chairman of the Board

Shuzo Kaihori
Shuzo Kaihori
President and
Chief Executive Officer

Interview with the President and CEO

Working with greater speed and executing management that prioritizes efficiency to realize further growth

Q1.

Please tell us about the business results of fiscal year 2007.

The industrial automation and control business, our main business, posted an increase in both sales and operating income thanks to brisk investment in the international market, mainly in the petroleum and petrochemical fields, and the test and measurement business saw a decline in both sales and operating income due to curbed investment in semiconductor test systems. Our new and other businesses recorded increased sales and decreased operating income because of a rise in expenses associated with the launch of new businesses. As a result, our consolidated net sales grew by 4 billion yen against the previous fiscal year to 437.4 billion yen, but consolidated operating income declined by 1.9 billion yen to 27.4 billion yen.

Our consolidated ordinary income was 16.5 billion yen, down 13.1 billion yen against the previous fiscal year. This is due to the decline in operating income, an increase in foreign exchange losses resulting from the strong yen, and a rise in net losses on the disposal/write-down of inventories. Meanwhile, our net income stood at 11.7 billion yen, down 900 million yen against the previous fiscal year. This can be attributed to a decrease in deferred income taxes, which is due in part to the posting of deferred tax assets by subsidiaries.

Q2.

What is your analysis of the results?

We had aimed to set new records for net sales and operating income in fiscal year 2007. However, our operating income declined even though net sales grew. I believe the decrease in operating income indicates that the Group is facing a number of inflection points.

First, the Group as a whole is at an inflection point in terms of its cost structure. As a result of proactive implementation of measures such as strategic investments in new businesses to attain the VISION-21 & ACTION-21 Second Milestone targets, the reconstruction of office buildings on our headquarters

Shuzo Kaihori
President and
Chief Executive Officer



campus, construction of new office buildings by Group companies, and enhancements to our workforce, expenses were incurred that did not directly lead to sales. Consequently, our break-even point has risen, resulting in a structure that makes it difficult to make profits. To win out in global competition, a competitive cost structure is indispensable. To that end, we will carry out four measures: the reduction of procurement costs through centralized order placement, the improvement of development efficiency by leveraging common technologies, the reduction of production costs to absorb rises in the prices of raw materials, and the improvement in the cost competitiveness of our human resources.

Q3.

The industrial automation and control business continues to grow. What are your plans for developing it?

Yokogawa forecasts that the industrial automation and control market will continue to grow steadily outside Japan, supported



by increasing energy demand and high crude oil prices. In Japan, growth will proceed at a slower pace. Our customers hold us in high esteem for both the reliability of our systems and our engineering execution capabilities. Accordingly, the Company has been expanding its share in the international markets over the past several years. However, two phenomena that may be regarded as inflection points have occurred in the industrial automation and control business.

One is a change in the business model. Recently, the Group not only has been providing control systems, but also has been receiving an increasing number of orders as a main automation contractor (MAC). In this latter role, it serves as a customer's comprehensive partner, providing both technologies and engaging in the control and execution of projects. Behind this increase is a deepening appreciation of the fact that control systems can have a considerable impact on plant efficiency.

The increase in MAC orders attests to the recognition that Yokogawa's capabilities go beyond the simple manufacture of control equipment to include the comprehensive provision of control solutions. This new trend will also benefit us significantly in that our track record in product delivery, which will be the basis for future stable order receiving, will improve.

On the other hand, advanced project management and cost management capabilities are necessary for procuring all control-related equipment, including our own products, and offering them to our customers. To further raise such capabilities is our challenge from now on. A MAC is also expected to realize a safe and highly efficient plant by taking part in a project from the early stages of plant design and suggesting improvements in areas such as maintenance and management of the plant after delivery. The Yokogawa Group is committed to expanding sales and improving profitability of the industrial automation and control business by reinforcing product competitiveness and the ability to deliver solutions, and by adding more value with its engineering services.

Another inflection point is the increasing influence of foreign exchange issues in the industrial automation and control business. As a result of major growth in the international markets, the industrial automation and control business accounts for an increasing portion of company-wide net sales and operating income. To further grow this industrial

automation and control business, which has large markets outside Japan, the Group has established a structure that seeks to reduce the exchange risk in international sales by selling products that have been manufactured outside Japan. Despite such adjustments, the impact of foreign exchange continues to grow in direct relation to the rapid expansion of our international business. According to our estimates, consolidated operating income fluctuates 400 million yen for every one yen change in the yen-dollar exchange rate. Yokogawa will undertake appropriate management steps to address this concern, which could have an even greater influence on our business in the future.

The Group is committed to further expanding its market share by steadily carrying out the measures stated above and to maintaining the trend of increased sales and operating income in the industrial automation and control business.

Q4. The test and measurement business has been facing harsh conditions. Please tell us about your strategies.

The test and measurement business is facing a major inflection point in the semiconductor tester business segment. The scale of the market and growth potential has changed drastically. To make the business profitable at an early stage, the Group needs to optimize the balance between sales and costs by reconsidering development items and reducing fixed expenses.

With regard to the measuring instrument business, Yokogawa will strive to expand sales, with a focus on markets that are expected to grow in the future, such as environmental conservation and energy-saving, optical communications, and automobiles.

Q5. What is the status of the new businesses that are expected to grow?

One of the new businesses, the photonics business, is at an inflection point in a positive sense. The backbone optical communications market, which will make possible the transmission of large amounts of data at 40Gbps, is about to fully start moving toward the building of next-generation networks. Now that there are good prospects for the establishment of a mass-production system for optical communications modules and subsystems, a project to which we have given top priority, we will push forward with developing new customers to expand sales and improving production efficiency to reduce costs.

In the advanced stage business, Yokogawa will strive to reinforce cost competitiveness. In the life science business, we are committed to developing the market by strengthening cooperation with customers such as universities, research institutions, pharmaceutical manufacturers, and hospitals.

Q6. Please tell us about your policy of distributing profits to shareholders.

While aiming to establish a stable management base, the Company acknowledges that the continuous distribution of profits to shareholders is one of its most important policies. We

intend to pay out 30% of consolidated net income, but also take into consideration the need to accumulate internal reserves to invest in new businesses for mid- and long-term growth and development in emerging markets, and to strengthen our financial position.

For fiscal year 2007, we decided to pay an annual dividend of 16 yen (payout ratio: 35.7%), up 1 yen from the previous fiscal year: an interim dividend of 8 yen and a term-end dividend of 8 yen. For fiscal year 2008, we plan to pay an annual dividend of 16 yen (payout ratio: 37.5%): an interim dividend of 8 yen and a term-end dividend of 8 yen.

Q7. How will you manage the Group to achieve a healthy and profitable operation?

For the Second Milestone phase of the VISION-21 & ACTION-21 corporate strategy announced in May 2006, the Yokogawa Group set the following management targets for fiscal year 2010: consolidated orders of 610 billion yen, consolidated net sales of 600 billion yen, and consolidated operating income of 75 billion yen. However, we are considering a review of these targets in consideration of the results of the past two years.

We recognize that we are facing various inflection points, and will execute management that pursues further growth by giving priority to management efficiency with greater speed. We ask for the continued understanding and support of our stakeholders.

INTERVIEW

Industrial Automation and Control Business

Yokogawa will strive to expand its business by strengthening its solution capabilities under the VigilantPlant initiative.



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



The new office of Yokogawa Saudi Arabia

Overview of business results for fiscal year 2007

Overall growth slowed down in the Japan market due to the reserved stance of corporations toward capital investments, mainly because of skyrocketing prices of raw materials. This sentiment exists despite the fact that performance of business categories such as iron and steel, chemicals, and energy has been robust. Internationally, there was active investment in petroleum, petrochemical, and natural gas plants, spurred by increasing energy demand and high crude oil prices. In particular, markets in the Middle East, China, India, and Russia remained brisk. Capitalizing on this, the Yokogawa Group proactively developed businesses with the aim of being a top global company, and focused on the enhancement of product competitiveness and the expansion of operations outside Japan.

Specifically, Yokogawa made its most significant enhancement in the past ten years to the CENTUM series of integrated production control systems with the launch in February 2008 of a new product, CENTUM VP. With the aim of achieving ideal plants, CENTUM VP enables efficient plant operations by integrating various plant control and information systems, including production management and plant asset management systems. At the same time, the new product provides the same high reliability, long-term stability, and compatibility with existing systems that have long been CENTUM features. We will endeavor to expand the functions of the new product, as a key system for the implementation of VigilantPlant, Yokogawa's vision of the ideal plant for its customers.

Yokogawa also strove to enhance its worldwide network to expand its business in brisk international markets. In Singapore, where we have an international headquarters for our industrial automation and control business, the Group expanded its management of operations and constructed a new office with more space for engineering, staging, and customer acceptance tests. We held an opening ceremony for the new office in July 2007. In Saudi Arabia, where we have successively received

orders for large-scale projects, we set up Yokogawa Services Saudi Arabia Ltd. in April 2007 as a service company, following the establishment in December 2006 of Yokogawa Saudi Arabia Ltd., which is responsible for sales and engineering. Yokogawa Saudi Arabia constructed a new office on land that has been set aside for leading-edge technology corporations on the campus of the King Fahd University of Petroleum and Minerals, which produces many excellent Saudi engineers. The new office started operations in March 2008. In China, where the market is expected to expand, the Group set up Yokogawa China Co., Ltd. to oversee all business activities within the country. The new company consolidates the functions of three existing subsidiaries and strengthens our business structure in this region.

	Billions of yen		
	2007.3	2008.3	2009.3 (planned)
Orders	330.3	343.2	350.0
Sales	312.3	322.2	330.0
Operating Income	35.4	39.1	40.0

Given such circumstances, we were able to expand our market share in the international markets by winning many large projects from major oil companies that were constructing new plants and replacing existing ones. As a result, orders totaled 343.2 billion yen, with net sales standing at 322.2 billion yen and operating income at 39.1 billion yen, both larger than the

Major contracts received/signed in 2007

Yokogawa Receives Control System Contract for Largest Petrochemical Project in Thailand

The Yokogawa Group has received a contract to supply control systems, sensors, and other devices for a petrochemical plant complex that is being built by Map Ta Phut Olefins Co., Ltd., a subsidiary of the Siam Cement Group. A key part of the complex will be a naphtha cracker plant with an annual production capacity of 1.7 million tons.

Yokogawa Receives Package Order to Supply Control Systems for Petrochemical Complex in Singapore

The Yokogawa Group has received a package order from Shell Eastern Petroleum (Pte) Ltd to supply control systems for the Shell Eastern Petrochemicals Complex. The project is aimed at constructing a new petrochemical plant (annual production of 800 thousand tons of ethylene and 750 thousand tons of mono-ethylene glycol) and upgrading an existing oil refinery with an annual refining capacity of 500 thousand barrels, which will be integrated with the new plant.

Yokogawa Receives Package Order to Supply Control Systems for Coal-fired Power Plant in India

The Yokogawa Group has received a package order to supply control systems for the Barh Supercritical Coal-fired Power Plant project in the state of Bihar, India. This is the largest thermal power plant in this state.

Yokogawa and BP Sign Global MAC Services Agreement

Yokogawa has entered into a Global Agreement with BP International Limited to provide main automation contractor (MAC) services for BP's Exploration and Production segment, thereby establishing a long-term collaborative relationship with BP. Under this arrangement, Yokogawa will be one of the few MACs authorized by BP to bid on orders for control systems used in crude oil/natural gas drilling and other operations.

Yokogawa Receives Control System Order for Large Oil Refining Project in China

Yokogawa has received an order to supply control systems for a large oil refinery that is being constructed in Qinzhou by CNPC Guangxi Petrochemical Company Ltd., a subsidiary of China National Petroleum Corporation (CNPC), one of the country's major oil companies. The plant will have an annual refining capacity of 10 million tons.

Yokogawa Receives Control Systems Contract for Thermal Power Plant from Flinders Power in Australia

The Yokogawa Group has received a contract for a control systems replacement project at the Northern Power Station, which is owned by Flinders Power Pty. Ltd. This power utility provides over 40% of South Australia's electricity supply.

Industrial Automation and Control Business



CENTUM VP Integrated Production Control System

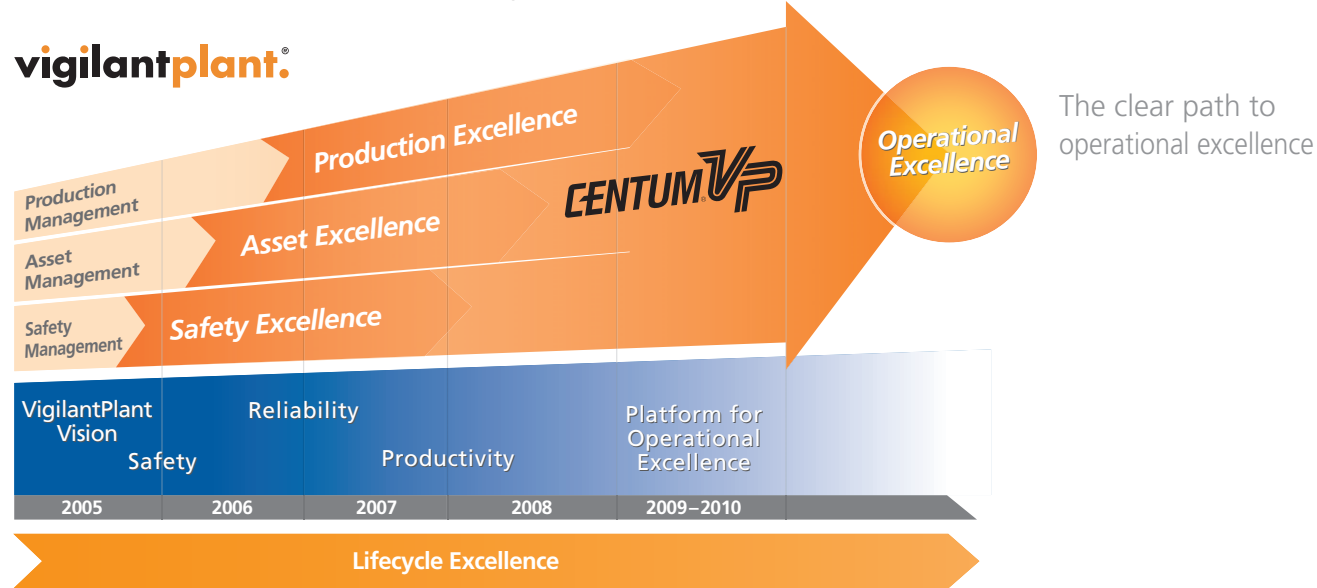
figures for the previous fiscal year. The ratio of sales outside Japan, which has been growing every year, reached 61.0%.

Outlook and strategic initiatives

Since the industrial automation and control business is expected to steadily grow in the international markets related to petroleum, petrochemical, and natural gas plants, Yokogawa will proactively expand the business by carrying out the following measures.

Specifically, for the implementation of VigilantPlant, Yokogawa's vision of the ideal plant for its customers, we will strengthen our product and service lineups in line with the Safety Excellence, Asset Excellence, Production Excellence, and

Roadmap for the Implementation of VigilantPlant



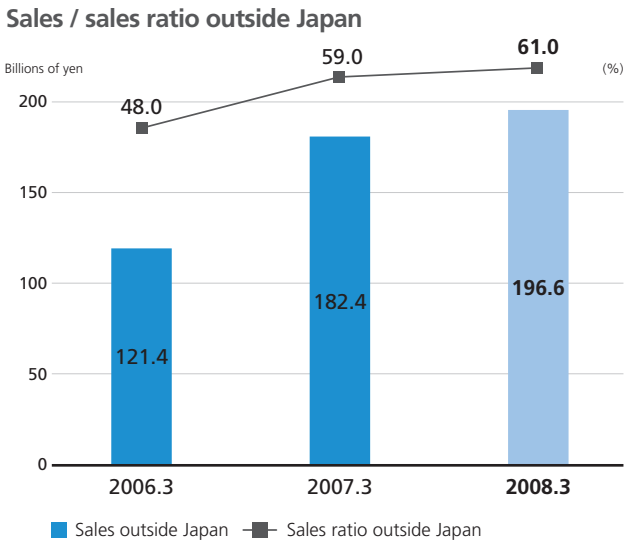
Lifecycle Excellence initiatives. As part of our efforts to that end, Yokogawa acquired in April 2008 all the stock of Analytical Specialties, Inc. (ASI), a U.S. company with a unique gas analyzer technology, and made it a subsidiary of the North American headquarters. With this acquisition, Yokogawa is making ASI's laser gas analyzers a core part of its analyzer lineup, and strengthening its ability to deliver comprehensive solutions in the industrial automation and control business. We also plan to expand our sensor and production management system lineups.

Yokogawa is also committed to expanding market share by reinforcing its ability to deliver solutions that resolve customer problems, improving engineering efficiency, strengthening the project management system, and enhancing its business system for providing services over the entire lifecycle of customers' plants. Internationally, we will strive to reinforce our sales and engineering capabilities, led by Yokogawa Electric International, a company controlling our international industrial automation and control business, in a bid to accelerate the rapidly expanding growth in orders. The Group aims to raise its return on sales by improving management efficiency. This will be done by promoting shared services, rotating personnel among the Group companies, and strengthening the personnel in our sales network to expand orders. We will also work on developing the lifecycle solution business worldwide.

As part of the efforts to strengthen its solution capabilities and engineering efficiency, Yokogawa established Yokogawa Solutions Corporation on April 1, 2008, by integrating two Japan subsidiaries. With the establishment of the new company, the Group is committed to reinforcing its global engineering system, ranging from production sites to the management control level.

As preservation of the global environment is becoming a common concern of society, Yokogawa will continue to proactively provide energy-saving and environmental conservation solutions to help its customers make their operations more environmentally friendly. The Group will offer optimum solutions that realize both cost reduction and

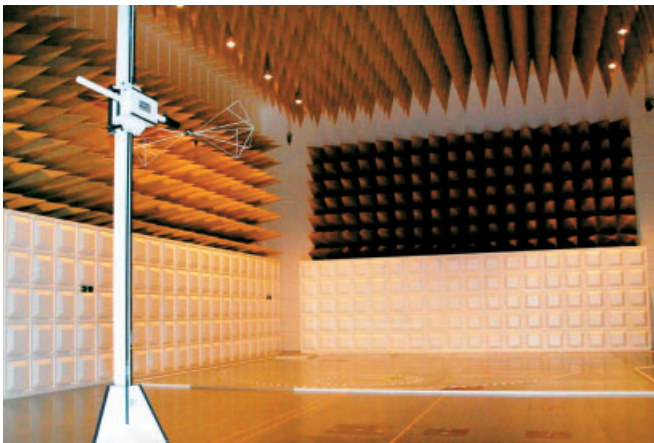
preservation of the global environment. This will be done by gathering together in the Energy Conservation and Environment Protection Solution Division (inaugurated in September 2007) all the technologies and know-how developed through in-house energy-saving initiatives and the provision of solutions that help customers improve their production efficiency.



A laser gas analyzer of Analytical Specialties, Inc.

Test and Measurement Business

In the semiconductor tester business, Yokogawa will increase sales by expanding its customer base. In the measuring instrument business, we will focus on growth categories related to the environment and energy-saving, optical communications, and automobiles.



In May 2007, Yokogawa added a new EMC test laboratory that is used to evaluate the performance of test and measurement instruments. The new laboratory has the most sophisticated equipment available in Japan.



MT6111 Memory Test System for excellent cost performance in DRAM mass-production

Overview of business results for fiscal year 2007

The semiconductor test system market, a major segment of the test and measurement business, remained sluggish mainly due to sharp declines in DRAM prices and constrained investment by manufacturers of flat panel display (FPD) driver ICs. It is against this backdrop that Yokogawa released the highly cost-effective MT6111 Memory Test System for general-purpose DRAMs in September 2007. This system is highly valued by customers for its efficiency and flexibility in measuring not only DRAM memory but also NAND flash memory. As a result, orders for memory test systems were robust. However, our FPD driver test systems and SoC test systems faced harsh conditions because of the sluggish market, although we did our utmost to expand our market share.

Meanwhile, the communications measuring instrument market picked up as a result of widening use of optical communications networks, and the market of power measuring instruments remained strong as companies were urged to take energy-saving measures. However, the measuring instrument market as a whole continued to be stagnant, as was the case in the previous fiscal year.

In the optical communications market, where investment is healthy, the Group strove under the circumstances described above to expand sales of optical spectrum analyzers, for which it boasts the highest performance and the largest market share in the world, and optical time domain reflectometers (OTDRs), which are measuring instruments for the maintenance of optical networks. As a result, net sales increased mainly in Japan, North America, China, and India. With regard to optical spectrum analyzers, Yokogawa released the AQ6375 Optical Spectrum Analyzer, an instrument capable of measuring the optical spectrum band mainly used in the environmental measurement field, thus expanding applications to fields other than telecommunications. In the energy-saving market, we increased sales by developing new customers for power measuring

instruments in response to the energy-saving efforts in the information industry and the promotion of green IT in North America. In the electronics market, Yokogawa capitalized on the increasing use of automotive electronics by releasing the SB5000 Vehicle Serial Bus Analyzer, a type of oscilloscope that is used in the analysis of in-vehicle serial buses, including FlexRay. The SB5000 series has been favorably received. However, sales of the measurement business as a whole fell from the previous fiscal year due to the inactive waveform measuring instrument market. As a result, the Group posted orders totaling 67.6 billion yen, net sales of 68.8 billion yen, and an operating loss of 2 billion yen in the test and measurement business as a whole, with both sales and income declining from the previous fiscal year.

Outlook and strategic initiatives

In the semiconductor tester business segment of the test and measurement business, Yokogawa is committed to expanding net sales by launching new SoC testers quickly and expanding its customer base. The Group aims to make the semiconductor tester business profitable at an early stage by reviewing development items and reducing production costs and selling and administrative expenses. The Group transferred the IC handler business to TESEC Corporation on July 1, 2008.

In the measuring instrument business, Yokogawa has defined the following key sectors: the mechatronics and energy market, which is booming thanks to the increasing use of automotive electronics and the development of alternative energy sources; 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 introduction of next-generation optical communications networks. Targeting fields such as environmental conservation, energy-saving, optical communications, and automobiles that have good growth prospects, Yokogawa will launch competitive

products by concentrating its development resources and reinforce its global sales network to expand sales.

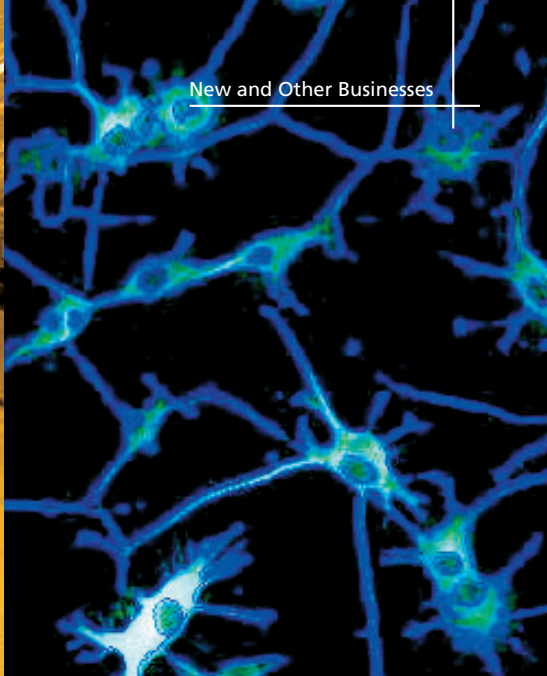
	Billions of yen		
	2007.3	2008.3	2009.3 (planned)
Orders	78.3	67.6	66.0
Sales	78.5	68.8	66.0
Operating Income	1.2	(2.0)	(4.5)



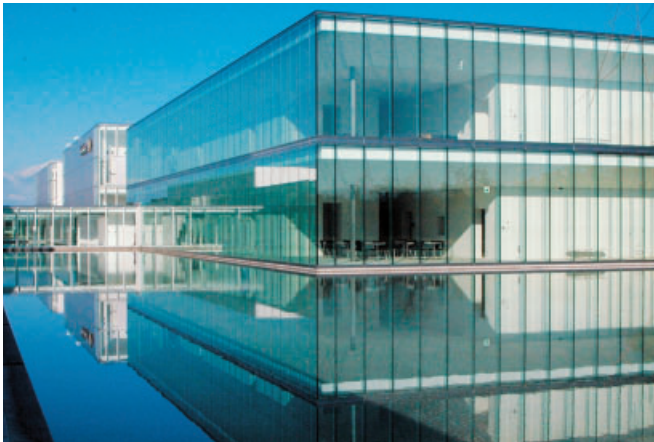
The WT3000 Precision Power Analyzer, boasting world-class performance

New and Other Businesses

By accurately ascertaining market and technology trends, we aim to accelerate the launch of new businesses.



The Sagami-hara Office, the development and production center for the photonics business



The Kanazawa Office, the development and production center for the life sciences business

Overview of business results for fiscal year 2007

In the photonics business, one of our new businesses, the market of the 40Gbps backbone optical communications started moving toward the building of next-generation networks, but the market for the advanced stage business remained sluggish, affected by the inactive semiconductor production equipment market. In the life sciences business, the live cell imaging field, which involves the observation of live cells, performed well mainly in the international markets.

In the photonics business, the Company focused on the reinforcement of its technological capabilities to expand the business and establish a mass production system. For example, Yokogawa succeeded in developing high-quality 40Gbps optical communications technologies that enable large-capacity optical communications networks between cities. Against this backdrop, sales and orders increased for optical communications modules and subsystems to be installed in communications devices for backbone communications networks in Japan.

In the advanced stage business, though the Company has established a mass production system for its principal products, large XY stages, orders decreased due to constrained investment by customers. As a result, orders declined overall while sales increased.

In the life sciences business, Yokogawa has sought to strengthen the appeal of its confocal scanners and generate new orders for these products, which are highly valued in the live cell imaging field. It has released a new model that features the world's highest scanning speed and twice the brightness of earlier models. As a result, orders grew slightly, but there was a small decrease in net sales.

Orders and sales were up for other businesses mainly thanks to robust orders for marine equipment in the booming shipbuilding market.

The new and other businesses as a whole posted orders of 44.3

billion yen, sales of 46.5 billion yen, and an operating loss of 9.7 billion yen. This last item is due to an increase in expenses related to our proactive efforts to launch new businesses. While sales increased from the previous year, operating income declined.

Outlook and strategic initiatives

Yokogawa aims to bring new businesses into the black by making decisions in a timely and accurate manner through the proper understanding of market and technological trends.

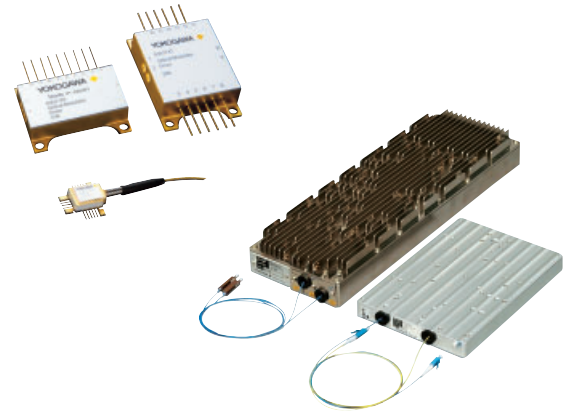
In the photonics business, the Group will strive to expand sales of optical communications modules and subsystems by increasing the number of new customers, including those in international markets, and reduce costs by improving production efficiency.

In the advanced stage business, Yokogawa will focus investment on the development of core technologies such as precision positioning, high-function and high-performance control, and image quality evaluation algorithms, and will provide products featuring the world's most advanced technologies. The Group will endeavor to develop its business by strengthening cost competitiveness and discerning future trends in the rapidly changing semiconductor and semiconductor manufacturing equipment industries.

In the life science business, the Group is working to develop new customers for confocal scanners in the large international market. It also aims to achieve growth in the new drug discovery sector, whose market is expected to grow, by leveraging its confocal scanner technologies and precision positioning technologies.

In other businesses, the Group is committed to expanding its liquid crystal flat panel display business, targeting the growing civilian aircraft market.

	2007.3	2008.3	Billions of yen 2009.3 (planned)
Orders	47.9	44.3	44.0
Sales	42.5	46.5	44.0
Operating Income	(7.3)	(9.7)	(9.5)



Attracting the interest of international telecommunications equipment manufacturers: optical communications modules and subsystems

Research and Development

Research & development policy and organization

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 business 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. We have been providing high-quality, reliable products and services by taking a long-term management perspective and keeping research and development investment at a high level.

To realize efficient development and early commercialization of new technologies, the Yokogawa Group has established a system to classify functions and roles by organization. Our Corporate Research & Development 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. The Design to Cost Engineering Headquarters has as its mission the provision of modules shared Groupwide.

The business headquarters and the Group companies own and evolve leading-edge technologies in their respective business domains, and provide high-quality, optimum solutions to customers by developing products that make the most of cutting-edge and common technologies developed by the Corporate Research & Development Headquarters.

Basic strategies of research & development

The Corporate Research & Development Headquarters, the center of our R&D efforts, is engaged in discovering and fostering key technologies that could provide a basis for future businesses, developing basic technologies that will be applied to next-generation products by existing business headquarters, formulating and executing Groupwide technological strategies, and providing strategic control of intellectual property and international standardization activities. Yokogawa has set out the following four strategic roles for research and development:

- 1 Technology navigator**
To discern changes in the market and technologies, and determine what technologies Yokogawa should be focused on 5-10 years from now
- 2 Technology incubator**
Taking a medium- to long-term perspective, to discover and foster future core technologies, ensure that the existing business headquarters stay competitive and maintain preeminence in their product development efforts, and create new businesses
- 3 Technology driver**
To promote strategic management of the Yokogawa Group’s technologies through the acquisition and utilization of intellectual property and the strategic conduct of international standardization activities
- 4 Innovation producer**
To foster researchers and engineers who have an autonomous and strategic business mind-set and can continuously produce technological innovations

Technological domains of research & development

Always thinking ten years ahead, Yokogawa develops advanced technologies for existing business and conducts research & development for the establishment of new businesses, focusing on the following three sectors: field-ubiquitous computing technologies, microtechnologies, and photonics technologies. Through these research & development activities, we continue to search out new technologies that will be backed as intellectual property and serve as a basis for new next-generation products and businesses, with the aim of continually creating and improving corporate value.

Efforts for the creation of new businesses

To maintain corporate growth in the future, it is necessary to create and foster new businesses in addition to strengthening existing ones.

Yokogawa has been cultivating its optical communication device business, which will play a central role in future communications networks. This is based on the patents and production know-how it has acquired through more than 20 years of R&D in compound semiconductor technologies. We set up the Photonics Business Headquarters in April 2006 to provide optical communications modules and subsystems for next-generation networks. We have also developed an optical packet network that enables high-speed telecommunications networks in places such as broadcast stations where large-capacity data communications are required. We are now working to

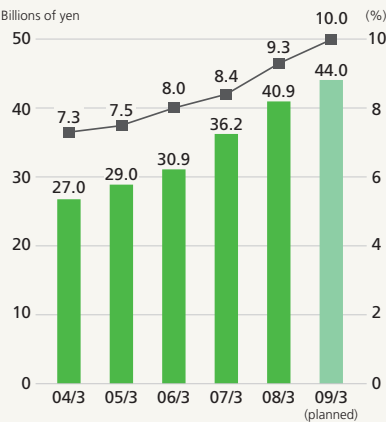


commercialize this technology.

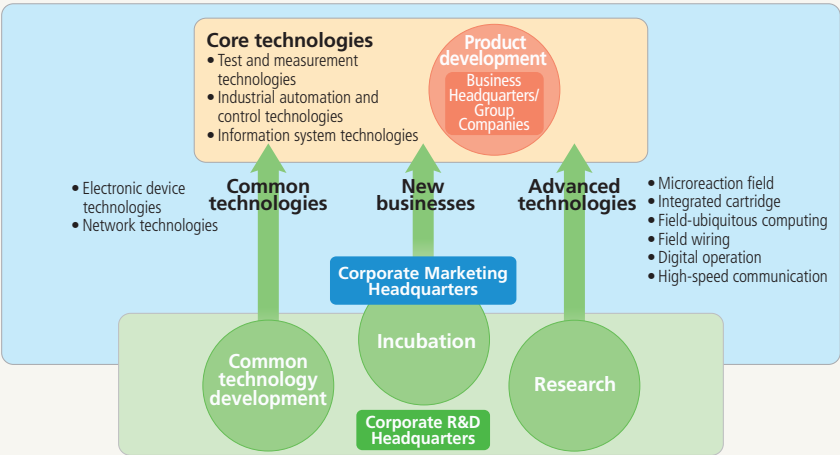
In 2000 Yokogawa’s patented confocal scanning technology won the Ichimura Industry Contribution Award and a National Commendation for Invention. With the aim of establishing a confocal scanner business and developing new drug discovery support devices, the Group inaugurated the Life Science Business Headquarters in October 2005.

Toward future commercialization, Yokogawa has been steadily turning out technologies for which we have high expectations. These include a microreactor, which is a tiny chemical plant that initiates chemical reactions by pushing materials through tiny channels, and a genetic analysis system that for the first time ever successfully detected DNA by means of a completely integrated cartridge.

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



Functions and roles of R&D



Three core technology domains

Field-ubiquitous Computing Technology
The provision of intelligence throughout a manufacturing site by means of highly reliable and integrated network technologies

Microtechnology
The measurement and manipulation of very small values and quantities based on MEMS technology that has been developed through semiconductor device and sensor R&D

Photonics Technology
Technology with origins in such fields as compound semiconductors and optical measurement that will be developed and commercialized to create new applications and businesses



Integrated cartridge and biochip reader for genetic analysis system

Intellectual Property

Globalization of technology development and creation of intellectual property

In recognition of the importance of intellectual property in producing high value-added products and services and promoting social and industrial development, Yokogawa is working in various ways to link its intellectual property, business, and R&D strategies.

With the rapid globalization of business, the R&D competition with our competitors in Europe, the U.S., and Asia is becoming keener. Turning intellectual property into intellectual property rights, mainly by patenting it, is significant in two ways: protecting the technologies that ensure our pre-eminence in competition with other companies and preventing our competitors from entering into new fields and new product categories.

Data on the intellectual property rights held by the Group as of the end of March 2008 are given in the table on page 23 . Looking at the number of patent registrations and applications for each of the past three fiscal years, as shown in the bar graphs below, it can be seen that the number of patent applications inside and outside Japan has increased slightly, while the number of registrations has declined. This is because the Group is efficiently managing its intellectual property by increasing the number of new applications and abandoning all unnecessary rights.

Creation of intellectual property in the technical development process

At Yokogawa, we have established internal design standards for the R&D and product-development processes. These standards

also define procedures for identifying the intellectual property held by other companies, receiving patent clearances, and filing patent applications to safeguard inventions that differentiate Yokogawa from its rivals.

Yokogawa has an in-house invention reward scheme. As for royalty compensation, we use both a profit-linked model without an upper-limit cap and a fixed-royalty model, thus implementing a system that provides considerable incentives for inventors. Furthermore, we hold periodic corporate review meetings to examine excellent inventions for which patent applications have been filed in the last three years and select winners of gold and silver awards, which are given regardless of whether a patent has been granted. The inventors of winning technologies are honored and commended by the President on Founder's Day, in appreciation of their contribution.

Open innovation

To create leading-edge technology, Yokogawa is committed to the proactive pursuit of open innovation through its R&D activities and the utilization of external resources. Without relying solely on proprietary technologies, the Group will engage in joint research with industries and universities, and concentrate on the joint patent applications that accompany such joint research. The Group is making effective use of the intellectual property associated with business operations that will be either transferred or terminated. At the same time, to make sure that it can continue to offer its products and services to customers without interruption, Yokogawa takes a firm stance on any infringement of its rights, with a view to maintaining its brand and protecting the originality of its work.

Intellectual property communication and education

Our new employee orientation includes a course designed to help participants learn the basics of intellectual property. A standard course is taken by all new recruits, regardless of the technical, administrative, or other field that they will be first assigned to. We also have dedicated courses for engineers and managers so that they can learn about practical tasks and the management of intellectual property.

Regarding the technologies for measurement, control, and information that are shared by all of Yokogawa's business operations, we organize symposiums on Intellectual Property strategy in which Yokogawa inventors can present key technologies that have already been patented by Yokogawa, in order to promote the use of these patents by the different divisions and departments. We also publish the *Intellectual Property News* each month on the Company intranet. Through these efforts we are communicating to our employees and educating them in Yokogawa's management culture, which emphasizes the importance of intellectual property.

We also report on our intellectual property activities in the Company's annual report and other publications. Additionally, we collect internal technical papers written by Yokogawa employees and issue them as the *Yokogawa Technical Report* in order to make our leading-edge technologies known to our stakeholders.

Intellectual property and international standardization

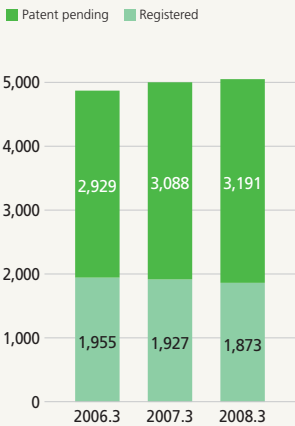
International standardization is directly connected to products



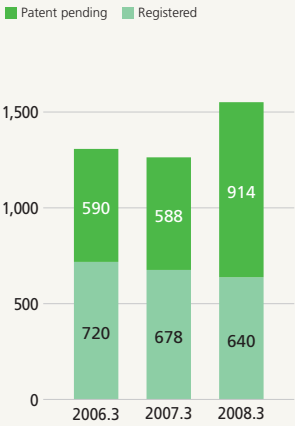
and services, and therefore has a great influence on our business strategies. It is also an important factor in terms of research and development strategies, since it decides whether a technology in which up-front investment is made will be supported by the market. The Company is focused on international standardization in each technological domain, and will link this effort with its R&D and intellectual property strategies (see the chart below).

It is acknowledged that intellectual property rights and international standardization efforts often lead to conflicts. However, Yokogawa's policy is to aid disclosure of the Company's intellectual property to promote international standardization in communications, software, and other areas where interoperability is required, to ensure greater customer convenience and energize the market.

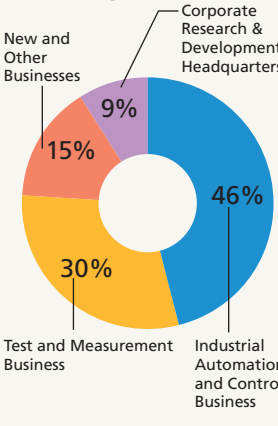
Trend for patents in Japan



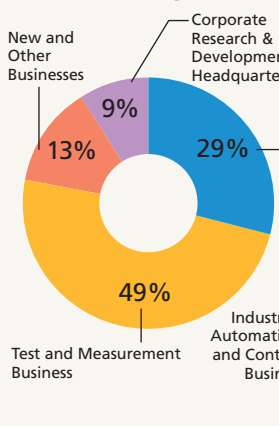
Trend for patents outside Japan



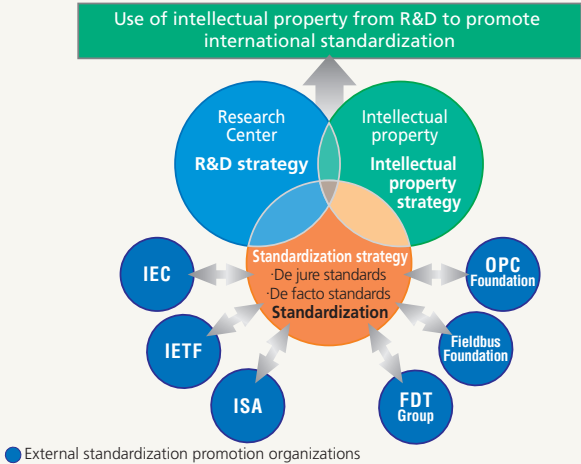
Patents in each business field in Japan



Patents in each business field outside Japan



International standardization efforts



Intellectual property rights owned by the Group

(as of March 31, 2008)

	In Japan			Outside Japan			Total
	Regis-tered	Patent pending	Sub-total	Regis-tered	Patent pending	Sub-total	
Patent	1,873	3,191	5,064	640	914	1,554	6,618
Utility model	6	0	6	—	—	—	6
Design	145	14	159	2	5	7	166
Trademark	702	36	738	363	66	429	1,167
Total	2,726	3,241	5,967	1,005	985	1,990	7,957

Corporate Social Responsibility

Basic stance toward CSR

The Yokogawa Philosophy declares: "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." The basic stance of Yokogawa toward CSR activities is to practice the Yokogawa Philosophy.

At the same time, Yokogawa has identified compliance as a challenge that should be made a top management priority. The Group is committed to Groupwide CSR activities based on the Standards of Business Conduct for the Yokogawa Group, and will undertake business activities that promote environmental conservation, contribute to society, show respect for human rights, provide a healthy and safe working environment, and contribute to local communities. Strongly recognizing that its corporate activities themselves fulfill a great responsibility to society, Yokogawa is focused on making contributions in the economic, social, and environmental fields that leverage its measurement, control, and information technologies.

Environmental management efforts

We have identified protection of the global environment as one of our most important challenges, and have made it our basic policy to have an environmental management system and continuously improve our environmental performance. Reducing the environmental burden of the Group's business activities is one of the pillars of our environmental management policy, and we are striving to achieve this

reduction in each of our business domains. The Group's operations comply with exacting Yokogawa standards regarding procurement and purchasing, improvement of production lines, prevention of global warming and pollution, and management of chemical substances.

Yokogawa's advanced energy-saving technologies are in use at Yokogawa Manufacturing Corporation's Kofu Factory. Through its strenuous efforts to reduce electricity consumption, the factory reduced CO₂ emissions by 10% between fiscal years 1990 and 2006 while at the same time increasing output. Its own products greatly contribute to the reduction of CO₂ emissions. One such product is Econo-Pilot, which significantly reduces electricity consumption by carefully performing load-based control of the water pumps used by air-conditioning and other facilities. Another product is InfoEnergy, which visualizes where waste is occurring in the use of electricity, cool water, warm water, and steam.

Another pillar of Yokogawa's environmental management is the reduction of customers' environmental burden through the proposal of solutions that rely on our strong experience in this field. To help its customers promote environmental management, the Group is developing environmentally friendly products and is proactively engaged in an environmental solution business that both analyzes the impact of business activities on the environment and proposes changes for the better. Yokogawa is committed to offering solutions that contribute to the improvement of production efficiency and the safeguarding of the global environment. We accomplish this by utilizing the technologies and know-how that have been brought together in the Energy Conservation and Environmental Protection Solution Division, which was established in September 2007.

Three themes for enhancing our contribution to society

Yokogawa contributes to local communities and society as a whole based on the three themes of heart (humanity), intellect (knowledge and technology), and body (health). On the theme of intellect, the Company holds science classes for children. Two such classes on the subject of radio assembly were held in fiscal year 2007. On the theme of heart, the Company is funding the creation of partition paintings (*fusuma*) for the Todaiji Temple in conjunction with the 2010 celebration of the 1,300th anniversary of the relocation of the national capital to Nara.

On the theme of body, Yokogawa engages in activities such as the promotion of sports, provision of health care, and support for disaster relief efforts that contribute to the development of healthy bodies.

Regional contributions around the globe

In addition to activities in Japan, contributions by non-Japan Group companies have also been flourishing in recent years. Since 2000, employees in China have been subsidizing school expenses for children in deprived areas. In fiscal year 2007, they visited an elementary school in Qinghai Province to donate winter clothes and other articles. In South Korea, a volunteer group of employees provided heating oil, charcoal briquettes, and rice to elderly people who live alone. In the U.S., employees and their family members and friends have continually supported the March of Dimes, a nonprofit organization that is engaged in activities to prevent birth defects.



Schoolchildren in a science class learning from an employee volunteer how to solder a radio component

Meeting the expectations of stakeholders

The Standards of Business Conduct for the Yokogawa Group call for fairness in our relationships with customers, shareholders, local communities, society, suppliers and vendors, competitors, and other stakeholders. To provide socially-useful products and services, the Group has established a thorough quality assurance system and implements extensive information security measures. Yokogawa recognizes that each of its employees is a precious and irreplaceable asset, and seeks to enhance the workplace environment while proactively providing employees with skill development opportunities. The Group will continue to move forward together with its stakeholders and fulfill its responsibilities to society.

The Yokogawa Group's Environmental Management



Yokogawa Manufacturing Corporation's Kofu Factory, playing a proactive role in environmental conservation



Children playing in our rugby football clinic



Schoolchildren in Qinghai, China, in winter clothes donated by our organization in China

Corporate Governance

Basic policy

The Group recognizes that the basic mission of corporate management is to secure sound and sustainable growth, and to build a relationship based on trust with stakeholders, including shareholders. To realize a healthy and profitable operation, the Group is implementing important measures to enhance corporate governance.

The Company employs a corporate auditor system. With the Board of Directors, speedy decision making and transparency are assured through deliberations among directors who are well versed in the Group business, including highly independent outside directors. In addition, through audits by corporate auditors, including outside corporate auditors, the legality and efficiency of the directors' execution of their duties and the appropriateness of their decision-making process is rigorously examined, thereby reinforcing the management audit function.

The Group has set forth its basic compliance policies in the Standards of Business Conduct for the Yokogawa Group, and the Board of Directors takes the lead in working to ensure that corporate ethics are upheld and embraced throughout the Group. In addition, the Yokogawa Group Internal Control Systems, which are intended in part to help ensure the reliability of financial statements and the propriety of decision-

making, has been set forth to ensure appropriateness and efficiency in Group operations.

Management and business execution system

The Company has adopted an executive officer system that separates the management function of the Board of Directors and the business operations supervision function of the directors from the business execution function, thus speeding up business execution.

The Board of Directors, which has a maximum of 15 members, currently consists of nine directors, including two outside directors. The Company has established a system of quick and timely decision-making. Legal matters, matters that significantly affect management, and important strategic matters of the Group are decided by the Board of Directors, while important matters related to the execution of the Group's business operations that do not fall under the jurisdiction of the Board of Directors are decided by the Management Board.

The term of office of the directors is set at one year, and their appointment is approved each fiscal year by the shareholders.

Internal audit structure

The Yokogawa Group has set up an internal audit headquarters as an organization under the direct control of the president. The department conducts internal auditing in accordance with the annual plan, and reports important matters to the Board of Directors and the corporate auditors.

The Company has concluded an audit agreement with Deloitte Touche Tohmatsu, an auditing company, concerning accounting auditing pursuant to the Companies Act and the Financial Instruments and Exchange Act.

Risk management system

The Yokogawa Group Internal Control Systems have been established to ensure the appropriateness of Group business activities. As the unit responsible for risk management, the Internal Audit Department identifies and analyzes risks, and submits recommendations for making appropriate improvements. It also reports important matters to the Board of Directors and the corporate auditors.

Policy on ensuring corporate value and the common interests of shareholders

The Company believes that a framework is necessary for preventing acts that are contrary to its corporate values and the common interests of shareholders. This enables the shareholders to properly judge whether consent should be given to a large-scale purchase of the Company's shares and allows the Board of Directors sufficient time to obtain information and present alternative plans to the shareholders. We submitted a proposal entitled "Introduction of Countermeasures to Large-scale Acquisition of Yokogawa Shares" (takeover defense measures – the Plan) to the 2007 Annual General Meeting of Shareholders, held on June 27, 2007, and the proposal was approved. The Plan is valid for two years.

Internal control system

The Company's Board of Directors has adopted an internal control system in accordance with Article 362, Paragraph 4, Item 6 of the Companies Act, and Article 100 Paragraphs 1 and 3 of the Enforcement Regulations of the Companies Act as follows:

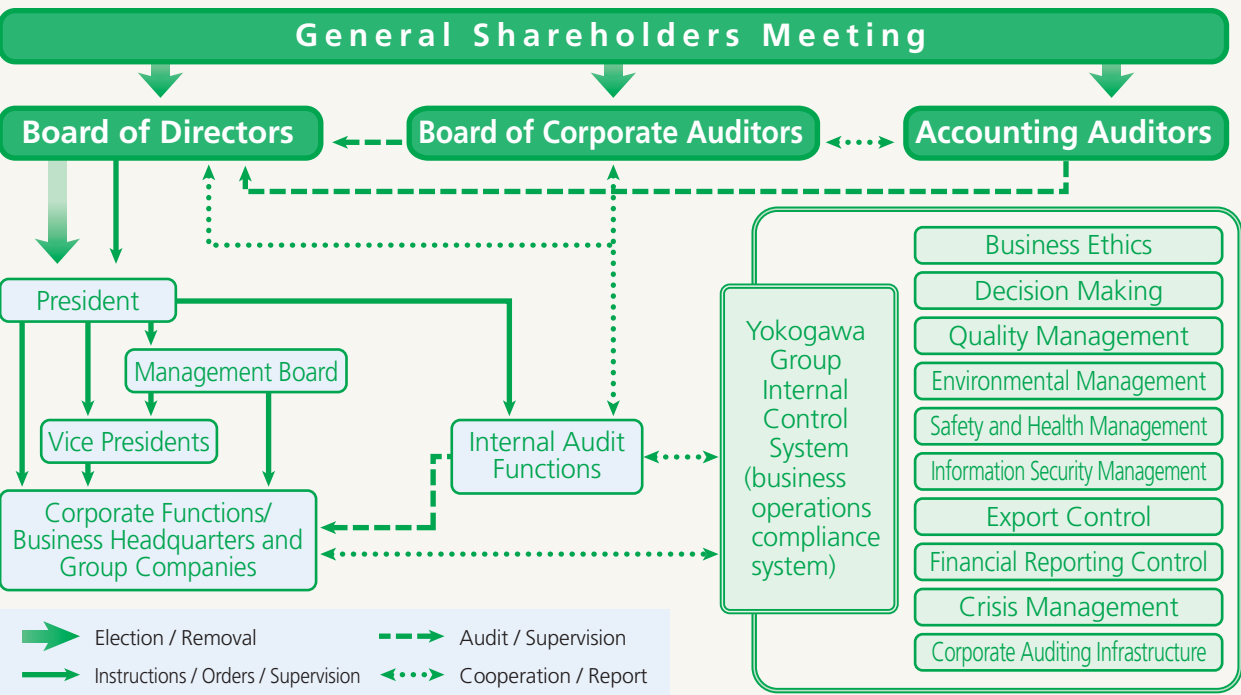
1 System for assuring compliance of directors' performance of duties with laws, ordinances, and the Articles of Incorporation of the Company

- Compliance principles have been set forth in the Standards of Business Conduct for the Yokogawa Group, and the Board of Directors takes the lead in working to ensure that business ethics are upheld and embraced throughout the Group.
- The Business Ethics Headquarters has been established to maintain, as well as identify and address problems in the Group-wide compliance system.
- Decision-making by the Board of Directors is performed based on the Rules Governing the Board of Directors and the Rules Governing Decision-Making. The Board of Directors, which includes both inside and outside directors, bears supervisory responsibility for business operations. Corporate auditors, including outside corporate auditors, audit the actions of directors based on the Auditing Standards for Corporate Auditors and the Rules Governing the Board of Corporate Auditors.

2 System for assuring the efficient execution of directors' duties

- The Rules Governing the Board of Directors and the Rules Governing Decision-Making provide the basis for assuring the thoroughness of the Board of Directors' deliberations and for delegating authority to the Management Board and other decision-making bodies outside the Board of Directors.
- Companywide management objectives have been established and measures taken to achieve those objectives are reviewed. Medium-to-long-term management objectives have been set forth as the VISION-21 & ACTION-21 corporate strategy

Corporate Governance Structure



Audit structure

The Board of Corporate Auditors consists of five corporate auditors, including three outside corporate auditors. It carries out auditing in accordance with the annual plan, which specifies priority audit items. Corporate auditors hold regular meetings with the internal audit departments to exchange information on the implementation status of compliance education and the operation status of the internal reporting system. They also have regular meetings with the accounting auditors to exchange information concerning the status of account settlement.

Remuneration of directors and corporate auditors

The Company paid 668 million yen to the 10 directors and 104 million yen to the five corporate auditors in fiscal year 2007. Of the total remuneration, 51 million yen was paid to outside officers. The remuneration for directors does not include employee salary for directors concurrently serving as employees.

milestones, and actions to resolve issues for reforms are being pursued. Single-year management objectives are reviewed by each organization on a quarterly basis, as actions aimed at achieving annual objectives are pursued. The Board of Directors receives reports on the attainment status of these management objectives, indicates activities to eliminate or reduce obstacles to greater efficiency, and deploys mechanisms for the Company as a whole to pursue efficiency and thereby achieve the goals. The purpose of this system is to enhance companywide efficiency in the effort to achieve objectives. A management information system is maintained for the purpose of identifying, reporting, and acting on information regarding the achievement of management objectives, in real time.

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

- Rules and control systems concerning meeting minutes and other information that should be preserved have been established in accordance with the Rules Governing the Board of Directors, the Rules on the Control of Communications and Documentation, and the Rules on the Control of Documentation.
- Rules and control systems concerning information confidentiality categories have been established in accordance with the Confidentiality Code and Regulations Concerning the Prevention of Insider Trading. In addition, people performing work for the Group are requested to sign confidentiality agreements.

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

- The conduct to be displayed by people performing work for the Group is set forth in the Yokogawa Group Compliance Guidelines. These guidelines require upstanding behavior completely free of antisocial conduct.
- The President repeatedly communicates the importance of legal compliance, and the Business Ethics Headquarters takes the lead in furthering compliance education.
- The Rules on the Internal Reporting and Consultation provide that there is an obligation to internally report suspicions that people performing work for the Group have or may have committed compliance violations. A system for receiving such internal reports has been established.
- The Business Ethics Headquarters monitors the status of compliance efforts and reports important findings to the Board of Directors and the corporate auditors.

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

- The Yokogawa Group Internal Control Systems have been established to ensure the appropriateness of the Group's business activities. Groupwide rules have been established and responsible units have been designated for each of the following 10 systems: Business Ethics System, Decision Making System, Quality Management System, Environmental Management System, Safety and Health Management System, Information Security Management System, Export Control System, Financial Reporting Control System, Crisis Management System, and Corporate Auditing Infrastructure System. Important matters are reported to the Board of Directors and the corporate auditors.
- With regard to the matter of ensuring the reliability of financial reports, in particular, controls for the performance of accounting work in each Group company have been set forth through the establishment of the Accounting and Finance Policy, the purpose of which is to ensure the appropriateness of accounting work performed within the Financial Reporting Control System. In

addition, a system for evaluating and disclosing evaluation results for the system and operational status of financial reporting internal controls has been established in accordance with the internal control reporting system requirements of the Financial Instruments and Exchange Law.

- Internal audits of the effectiveness of the Yokogawa Group Internal Control Systems are performed by the Internal Audit Department in accordance with the Group Management Audit Code, and important matters are reported to the Board of Directors and the 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.

6 Rules and other systems for crisis management

- The Yokogawa Group Internal Control Systems have been established to ensure the appropriateness of Group business activities. As the unit responsible for risk management, the Internal Audit Department identifies and analyzes risks, and makes recommendations for making appropriate improvements. It also reports important matters to the Board of Directors and the corporate auditors.
- Responses to crisis situations are set forth in the Group Policy for Crisis Management. As the head of the Crisis Management Office, the President controls the communication of information and issuance of instructions during times of crisis, and works to ensure human safety and minimize economic losses.

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:
 - Violations of laws, ordinances, and the Articles of Incorporation
 - Important matters concerning the internal audit situation and risk management
 - Matters that could cause significant losses to the Company
 - Important matters concerning decision-making
 - Important matters concerning the management situation
 - Matters concerning information reported via the internal reporting system
 - Other important matters related to compliance

8 Other systems for ensuring effective auditing by corporate auditors

- Views are periodically exchanged among the President, the Internal Audit Department, the Business Ethics Headquarters, and the accounting auditor. 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 Auditor's 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 independence of the above assistants from directors

- Personnel transfers related to the Corporate Auditor's Office require prior approvals from the Board of Corporate Auditors.
- Assessment of the assistants working in the Corporate Auditor's Office is conducted by corporate auditors designated by the Board of Corporate Auditors.

Directors, Corporate Auditors, and Officers

(as of June 26, 2008)

Directors



Isao Uchida
Representative Director
Chairman of the Board



Shuzo Kaihori
Representative Director
President and
Chief Executive Officer



Kazunori Yagi
Director
Executive Vice President



Kazuhiko Kimura
Director
Executive Vice President



Teruyoshi Minaki
Director
Executive Vice President



Takashi Fujii
Director
Senior Vice President



Junji Yamamoto
Director
Senior Vice President



Masahisa Naito
Outside Director



Yasuro Tanahashi
Outside Director

Corporate Auditors



Taiki Utsumi



Takafumi Koyanagi



Shigeru Hikuma*



Teruhiko Ikeda*



Kouichi Iki*

*Outside corporate auditor

Officers

Senior Vice Presidents

Hiroyuki Tanaka
Toshiaki Shirai
Satoru Kurosu
Manabu Sasada
Shuhei Sakuno

Vice Presidents

Toshiki Okuzumi
Kazutomo Nishimura
Hiroshi Yuhara
Sumihide Matsumoto
Yasunori Kawata
Nobumasa Hamaguchi
Shin-ichi Takigishi
Akira Miura
Kiyoshi Makino

Makoto Torii
Makoto Otake
Masatoshi Nakahara
Dota Aizawa
Jun Aoyama
Kimimasa Hiromi
Hideo Arai
Kouji Sano
Yutaka Ono

Global Network

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

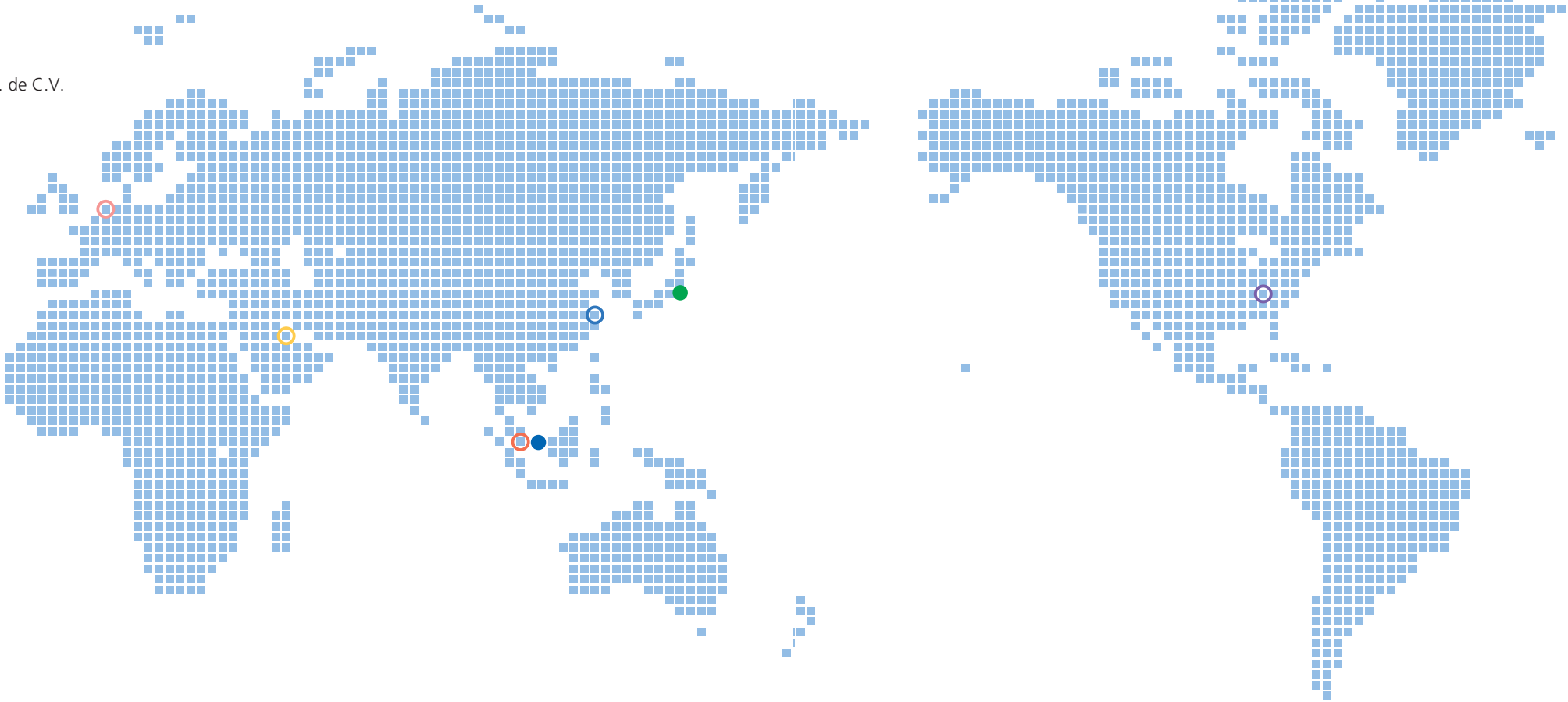
- Netherlands
○ Yokogawa Europe B.V.
Yokogawa Europe Solutions B.V.
Yokogawa Europe Branches B.V.
- Austria
Yokogawa GesmbH Central East Europe
- Belgium
Yokogawa Belgium N.V./S.A.
- France
Yokogawa France S.A.S.
- Germany
Yokogawa Deutschland GmbH
Yokogawa Measurement Technologies GmbH
Rota Yokogawa GmbH & Co. KG
- Hungary
Yokogawa Hungaria Kft.
- Italy
Yokogawa Italia S.r.l.
- Spain
Yokogawa Iberia S.A.
- Sweden
Yokogawa Measurement Technologies AB
- United Kingdom
Yokogawa United Kingdom Limited
Yokogawa Measurement Technologies Ltd.
Yokogawa Marex Limited
- Russia
Yokogawa Electric CIS Ltd.
Yokogawa Electric Sakhalin Ltd.

Africa

- South Africa
Yokogawa South Africa (Pty) Ltd.

Middle East

- Bahrain
○ Yokogawa Middle East B.S.C.(c)
Yokogawa Engineering Bahrain S.P.C.
- Saudi Arabia
Yokogawa Saudi Arabia Ltd.
Yokogawa Services Saudi Arabia Ltd.
- United Arab Emirates
Yokogawa Engineering Middle East FZE



- ○ ○ ○ ○ ...Regional headquarters
- ...Yokogawa Electric Corporation
- ...Yokogawa's international business headquarters

Asia

- Singapore
● Yokogawa Electric International Pte. Ltd.
○ Yokogawa Engineering Asia Pte. Ltd.
Yokogawa Electric Asia Pte. Ltd.
Yokogawa Measurement Pte. Ltd.
Plant Electrical Instrumentation Pte. Ltd.
Yokogawa Reinsurance Pte.Ltd.
- Indonesia
P. T. Yokogawa Indonesia
P. T. Yokogawa Manufacturing Batam
- Malaysia
Yokogawa Electric (Malaysia) Sdn. Bhd.
Yokogawa Kontrol (Malaysia) Sdn. Bhd.
Yokogawa Industrial Safety Systems Sdn. Bhd.
- Philippines
Yokogawa Philippines Inc.
- Thailand
Yokogawa (Thailand) Ltd.
E and I Solution Co., Ltd.
- Vietnam
Yokogawa Vietnam Company Ltd.
- India
Yokogawa India Ltd.
Yokogawa IA Technologies India Private Limited
- China
○ Yokogawa China Co., Ltd.
Yokogawa Electric China Co., Ltd.
Yokogawa Sichuan Instrument Co., Ltd.
Suzhou Yokogawa Meter Company
Yokogawa Shanghai Instrumentation Co., Ltd.
Shanghai Yokogawa Petrochemical Instrumentation 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.

Oceania

- Australia
Yokogawa Australia Pty. Ltd.
TechComm Simulation Pty. Ltd.
- New Zealand
Yokogawa New Zealand Ltd.

Subsidiaries and Affiliated Companies in Japan

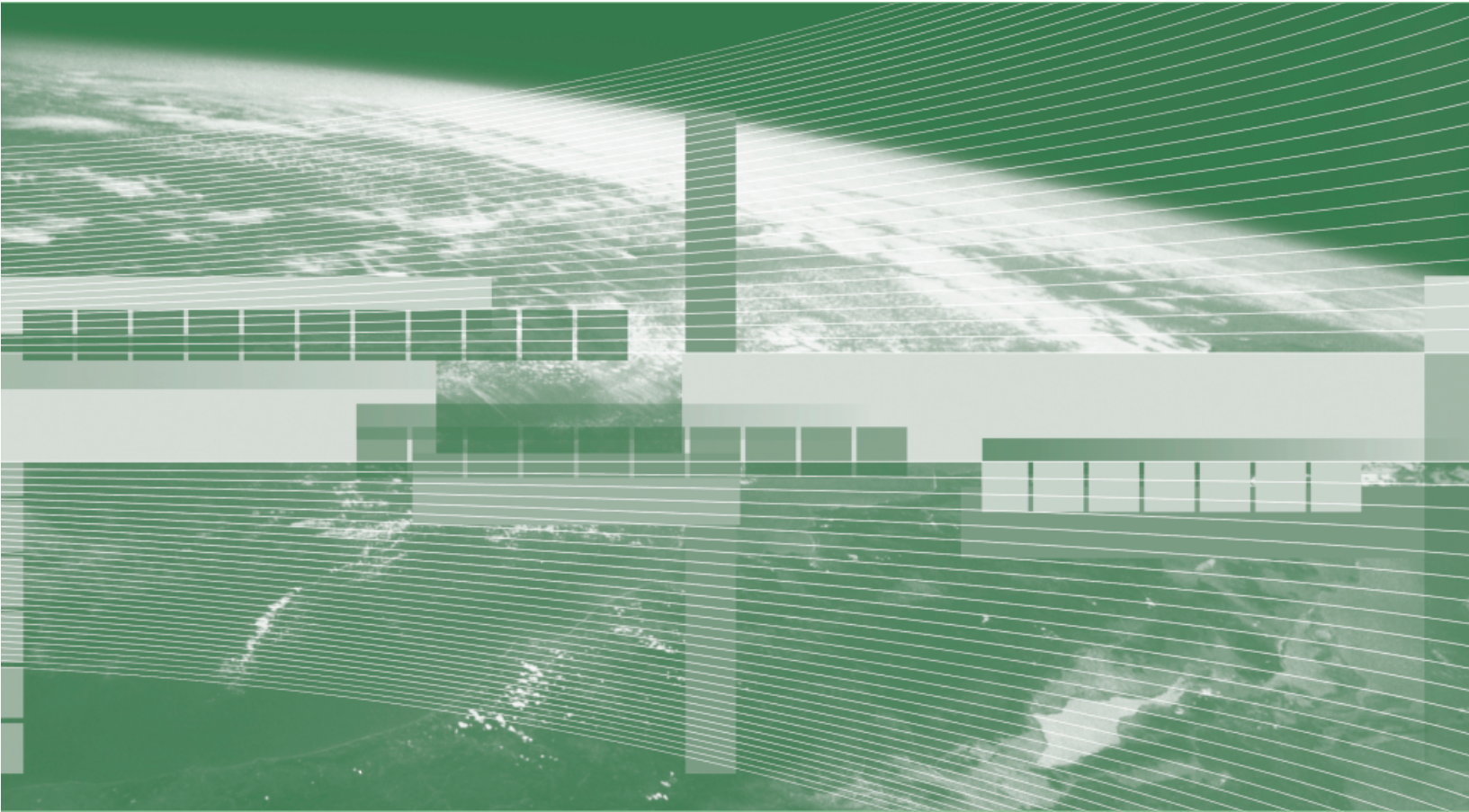
- | | |
|--|---|
| Yokogawa Manufacturing Corporation | Nippon System Gijutsu Co. |
| Yokogawa Field Engineering Service Corporation | Yokogawa Meters & Instruments Corporation |
| Yokogawa & Co., Ltd. | Kokusai Chart Corporation |
| Yokogawa Denshikiki Co., Ltd. | Yokogawa Denyo Corporation |
| Morioka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

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 HBT 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, 2008



Contents

34	Consolidated 5-year Summary	41	Consolidated Statements of Changes in Equity
36	Financial Review	42	Consolidated Statements of Cash Flows
38	Consolidated Balance Sheets	44	Notes to Consolidated Financial Statements
40	Consolidated Statements of Income	64	Report of Independent Auditors

Consolidated 5-year Summary

YOKOGAWA ELECTRIC CORPORATION AND ITS SUBSIDIARIES
FOR THE YEAR ENDED MARCH 31, 2008

	Billions of Yen					Millions of US Dollars (Note 3)
	March 31					March 31
	2004	2005	2006	2007	2008	2008
For the year:						
Net sales	¥ 371.9	¥ 387.1	¥ 388.9	¥ 433.4	¥ 437.4	\$ 4,366
Cost of sales	241.4	250.0	245.9	275.9	277.4	2,769
Selling, general and administrative expenses	112.3	112.3	117.6	128.2	132.6	1,324
Operating income	18.3	24.8	25.3	29.3	27.4	274
Operating income ratio (%)	4.9	6.4	6.5	6.8	6.3	—
Net income	24.3	9.4	21.6	12.6	11.7	116
At year-end:						
Total assets	397.4	400.3	417.8	438.7	444.6	4,438
Debt	233.2	227.0	188.3	199.8	219.8	2,194
Interest-bearing debt	99.6	100.3	61.3	59.6	93.0	928
Shareholders' equity	160.3	168.8	224.6	234.3	220.7	2,203
Shareholders' equity ratio (%)	40.3	42.2	53.7	53.4	49.6	—
Earnings per share:						
Net income (yen/US dollars)	99.84	38.43	87.45	47.79	44.76	0.45
Dividends (yen/US dollars)	7.50	7.50	15.00	15.00	16.00	0.16
Shareholders' equity (yen/US dollars)	658.97	693.75	854.24	891.08	856.72	8.55
Stock information:						
Stock price at the end of the term (yen/US dollars)	1,544	1,452	2,095	1,806	998	9.96
Aggregate market value	392.1	368.8	562.8	485.1	268.1	2,676
Number of shares (shares)	253,967,991	253,967,991	268,624,510	268,624,510	268,624,510	—

Unification of the accounting periods of non-Japan consolidated subsidiaries

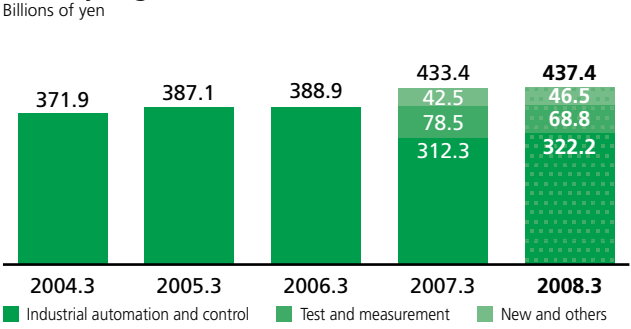
Beginning with the fiscal year ended March 31, 2007, financial statements based on the provisional settlement of accounts implemented as of the consolidated closing date are being used for Yokogawa Electric China Co., Ltd., and 10 other non-Japan subsidiaries, and the closing date for Yokogawa USA, Inc., 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.

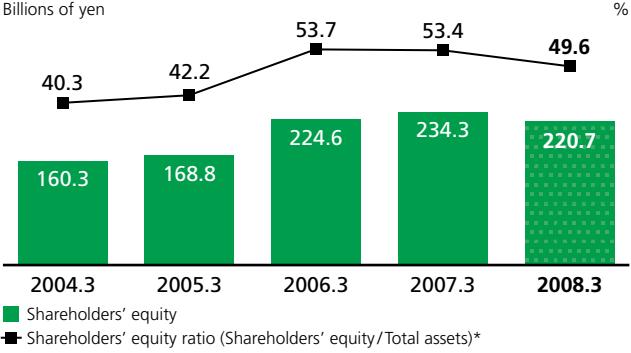
New method for calculating financial figures

A new method for calculating financial figures by business segment was introduced in fiscal year 2007. Thus, the segment figures for orders, sales, and operating income differ in part from those reported in previous years.

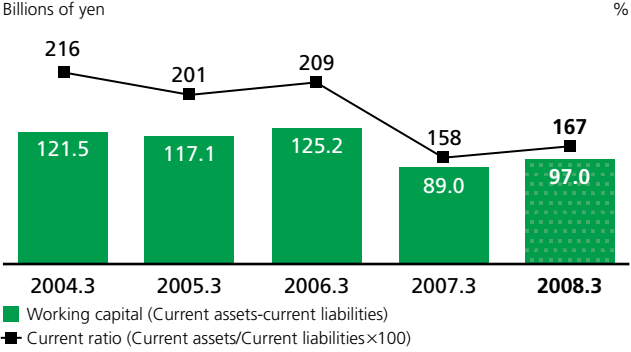
Sales by Segment



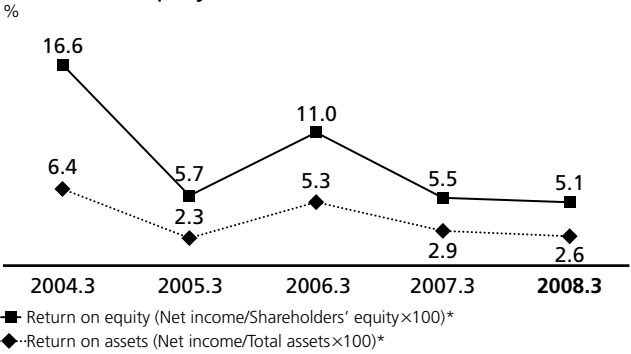
Shareholders' Equity / Shareholders' Equity Ratio



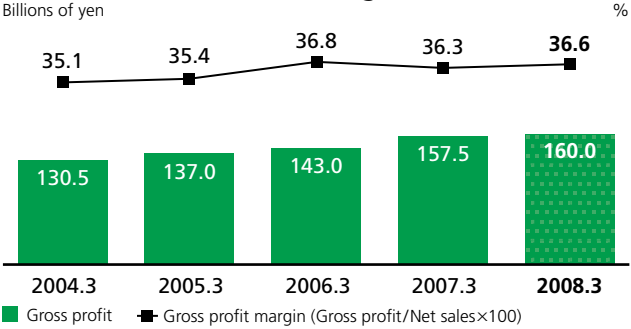
Working Capital / Current Ratio



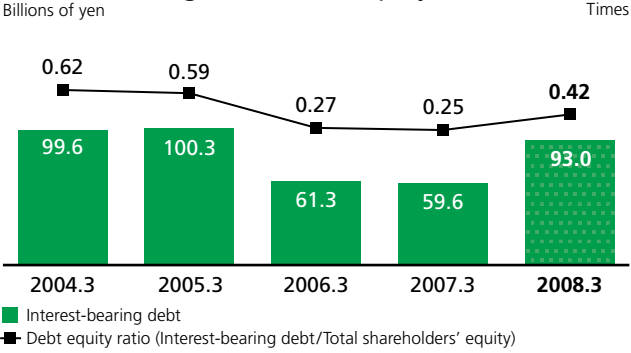
Return on Equity / Return on Assets



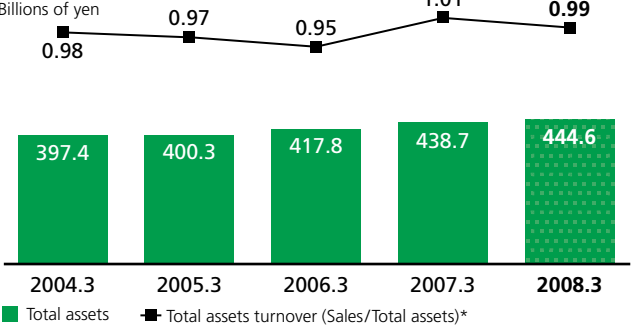
Gross Profit / Gross Profit Margin



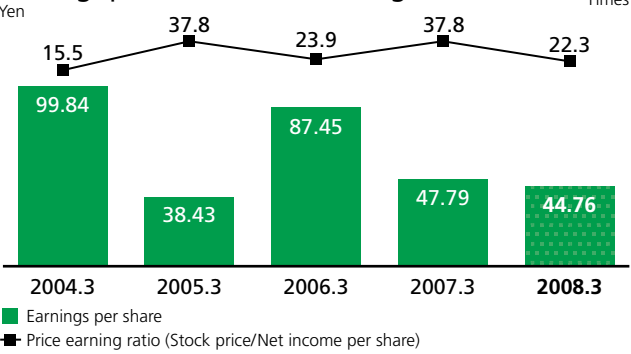
Interest-bearing Debt / Debt Equity Ratio



Total Assets / Total Assets Turnover



Earnings per Share / Price Earning Ratio



*Calculated using average amount of the beginning and the end of the fiscal year

Financial Review

Overview of financial results for fiscal year 2007

Consolidated net sales in fiscal year 2007 increased by 4.0 billion yen to 437.4 billion yen (US\$4,366 million) from the previous fiscal year. On the other hand, operating income decreased by 1.9 billion yen, to 27.4 billion yen (US\$274 million), and ordinary income declined by 13.1 billion yen to stand at 16.5 billion yen (US\$164 million). Net income also fell by 0.9 billion yen to 11.7 billion yen (US\$116 million).

Results by individual business segment are outlined below: the industrial automation and control business saw both its sales and operating income grow from the previous fiscal year, backed by active investment in energy-related facilities in the international markets, while the test and measurement business posted a decrease both in sales and operating income due to moves to curb investment in the semiconductor test system market. The new and other businesses recorded increased sales and decreased operating income because of the rise in expenses related to launch of businesses.

As a result, net sales increased from the previous fiscal year in the Group as a whole, but operating income decreased due to an increase in expenses in connection with up-front investment. Ordinary income declined year on year more sharply than operating income primarily due to an increase in exchange losses resulting from the strong yen and a rise in net loss on disposal/write-down of inventories, in addition to a decline in operating income. The decrease in net income is smaller than that in ordinary income, since deferred income taxes decreased, due in part to the posting of deferred tax assets by subsidiaries.

Conditions of assets, liabilities, and net assets

Total assets at the end of this consolidated accounting period were 444.6 billion yen, an increase of 6.0 billion yen over the previous period. Current assets decreased by 0.8 billion yen. The main factors were an 8.4 billion yen increase in accounts receivable, a 2.8 billion yen increase in other current assets due to an increase in net sales (net sales for the previous period increased by 22.1 billion yen because the closing dates of the subsidiaries outside Japan had been changed), a 7.1 billion yen decrease in cash and time deposits, and a 5.3 billion yen decrease in inventories. Fixed assets increased by 6.8 billion yen. The main factors were a 10.3 billion yen decrease in investments in marketable securities due to such reasons as the flagging stock market, a 2.4 billion yen increase in tangible fixed assets, a 7.8 billion yen increase in intangible fixed assets due to construction of information system infrastructure and other items, and a 7.1 billion yen increase in deferred tax assets.

Total liabilities were 219.8 billion yen, up 20 billion yen from the previous period. The main factors were a 20 billion yen decrease by redemption of corporate bonds, a 4 billion yen decrease in other current liabilities attributed to payment of tangible fixed assets payable, a 4.3 billion yen decrease in long-term accounts payable because of payments associated with a change in the retirement payment system, a 34.7 billion yen increase in long-term debt such as syndicated loans, and a 17.1 billion yen increase in other current liabilities because of the issuance of commercial paper and other factors.

Net assets were 224.8 billion yen, down 14.1 billion yen from the previous period. The main factors were a 7.3 billion yen increase in retained earnings, a 6.6 billion yen increase in

deductions for the purchase of treasury stock (decrease of net assets), an 8.9 billion yen decrease in net unrealized gains on other securities due to the sluggish stock market, and a 5.4 billion yen decrease in foreign currency translation adjustments due to fluctuating exchange rates.

Cash flow status

The balance of cash and cash equivalents at end of year was 30.2 billion yen, down 8.0 billion yen from the previous fiscal year. The main factors were proceeds of 20.8 billion yen from operating activities, payments of 51 billion yen from investing activities, and proceeds of 23.9 billion yen from financing activities.

Cash flow from operating activities recorded a net inflow of 20.8 billion yen, a decrease of 19.6 billion yen compared to the previous fiscal year, from a net income before tax and other adjustments of 14.4 billion yen, after adjusting for items such as a 23.1 billion yen increase in depreciation and amortization, a 10.5 billion yen increase in trade receivables, and a 5.9 billion yen decrease in income taxes paid or refunded.

Cash flow from investing activities recorded a net outflow of 51 billion yen, an increase of 12 billion yen over the previous period. The increase was due to outlays of 35.6 billion yen for the acquisition of tangible fixed assets, 11.2 billion yen for the acquisition of intangible fixed assets, and 6.9 billion yen for the acquisition of marketable securities.

Cash flow from financing activities recorded a net inflow of 23.9 billion yen from payments for the redemption of 20 billion yen in corporate bonds, an 8.7 billion yen reduction in short-term debt, the purchase of 6.6 billion yen of treasury stock, and cash dividends of 4.1 billion yen, after adjusting for 45.6 billion

yen in borrowing of long-term debt and an 18 billion yen increase in commercial paper.

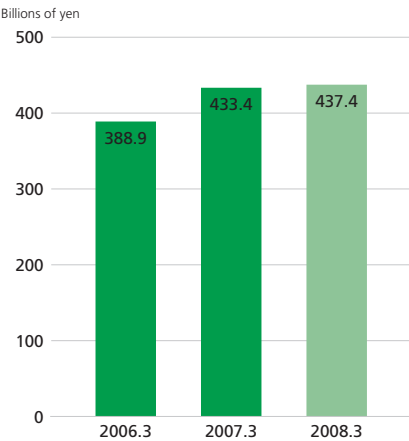
Policy on appropriation of profit and dividends for the period under review / subsequent periods

The Company recognizes that, along with establishing a stable management foundation, the continued distribution of profits to shareholders is one of its most important policies. We intend to pay out 30% of consolidated net income, but also take into consideration the need to accumulate internal reserves to invest in new businesses for mid- and long-term growth and development in emerging markets, and to strengthen our financial position.

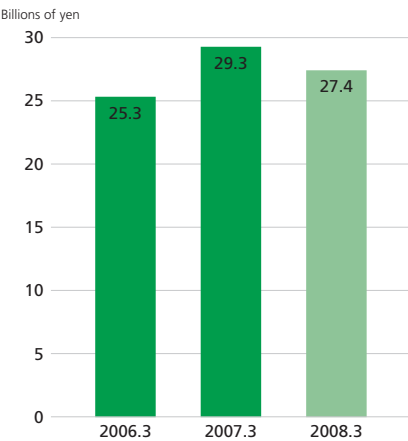
For fiscal year 2007, we decided to pay annual dividends of 16 yen per share: interim dividends of 8 yen and term-end dividends of 8 yen. For fiscal year 2008, we plan to pay annual dividends of 16 yen: 8 yen each as interim dividends and term-end dividends.

	2006.3	2007.3	2008.3
Capital expenditures	29,540	40,284	37,990
Depreciation and amortization	15,124	16,483	23,129
Research and development investment	30,917	36,223	40,875
Number of employees (person)	17,858	19,286	20,266
Average exchange rate during the period (yen)			
U.S. dollar	113.09	117.00	113.80
Euro	137.81	150.33	162.26

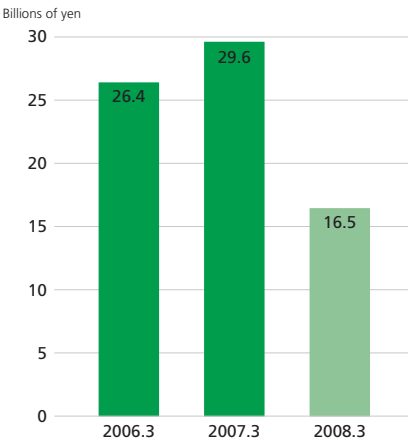
Sales



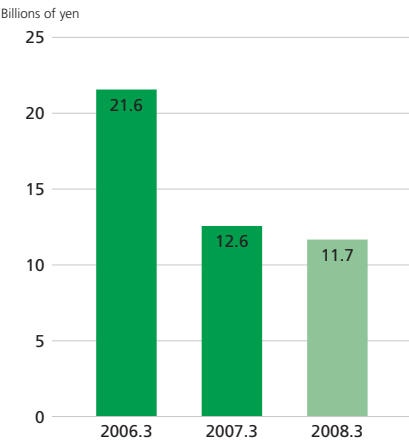
Operating Income



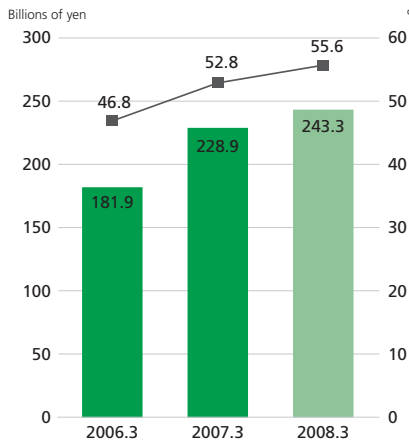
Ordinary Income



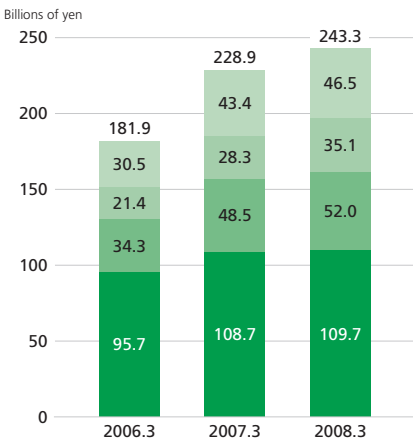
Net Income



Sales / Sales Ratio Outside Japan



Sales Outside Japan by Geographic Area



Consolidated Balance Sheets

YOKOGAWA ELECTRIC CORPORATION AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2008 AND 2007

	Millions of yen		Thousands of US dollars (Note 1)
	2008	2007	2008
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 2b and 10)	¥ 30,210	¥ 38,179	\$ 301,525
Marketable securities (Notes 2d and 7)	301	253	3,006
Receivables (Note 3)			
Trade notes and accounts	142,903	134,480	1,426,314
Other	5,285	4,708	52,752
	148,188	139,188	1,479,066
Less: Allowance for doubtful receivables	(3,256)	(2,065)	(32,499)
	144,932	137,123	1,446,567
Inventories (Note 2c)	44,815	50,134	447,303
Deferred tax assets (Notes 14 and 2l)	12,217	10,685	121,933
Other current assets	9,892	6,785	98,735
Total current assets	242,367	243,159	2,419,069
Property, Plant and Equipment (Notes 2e, 2f, 5 and 6):			
Land (Note 10)	18,626	20,451	185,914
Buildings and structures (Note 10)	51,133	54,512	510,358
Machinery and equipment	21,694	19,823	216,526
Furniture and fixtures	10,162	11,532	101,426
Construction in progress	9,928	2,813	99,096
Total	111,543	109,131	1,113,320
Investments and Other Assets:			
Investment securities (Notes 7, 8 and 10)	40,267	50,561	401,902
Long-term loans	105	157	1,053
Intangible assets	22,037	14,275	219,949
Deferred tax assets (Notes 14 and 2l)	16,605	9,556	165,739
Other assets (Note 8)	12,359	12,488	123,361
Less: Allowance for doubtful receivables	(639)	(643)	(6,381)
Total investments and other assets	90,734	86,394	905,623
Total	¥ 444,644	¥ 438,684	\$ 4,438,012

See notes to consolidated financial statements.

	Millions of yen		Thousands of US dollars (Note 1)
	2008	2007	2008
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term bank loans (Notes 10 and 11)	¥ 8,212	¥ 7,815	\$ 81,967
Current portion of long-term debt	10,767	30,542	107,469
Payable (Note 10)			
Trade notes and accounts	40,035	41,344	399,590
Other	18,807	23,171	187,718
	58,842	64,515	587,308
Income taxes payable	2,604	3,425	25,992
Accrued expenses	27,965	33,176	279,118
Other current liabilities (Note 14)	36,981	14,715	369,096
Total current liabilities	145,371	154,188	1,450,950
Long-term Liabilities:			
Long-term debt (Notes 9,10 and 11)	55,993	21,274	558,870
Liability for retirement benefits (Notes 2g and 12)	5,222	6,224	52,119
Other (Note 14)	13,214	18,095	131,890
Total long-term liabilities	74,429	45,593	742,879
Commitments and Contingent Liabilities (Note 16)			
Equity (Notes 2h and 17(2)):			
Common stock:			
Authorized: 600,000,000 shares			
Issued: 268,624,510 shares in 2008 and 2007	43,401	43,401	433,188
Capital surplus	50,355	50,355	502,600
Retained earnings	139,952	132,603	1,396,868
Net unrealized gain on available-for-sale securities	2,991	11,927	29,854
Net deferred gain on derivatives under hedge accounting	1	6	13
Foreign currency translation adjustments	(5,036)	349	(50,269)
Treasury stock—at cost, 11,045,061 shares in 2008 and 5,737,599 shares in 2007	(10,990)	(4,389)	(109,696)
Total	220,674	234,252	2,202,558
Minority interests	4,170	4,651	41,625
Total equity	224,844	238,903	2,244,183
Total			
	¥ 444,644	¥ 438,684	\$ 4,438,012

See notes to consolidated financial statements.

Consolidated Statements of Income

YOKOGAWA ELECTRIC CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2008 AND 2007

	Millions of yen		Thousands of US dollars (Note 1)
	2008	2007	2008
Net Sales	¥ 437,448	¥ 433,405	\$ 4,366,189
Cost of Sales	277,430	275,948	2,769,041
Gross profit	160,018	157,457	1,597,148
Selling, General and Administrative Expenses	132,605	128,182	1,323,538
Operating income	27,413	29,275	273,610
Other Income (Expenses):			
Interest and dividend income	2,004	5,576	19,997
Interest expense	(1,308)	(1,097)	(13,057)
Net loss on disposal/write-down of inventories	(5,903)	(3,077)	(58,915)
Net loss on sale/impairment of investment securities	(583)	(1,553)	(5,822)
Foreign exchange loss (Note 2m)	(4,570)	(831)	(45,615)
Net loss on sale/disposal of property, plant and equipment	(327)	(1,060)	(3,267)
Loss on impairment of long-lived assets (Note 5)	(1,116)	(776)	(11,137)
Equity in earnings of unconsolidated subsidiaries and associated companies	869	878	8,677
Government grants	1,904		19,003
Prior period adjustment for impairment loss		201	
Other, net	(3,948)	(2,415)	(39,401)
Other income (expenses), net	(12,978)	(4,154)	(129,537)
Income Before Income Taxes and Minority Interests	14,435	25,121	144,073
Income Taxes (Notes 2l and 14):			
Current	5,187	4,926	51,775
Deferred	(3,129)	6,928	(31,237)
Total income taxes	2,058	11,854	20,538
Minority Interests in Net Income	(710)	(704)	(7,082)
Net Income	¥ 11,667	¥ 12,563	\$ 116,453
	Yen		US dollars (Note 1)
	2008	2007	2008
Per Share of Common Stock (Notes 2p and 17):			
Basic net income	¥ 44.76	¥ 47.79	\$ 0.45
Cash dividends applicable to the year	16.00	15.00	0.16

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

YOKOGAWA ELECTRIC CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2008 AND 2007

	Outstanding number of shares of common stock	Millions of yen									
		Common stock	Capital surplus	Retained earnings	Unrealized gain on available for- sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
Balance, April 1, 2006	262,884,517	¥ 43,401	¥ 50,348	¥ 123,311	¥ 14,864	¥ 38	¥ (2,979)	¥ (4, 379)	¥ 224,604	¥ 4,960	¥ 229,564
Net income				12,563					12,563		12,563
Cash dividends, ¥12.5 per share				(3,286)					(3,286)		(3,286)
Bonuses to directors and corporate auditors (Note 2k)				(20)					(20)		(20)
Purchase of treasury stock	15,998							(24)	(24)		(24)
Disposal of treasury stock	(13,604)		7					13	20		20
Other				35				1	36		36
Net change in the year					(2,937)	(32)	3,328		359	(309)	50
Balance, March 31, 2007	262,886,911	43,401	50,355	132,603	11,927	6	349	(4,389)	234,252	4,651	238,903
Net income				11,667					11,667		11,667
Cash dividends, ¥15.5 per share				(4,074)					(4,074)		(4,074)
Purchase of treasury stock	(5,310,467)							(6,604)	(6,604)		(6,604)
Disposal of treasury stock	3,005							3	3		3
Other				(244)					(244)		(244)
Net change in the year					(8,936)	(5)	(5,385)		(14,326)	(481)	(14,807)
Balance, March 31, 2008	257,579,449	¥ 43,401	¥ 50,355	¥ 139,952	¥ 2,991	¥ 1	¥ (5,036)	¥ (10,990)	¥ 220,674	¥ 4,170	¥ 224,844

	Thousands of US dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available for- sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
Balance, March 31, 2007	\$ 433,188	\$ 502,598	\$ 1,323,517	\$ 119,043	\$ 62	\$ 3,481	\$ (43,810)	\$ 2,338,079	\$ 46,418	\$ 2,384,497
Net income			116,453					116,453		116,453
Cash dividends, ¥15.5 per share			(40,671)					(40,671)		(40,671)
Purchase of treasury stock							(65,911)	(65,911)		(65,911)
Disposal of treasury stock		2					24	26		26
Other			(2,431)				1	(2,430)		(2,430)
Net change in the year				(89,189)	(49)	(53,750)		(142,988)	(4,793)	(147,781)
Balance, March 31, 2008	<u>\$ 433,188</u>	<u>\$ 502,600</u>	<u>\$ 1,396,868</u>	<u>\$ 29,854</u>	<u>\$ 13</u>	<u>\$ (50,269)</u>	<u>\$ (109,696)</u>	<u>\$ 2,202,558</u>	<u>\$ 41,625</u>	<u>\$ 2,244,183</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YOKOGAWA ELECTRIC CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2008 AND 2007

	Millions of yen		Thousands of US dollars (Note 1)
	2008	2007	2008
Operating Activities:			
Income before income taxes and minority interests	¥ 14,435	¥ 25,121	\$ 144,073
Adjustments for:			
Income taxes – paid, refund-received	(5,860)	(4,964)	(58,487)
Interest expense – paid	(1,389)	(1,077)	(13,864)
Interest and dividend income received	2,073	5,646	20,693
Depreciation and amortization	23,130	16,484	230,858
Increase in allowance for doubtful accounts	1,406	389	14,036
(Decrease) in reserve for retirement benefits	(766)	(1,393)	(7,649)
(Decrease) increase in accrued bonus	(80)	1,564	(799)
Interest and dividend income	(2,004)	(5,576)	(19,997)
Interest expense	1,308	1,097	13,057
Equity in earnings of unconsolidated subsidiaries and associated companies	(869)	(878)	(8,678)
Impairment loss on investment securities	726	1,608	7,242
Gain on sale of investment securities	(142)	(55)	(1,420)
Loss of disposal of property, plant and equipment	416	891	4,156
Impairment loss in long-lived assets	1,116	776	11,137
Loss on change in equity interest in unconsolidated subsidiaries and associated companies		2	
Changes in assets and liabilities, net of effects:			
(Increase) decrease in trade accounts receivable	(10,461)	690	(104,409)
Decrease (increase) in inventories	3,795	(4,176)	37,877
Increase in trade payable	661	966	6,597
(Decrease) in other payable due to change in retirement benefit plan	(4,309)	(4,189)	(43,004)
Other, net	(2,351)	7,536	(23,467)
Total adjustments	6,400	15,341	63,879
Net cash provided by operating activities	20,835	40,462	207,952
Investing Activities:			
Acquisition of property, plant and equipment	(35,589)	(27,244)	(355,213)
Proceeds from sale of property, plant and equipment	2,284	1,290	22,802
Acquisition of investment in securities	(6,879)	(2,589)	(68,654)
Proceeds from sale of investment securities	2,412	106	24,072
Acquisition of intangible assets	(11,191)	(6,127)	(111,699)
Other, net	(2,081)	(4,475)	(20,774)
Net cash used in investing activities	(51,044)	(39,039)	(509,466)
Forward	¥ (30,209)	¥ 1,423	\$ (301,514)

(Continued)

	Millions of yen		Thousands of US dollars (Note 1)
	2008	2007	2008
Forward	¥ (30,209)	¥ 1,423	\$ (301,514)
Financing Activities:			
Decrease in short-term bank loans, net	(8,715)	(4,812)	(86,989)
Increase(decrease) in commercial paper, net	18,000	(5,000)	179,659
Proceeds from long-term debt	45,580	8,098	454,937
Repayments of long-term debt	(11)	(542)	(113)
Redemption of bonds	(20,000)		(199,621)
Repurchase of treasury stock	(6,604)	(24)	(65,911)
Cash dividends paid to minority shareholders	(259)	(546)	(2,585)
Dividends paid	(4,070)	(3,290)	(40,621)
Other, net	3	20	28
Net cash provided by (used in) financing activities	23,924	(6,096)	238,784
Foreign Currency Translation Adjustment on Cash and Cash Equivalents	(1,823)	1,221	(18,196)
Net Decrease in Cash and Cash Equivalents	(8,108)	(3,452)	(80,926)
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year	139	66	1,387
Cash and Cash Equivalents, Beginning of Year	38,179	41,565	381,064
Cash and Cash Equivalents, End of Year (Note 2b)	¥ 30,210	¥ 38,179	\$ 301,525

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2008 AND 2007

1 Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications

have been made in the 2007 financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yokogawa Electric Corporation (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into US dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100.19 to \$1, the exchange rate at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into US dollars at that or any other rate.

2 Summary of Significant Accounting Policies

a. Scope of Consolidation — The consolidated financial statements as of March 31, 2008 include the accounts of the Company and 84 significant (78 in 2007) subsidiaries (together, the “Group”).

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 3 (3 in 2007) unconsolidated subsidiaries and 5 (8 in 2007) affiliated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 20 years.

All significant inter-company balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Specifically cash equivalents represent time deposits which mature within three months of the date of acquisition.

c. 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.

d. Marketable and Investment Securities — Marketable and investment securities are classified and accounted for, depending on management’s intent, as follows:

- i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and
- ii) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed substantially by the declining balance method at the rate based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired on or after April 1, 1998 by the Company and its subsidiaries in Japan. Property, plant and equipment acquired on and after April 1, 2007 by the Company and its subsidiaries in Japan are depreciated by the declining-balance method in accordance with the revised corporate tax law. The effect of this treatment was to

decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥1,345 million (US\$13,426 thousand).

In prior years, property, plant and equipment had been depreciated up to 95% of acquisition cost with 5% of residual value. However, beginning April 1, 2007 such 5% portion of property, plant and equipment is being systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised corporate tax law, which is effective for fiscal years beginning on and after April 1, 2007. The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥522 million (US\$5,214 thousand).

The range of useful lives is from 3 to 50 years for buildings, from 4 to 10 years for machinery and equipment.

f. Long-lived Assets — The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Retirement and Pension Plans — The Company and certain subsidiaries have adopted defined contribution plans, and some other subsidiaries have adopted defined benefit plans for employees. Under a defined benefit plan, the liability for retirement benefits 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 years of service 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 years of service of the employees.

h. Presentation of Equity — On December 9, 2005, the Accounting Standards Board of Japan (ASBJ) published a

new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

i. Research and Development Costs — Research and development costs are charged to income as incurred.

j. Leases — Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements. All other leases are accounted for as operating leases.

k. Bonuses to Directors and Corporate Auditors — At certain subsidiaries, bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

l. 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.

m. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement.

n. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated subsidiaries outside Japan are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation were shown as “Foreign currency translation adjustments” in a separate component of equity. Revenue and expense accounts of consolidated subsidiaries outside Japan are translated into yen at the average exchange rate.

o. Derivatives and Hedging Activities — The Company and certain subsidiaries (the “Companies”) use a variety of derivative financial instruments, including foreign currency forward contracts, currency options, currency swaps and interest rate swaps as a means of hedging exposure to foreign currency and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives except those which qualified for hedge accounting are measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts and currency swaps are utilized to hedge foreign currency exposures for loans denominated in foreign currencies, and if the forward contracts and currency swaps qualify for hedge accounting, these loans are translated at the contracted rates. Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. Those interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

p. Per Share Information — Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

q. 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 outside Japan, 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 overseas consolidated subsidiaries 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 taxes and minority interests, and net income by ¥22,089 million, ¥1,368 million, ¥1,276 million and ¥985 million, respectively.

r. New Accounting Pronouncements

Measurement of Inventories — Under generally accepted accounting principles in Japan (“Japanese GAAP”), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, “Accounting Standard for Measurement of Inventories,” which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting — On March 30, 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions,” which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Lessee: Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

— Under Japanese GAAP, a company currently can use the financial statements of its subsidiaries outside Japan which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” The new standard prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by subsidiaries outside Japan in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss

- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

Construction Contracts — Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. On December 27, 2007, the ASBJ published a new accounting standard for construction contracts. Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3 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 had not been reached as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2008	2007	2008
Notes and accounts receivable	¥ 21,354	¥ 24,355	\$ 213,136
(with recourse, included in above)	(3,032)	(5,698)	(30,267)

4 Leases

The Group leases certain machinery and equipment, furniture and fixtures and other assets.

Pro forma information of leased assets such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance lease,

depreciation expense, and other information of finance leases that do not transfer ownership of the leased assets to the lessee on a “as if capitalized” basis for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen				Thousands of US dollars
	2008				2008
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Balance as of March 31, 2008	Balance as of March 31, 2008
Buildings and structures	¥ 10	¥ 5		¥ 5	\$ 51
Machinery and equipment	558	290	¥ 135	133	1,327
Furniture and fixtures	1,363	696		667	6,656
Intangible assets	283	188		95	953
Total	¥ 2,214	¥ 1,179	¥ 135	¥ 900	\$ 8,987

	Millions of yen			
	2007			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Balance as of March 31, 2007
Buildings and structures	¥ 160	¥ 154		¥ 6
Machinery and equipment	1,469	952	¥ 135	382
Furniture and fixtures	1,408	800		608
Intangible assets	389	234		155
Total	¥ 3,426	¥ 2,140	¥ 135	¥ 1,151

Acquisition cost includes the imputed interest expense portion.

Obligations under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2008	2007	2008
Due within one year	¥ 405	¥ 497	\$ 4,039
Due after one year	544	654	5,429
	¥ 949	¥ 1,151	\$ 9,468

Allowance for impairment loss on leased assets of ¥48 million (US\$481 thousand) and ¥106 million as of March 31, 2008 and 2007 are not included in the obligations under finance leases.

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2008	2007	2008
Lease rental expenses for the year	¥ 628	¥ 744	\$ 6,270
Reversal of allowance for impairment loss on leased assets	58	29	577
Depreciation expense	628	744	6,270
Impairment loss		135	

Depreciation expense, which is not reflected in the accompanying statements of income, is computed using the straight-line method over the lease terms assuming no residual value.

The minimum rental commitments under non-cancellable operating leases at March 31, 2008 were as follows:

	Millions of yen		Thousands of US dollars
	2008	2007	2008
Due within one year	¥ 1,818		\$ 18,147
Due after one year	5,932		59,202
	¥ 7,750		\$ 77,349

5 Long-lived Assets

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2008 and 2007 and, as a result, recognized impairment losses of ¥1,116 million (US\$11,139 thousand) and ¥776 million, respectively. The

main components of the impairment losses on long-lived assets for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2008	2007	2008
Land	¥ 366		\$ 3,653
Buildings	451	¥ 340	4,502
Machinery and other	299	436	2,984
Total	¥ 1,116	¥ 776	\$ 11,139

The recoverable amount of assets was measured principally at their net selling price determined by quotations from third-parties.

The consolidated subsidiaries outside Japan perform

impairment tests and recognize an impairment loss, if applicable, in conformity with the generally accepted accounting principles of the countries of their domicile.

6 Accumulated Depreciation

Accumulated depreciation deducted from cost of property, plant and equipment in the accompanying consolidated balance sheets amounted to ¥140,800 million

(US\$1,118,937 thousand) and ¥132,090 million at March 31, 2008 and 2007, respectively.

7 Marketable and Investment Securities

Marketable and investment securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of US dollars
	2008	2007	2008
Current:			
Government and municipal bonds	¥ 251	¥ 253	¥ 2,503
Other	50		503
Total	¥ 301	¥ 253	\$ 3,006
Non-current:			
Government and municipal bonds	¥ 911	¥ 962	\$ 9,089
Equity securities and other	39,356	49,599	392,813
Total	¥ 40,267	¥ 50,561	\$ 401,902

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
March 31, 2008				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 18,023	¥ 6,459	¥ 2,160	¥ 22,322
Other	20	1	3	18
Held-to-maturity	1,212	10	2	1,220

March 31, 2007

Securities classified as:				
Available-for-sale:				
Equity securities	¥ 11,477	¥ 19,650		¥ 31,127
Other	48	7	¥ 5	50
Held-to-maturity	1,217	2	8	1,211

	Thousands of US dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value
March 31, 2008				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 179,893	\$ 64,464	\$ 21,557	\$ 222,800
Other	198	17	33	182
Held-to-maturity	12,095	97	17	12,175

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying amount		
	Millions of yen		Thousands of US dollars
	2008	2007	2008
Available-for-sale:			
Equity securities	¥ 11,912	¥ 13,980	\$ 118,894
Total	¥ 11,912	¥ 13,980	\$ 118,894

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥338 million (US\$3,374 thousand) and ¥76 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥135 million (US\$1,374 thousand) and nil, respectively, for the year ended March 31, 2008 and ¥52 million and ¥3 million, respectively, for the year ended March 31, 2007.

The schedule for redemption of held-to-maturity securities and other securities as of March 31, 2008 was as follows:

	Millions of yen	Thousands of US dollars
Due in one year or less	¥ 251	\$ 2,503
Due after one year through five years	961	9,592
Total	¥ 1,212	\$ 12,095

8 Investment in Unconsolidated Subsidiaries and Affiliated Companies

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2008	2007	2008
Securities	¥ 5,103	¥ 4,427	\$ 50,936
Investments and others - Other assets		255	
Total	¥ 5,103	¥ 4,682	\$ 50,936

9 Long-term Debt

Long-term debt as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2008	2007	2008
Loans from banks and other financial institutions with mortgage and collateral	¥ 66,760	¥ 31,816	\$ 666,339
0.850 percent bonds due on July 19, 2007		10,000	
0.740 percent bonds due on December 19, 2007		10,000	
	66,760	51,816	666,339
Less: current portion	10,767	30,542	107,469
	¥ 55,993	¥ 21,274	\$ 558,870

Annual maturities of long-term loans from banks and other financial institutions at March 31, 2008 were as follows:

	Millions of yen		Thousands of US dollars
Within one year	¥	10,767	\$ 107,469
Over one year, less than two years		223	2,231
Over two years, less than three years		24,236	241,900
Over three years, less than four years		28,181	281,276
Over four years, less than five years		1,676	16,728
Thereafter		1,677	16,735
Total	¥	66,760	\$ 666,339

The annual average interest rate on long-term loans (excluding current portion) from banks was 1.204%.

10 Collateral and Secured Debt

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2008	2007	2008
Collateral:			
Cash and time deposits	¥ 12	¥ 13	\$ 124
Buildings and structures	1,016	1,104	10,138
Land	90	90	898
Investment securities	1	2	13
Assets in subsidiaries outside Japan (*1)	4,363	4,282	43,547
Total	¥ 5,482	¥ 5,491	\$ 54,720

Note: *1 Assets in subsidiaries outside Japan represent an aggregate amount of accounts receivable and other assets of such subsidiaries.

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2008	2007	2008
Secured debt:			
Notes and accounts payable	¥ 8	¥ 21	\$ 83
Short-term bank loans	183	203	1,827
Long-term debt	140	323	1,398
Total	¥ 331	¥ 547	\$ 3,308

11 Commitment Line Agreement

The Company has commitment line agreements with financial institutions in order to obtain funds for stable and efficient operation.

The commitment line of credit as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2008	2007	2008
Total commitment line of credit	¥ 40,000	¥ 40,000	\$ 399,241
Outstanding borrowings	nil	nil	nil
Unused credit line	¥ 40,000	¥ 40,000	\$ 399,241

12 Retirement and Pension Plans

The Company and certain subsidiaries changed their retirement plans from defined benefit plans to defined contribution plans. 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.

As a result, the Company and certain subsidiaries have adopted defined contribution plans, while some other subsidiaries have adopted defined benefit plans.

In certain circumstances, additional payments are made upon the retirement of employees.

The (liability) asset for employees' retirement benefits at March 31, 2008 and 2007 consisted of the followings:

	Millions of yen		Thousands of US dollars
	2008	2007	2008
Projected benefit obligation	¥ (14,114)	¥ (15,986)	\$ (140,878)
Fair value of plan assets	8,920	9,933	89,032
Unfunded projected benefit	(5,194)	(6,053)	(51,846)
Unrecognized actuarial differences	244	(37)	2,439
Unrecognized prior service cost	(32)	(36)	(316)
Accrued pension cost	(4,982)	(6,126)	(49,723)
Prepaid pension cost	240	98	2,396
Net liability	¥ (5,222)	¥ (6,224)	\$ (52,119)

The components of net periodic benefit costs for the years ended March 2008 and 2007 were as follows:

	Millions of yen		Thousands of US dollars
	2008	2007	2008
Service cost	¥ 1,604	¥ 1,331	\$ 16,007
Interest cost	468	472	4,671
Expected return on plan assets	(347)	(330)	(3,461)
Amortization on actuarial differences	(0)	76	(5)
Amortization on prior service cost	(6)	(8)	(57)
Additional retirement benefit, etc.	119	110	1,185
Contribution to defined contribution plan	6,342	6,136	63,302
Sub total	8,180	7,787	81,642
Loss related to transfer from defined benefit plan	63	66	663
Net periodic benefit costs	¥ 8,243	¥ 7,853	\$ 82,275

Assumptions used for the years ended March 31, 2008 and 2007 are set forth as follows:

	2008	2007
Discount rate	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets	Mainly 1.5%	Mainly 1.5%
Method of attributing the projected benefits to periods of service	Mainly straight line amortization	Mainly straight line amortization
Amortization of prior service cost	Mainly 10 years	Mainly 10 years
Amortization of actuarial gain/loss	Mainly 10 years	Mainly 10 years

13 Research and Development Costs

Research and development costs charged to income were ¥40,876 million (US\$407,984 thousand) and ¥36,223 million for the years ended March 31, 2008 and 2007, respectively.

14 Income Taxes

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of US dollars
	2008	2007	2008
Deferred tax assets :			
Reserve for retirement benefits	¥ 1,437	¥ 1,984	\$ 14,349
Tax loss carry forwards	20,386	23,161	203,471
Impairment loss on securities	1,590	1,223	15,866
Accrued bonus	5,060	5,230	50,507
Write down of inventories	2,142	2,645	21,383
Accrued expense resulting from transfer of pension plan	5,519	6,964	55,086
Impairment loss on investment in subsidiaries	5,344	13,309	53,336
Other	8,995	5,616	89,776
Less valuation allowance	(13,310)	(26,110)	(132,842)
Total	¥ 37,163	¥ 34,022	\$ 370,932
Deferred tax liabilities:			
Special tax-purpose reserve	¥ (1,435)	¥ (1,490)	\$ (14,321)
Undistributed earnings of subsidiaries outside Japan	(4,376)	(3,763)	(43,679)
Net realized gain on available-for-sale securities	(1,957)	(7,646)	(19,535)
Other	(757)	(1,324)	(7,557)
Total	¥ (8,525)	¥ (14,223)	\$ (85,092)
Net deferred tax assets	¥ 28,638	¥ 19,799	\$ 285,840

Net deferred tax assets are included in the following accounts in the accompanying consolidated balance sheets.

	Millions of yen		Thousands of US dollars
	2008	2007	2008
Current asset-Deferred tax assets	¥ 12,217	¥ 10,685	\$ 121,933
Investment and other assets-Deferred tax assets	16,605	9,556	165,739
Current liability-Other current liabilities	(26)	(2)	(258)
Long-term liabilities-Other	(158)	(440)	(1,574)
	¥ 28,638	¥ 19,799	\$ 285,840

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 is as follows:

	2008	2007
Normal effective statutory tax rate	40.7%	40.7%
Permanent differences:		
Expenses not deductible for income tax purposes	8.7	5.8
Equity in earning of unconsolidated subsidiaries and affiliated companies	(2.5)	(1.4)
Valuation allowance for deferred tax assets	(18.1)	5.3
Impairment on investments and receivables in certain subsidiaries		(1.2)
Lower income tax rates applicable to income in certain subsidiaries outside Japan	(16.5)	(4.4)
Other	2.0	2.4
Actual effective tax rate	14.3%	47.2%

15 Derivatives

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 Group does not use derivatives for speculative purposes or for highly leveraged transactions.

The Group had the following derivatives contracts outstanding at March 31, 2008 and 2007:

(1) Currency Instruments

		Millions of yen						
		March 31, 2008						
		Contract amount etc.		Fair value	Unrealized gains (losses)			
		Total	Due over one year					
Forward exchange contracts								
Selling contracts								
US dollar	¥	4,703	¥	241	¥	4,247	¥	456
Other		1,128				1,077		51
Buying contracts								
US dollar		318				320		2
Other		65				66		1
Currency options								
Selling contracts								
CALL								
US dollar		17,079				11		7
(Option premium)		(18)						
PUT								
US dollar		141				1		0
(Option premium)		(1)						
Buying contracts								
PUT								
US dollar		5,824				126		108
(Option premium)		(18)						
CALL								
US dollar		282				19		18
(Option premium)		(1)						
Currency swaps								
		5,631		486		5,645		14
Total							¥	657

(2) Interest Rate Instruments

	Millions of yen			
	March 31, 2008			
	Contract amount etc.			
	Total	Due over one year	Fair value	Unrealized gains (losses)
Interest rate swaps				
Pay fixed/Receive floating	¥ 138	¥ 88	¥ (1)	¥ (1)
Total				¥ (1)

(1) Currency Instruments

	Thousands of US dollars			
	March 31, 2008			
	Contract amount etc.			Unrealized gains (losses)
	Total	Due over one year	Fair value	
Forward exchange contracts				
Selling contracts				
US dollar	\$ 46,944	\$ 2,406	\$ 42,388	\$ 4,556
Other	11,258		10,748	510
Buying contracts				
US dollar	3,173		3,192	19
Other	653		662	9
Currency options				
Selling contracts				
CALL				
US dollar	170,471		111	66
(Option premium)	(177)			
PUT				
US dollar	1,406		7	4
(Option premium)	(11)			
Buying contracts				
PUT				
US dollar	58,125		1,254	1,077
(Option premium)	(177)			
CALL				
US dollar	2,812		188	177
(Option premium)	(11)			
Currency swaps				
	56,205	4,855	56,346	141
Total				\$ 6,559

(2) Interest Rate Instruments

	Thousands of US dollars			
	March 31, 2008			
	Contract amount etc.			
	Total	Due over one year	Fair value	Unrealized gains (losses)
Interest rate swaps				
Pay fixed/Receive floating	\$ 1,372	\$ 873	\$ (12)	\$ (12)
Total				\$ (12)

(1) Currency Instruments

		Millions of yen			
		March 31, 2007			
		Contract amount etc.			
		Total	Due over one year	Fair value	Unrealized gains (losses)
Forward exchange contracts					
Selling contracts					
US dollar	¥	4,996		¥ 4,823	¥ 173
Other		2,588		2,731	(143)
Buying contracts					
US dollar		638		626	(12)
Other		91		91	0
Currency options					
Selling contracts					
CALL					
US dollar		14,588		9	15
(Option premium)		(24)			
PUT					
US dollar		2,933		90	(43)
(Option premium)		(47)			
Buying contracts					
PUT					
US dollar		6,719		30	6
(Option premium)		(24)			
CALL					
US dollar		3,357		49	2
(Option premium)		(47)			
Currency swaps					
		2,012	¥ 486	2,012	0
Total					¥ (2)

(2) Interest Rate Instruments

	Millions of yen			
	March 31, 2007			
	Contract amount etc.			
	Total	Due over one year	Fair value	Unrealized gains (losses)
Interest rate swaps				
Pay fixed/Receive floating	¥ 312	¥ 263	¥ (2)	¥ (2)
Total				¥ (2)

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts

exchanged by the parties and do not measure the Group's exposure to credit or market risk.

16 Contingent Liabilities

At March 31, 2008, the Group had the following contingent liabilities:

	Millions of yen		Thousands of US dollars
Guarantees and similar items of bank loans	¥	272	\$ 2,724
Guarantees of lease obligation of certain customers, in the event of default	¥	1,412	\$ 14,098

17 Net Income per Share

(1) Basis for net income per share

The basis for the calculation of net income per share for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of US dollars
	2008	2007	2008
Net income	¥ 11,667	¥ 12,563	\$ 116,453
Net income available to common shareholders	11,667	12,563	116,453
Average outstanding shares of common stock (shares)	260,673,826	262,885,934	260,673,826

(2) Appropriations of Retained Earnings

The Board of Directors has proposed the following appropriations of retained earnings, at March 31, 2008, which is subject to approval at a general meeting of the shareholders of the Company to be held on June 26, 2008:

	Millions of yen		Thousands of US dollars
Cash dividends (¥8.0 per share)	¥	2,060	\$ 20,561

18

Segment Information

The Group operates in the following businesses, Industrial Automation and Control Business, Test and Measurement Business, New and Other Businesses.

These businesses deal with the following main products.

Industrial Automation and Control Business: production control systems, flowmeters, differential pressure/pressure transmitters, process analyzers, programmable controllers

Test and Measurement Business: semiconductor test systems,

waveform measuring instruments, optical communication devices, waveform generators, power/temperature/pressure measurement devices

New and Other Business: optical communication modules and sub-systems, XY stages; confocal scanners, aircraft navigation-related devices, marine equipment, meteorological/hydrological measurement devices

(1) Business Segments

a. Sales and Operating Income

	Millions of yen				
	2008				
	Industrial Automation and Control	Test and Measurement	New and other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 322,222	¥ 68,771	¥ 46,455	¥	¥ 437,448
Intersegment sales	121			(121)	
Total sales	322,343	68,771	46,455	(121)	437,448
Operating expenses	283,274	70,758	56,124	(121)	410,035
Operating income (loss)	¥ 39,069	¥ (1,987)	¥ (9,669)	¥	¥ 27,413

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen				
	2008				
	Industrial Automation and Control	Test and Measurement	New and other	Eliminations/ Corporate	Consolidated
Total assets	¥ 258,037	¥ 50,406	¥ 66,997	¥ 69,204	¥ 444,644
Depreciation	12,102	4,443	6,585		23,130
Capital expenditures	23,528	5,662	8,801		37,991

a. Sales and Operating Income

	Thousands of US dollars				
	2008				
	Industrial Automation and Control	Test and Measurement	New and Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 3,216,113	\$ 686,408	\$ 464,668	\$	\$ 4,366,189
Intersegment sales	1,208			(1,208)	
Total sales	3,217,321	686,408	464,668	(1,208)	4,366,189
Operating expenses	2,827,369	706,239	560,179	(1,208)	4,092,579
Operating income (loss)	\$ 389,952	\$ (19,831)	\$ (96,511)	\$	\$ 273,610

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Thousands of US dollars				
	2008				
	Industrial Automation and Control	Test and Measurement	New and Other	Eliminations/ Corporate	Consolidated
Total assets	\$ 2,575,475	\$ 503,108	\$ 668,703	\$ 690,726	\$ 4,438,012
Depreciation	120,785	44,347	65,726		230,858
Capital expenditures	234,837	56,510	87,839		379,186

Note: As discussed in Note 2e., effective April 1, 2007, the Group changed its depreciation method. The effect of this change was to decrease the operating income of the Industrial Automation and Control Business by ¥306 million (US\$3,056 thousand) and to increase the operating loss of the Test and Measurement Business by ¥276 million (US\$2,759 thousand) and the operating loss of the New and Other Businesses by ¥762 million (US\$7,610 thousand), respectively, for the year ended March 31, 2008.

Change in segmentation

Our businesses were formerly segmented into Measurement, Control and Information Systems and Other Businesses. In this consolidated accounting period, an internal management system has been introduced to correctly sum up profits and losses by product line. Therefore, we have reviewed the business segments to ensure that the profitability and growth potential of the businesses are correctly reflected and to show the actual

status of the Group based on similarities in product line and market. Consequently, our businesses have been segmented into the following three categories. Industrial Automation and Control Business, Test and Measurement Business, New and Other Businesses.

If the segment information for the year ended March 31, 2007 were prepared using the new segmentation, such information would be as follows:

a. Sales and Operating Income

The business segment information for the year ended March 31, 2007 was prepared retrospectively and presented below.

	Millions of yen				
	2007				(UNAUDITED)
	Industrial Automation and Control	Test and Measurement	New and Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 312,332	¥ 78,545	¥ 42,528	¥	¥ 433,405
Intersegment sales	120			(120)	
Total sales	312,452	78,545	42,528	(120)	433,405
Operating expenses	277,024	77,379	49,847	(120)	404,130
Operating income (loss)	¥ 35,428	¥ 1,166	¥ (7,319)	¥	¥ 29,275

b. Total assets, Depreciation and Capital Expenditures

The business segment information for the year ended March 31, 2007 was prepared retrospectively and presented below.

	Millions of yen				
	2007				(UNAUDITED)
	Industrial Automation and Control	Test and Measurement	New and other	Eliminations/ Corporate	Consolidated
Total assets	¥ 227,970	¥ 54,730	¥ 66,201	¥ 89,783	¥ 438,684
Depreciation	8,827	4,110	3,398		16,335
Capital expenditures	16,821	5,214	16,606	1,643	40,284

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen						
	2008						
	Japan	Asia	Europe	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 237,418	¥ 86,044	¥ 47,489	¥ 30,804	¥ 35,693	¥	¥ 437,448
Interarea transfers	60,036	27,286	5,075	1,018	1,290	(94,705)	
Total sales	297,454	113,330	52,564	31,822	36,983	(94,705)	437,448
Operating expenses	288,564	103,602	48,009	30,811	33,624	(94,575)	410,035
Operating income	¥ 8,890	¥ 9,728	¥ 4,555	¥ 1,011	¥ 3,359	¥ (130)	¥ 27,413
Total assets	¥ 297,160	¥ 70,299	¥ 31,716	¥ 15,411	¥ 18,999	¥ 11,059	¥ 444,644

	Thousands of US dollars						
	2008						
	Japan	Asia	Europe	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 2,369,677	\$ 858,806	\$ 473,995	\$ 307,453	\$ 356,258	\$	\$ 4,366,189
Interarea transfers	599,225	272,343	50,655	10,165	12,872	(945,260)	
Total sales	2,968,902	1,131,149	524,650	317,618	369,130	(945,260)	4,366,189
Operating expenses	2,880,170	1,034,055	479,186	307,529	335,602	(943,963)	4,092,579
Operating income	\$ 88,732	\$ 97,094	\$ 45,464	\$ 10,089	\$ 33,528	\$ (1,297)	\$ 273,610
Total assets	\$ 2,965,971	\$ 701,653	\$ 316,558	\$ 153,815	\$ 189,635	\$ 110,380	\$ 4,438,012

	Millions of yen						
	2007						
	Japan	Asia	Europe	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 247,894	¥ 86,146	¥ 41,970	¥ 27,474	¥ 29,921	¥	¥ 433,405
Interarea transfers	54,846	29,495	4,939	1,386	934	(91,600)	
Total sales	302,740	115,641	46,909	28,860	30,855	(91,600)	433,405
Operating expenses	286,936	107,525	43,424	28,377	28,662	(90,794)	404,130
Operating income	¥ 15,804	¥ 8,116	¥ 3,485	¥ 483	¥ 2,193	¥ (806)	¥ 29,275
Total assets	¥ 281,614	¥ 70,841	¥ 24,333	¥ 12,114	¥ 14,403	¥ 35,379	¥ 438,684

Notes: 1. Geographical distances are considered in the 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. As discussed in Note 2e., effective April 1, 2007, the Company changed its depreciation method. The effect of this change was to decrease the operating income of Japan by ¥1,345 million (US\$13,426 thousand) for the year ended March 31, 2008.

(3) Sales to Foreign Customers

	Millions of yen				
	2008				
	Asia	Europe	North America	Others	Total
Overseas sales	¥ 109,652	¥ 51,969	¥ 35,147	¥ 46,486	¥ 243,254
Consolidated sales					437,448
Ratio	25.1%	11.9%	8.0%	10.6%	55.6%

	Thousands of US dollars				
	2008				
	Asia	Europe	North America	Others	Total
Overseas sales	\$ 1,094,438	\$ 518,701	\$ 350,809	\$ 463,976	\$ 2,427,924
Consolidated sales					437,448
Ratio	25.1%	11.9%	8.0%	10.6%	55.6%

	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%

Notes: 1. Geographical distances are considered in the 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

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel: +81 (3) 3457 7321
Fax: +81 (3) 3457 1694
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Yokogawa Electric Corporation:

We have audited the accompanying consolidated balance sheet of Yokogawa Electric Corporation and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in equity, 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. The consolidated financial statements of Yokogawa Electric Corporation and consolidated subsidiaries for the year ended March 31, 2007 were audited by other auditors whose report, dated June 27, 2007, expressed an unqualified opinion on those statements, including explanatory paragraphs concerning the adoption of the new accounting standard for Presentation of Net Assets in the Balance Sheet and the fiscal year-end dates and changes in such dates of certain overseas subsidiaries for consolidation reporting purpose.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 consolidated subsidiaries as of March 31, 2008, 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.

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 17, 2008

Member of
Deloitte Touche Tohmatsu

Corporate Information

Company Overview (as of March 31, 2008)

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	20,266 (consolidated) 4,974 (non-consolidated)
Subsidiaries and Affiliates	22 subsidiaries and 7 affiliates in Japan 68 subsidiaries and 3 affiliates outside Japan

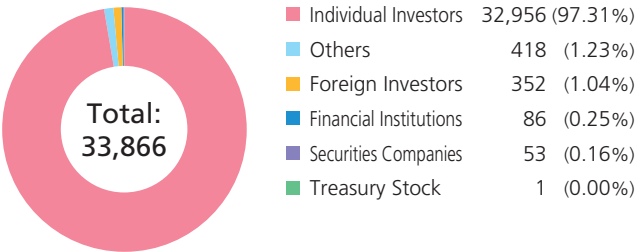
Share Information (as of March 31, 2008)

Number of Shares Authorized	600,000,000
Number of Shares of Common Stock Issued	268,624,510
Number of Shareholders	33,866
Stock Exchange Listing	Tokyo Stock Exchange
Administrator of the Register of Shareholders	Mizuho Trust & Banking Co., Ltd. 1-2-1 Yaesu, Chuo-ku, Tokyo 103-8670, Japan
Annual Shareholders Meeting	The annual general meeting of shareholders of the Company is normally held in June each year in Tokyo, Japan.
Accounting Auditors	Deloitte Touche Tohmatsu

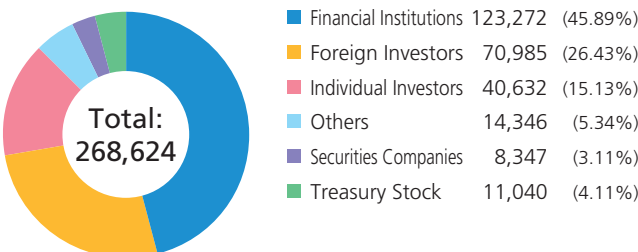
Major Shareholders (Top 10)

Shareholders	Number of shares held (shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	22,909,800	8.53
The Dai-ichi Mutual Life Insurance Company	22,697,000	8.45
Japan Trustee Services Bank, Ltd. (trust account)	14,351,500	5.34
Nippon Life Insurance Company	13,284,615	4.95
SSB Client Omnibus OM04	11,786,000	4.39
Yokogawa Electric Corporation	11,040,640	4.11
Retirement Benefit Trust in Mizuho Trust (Mizuho Corporate Bank, Ltd. account)	6,643,990	2.47
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,694,936	1.75
Retirement Benefit Trust in Mizuho Trust (Mizuho Bank, Ltd. account)	4,617,010	1.72
Yokogawa Electric Corporation Employee Shareholding Program	4,396,797	1.64

Shareholders by Category



Shareholding by Category (thousand shares)





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/>

Published in July 2008