



For the year ended March 31, 2009

ANNUAL REPORT 2009

WINNING CUSTOMER TRUST

THE YOKOGAWA PHILOSOPHY

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

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

Founded in 1915, Yokogawa Electric Corporation has over 90 years' experience in the measurement, control, and information businesses, and 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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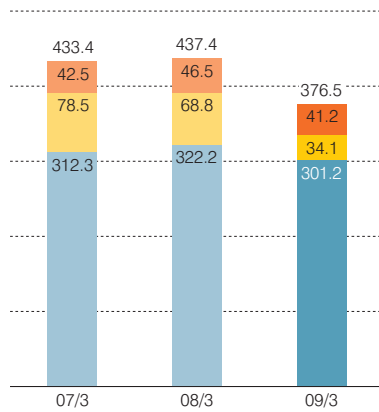
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Cautionary Statement Regarding Forward-looking Statements
Statements made in this annual report regarding Yokogawa's plans, estimates, strategies, beliefs, and other statements that are not historical facts are forward-looking statements about the future performance of Yokogawa. These statements are based on management's assumptions and beliefs in the light of currently available information. Yokogawa cautions that a number of important factors, such as general economic conditions and exchange rates, could cause actual results to differ materially from those discussed in the forward-looking statements.

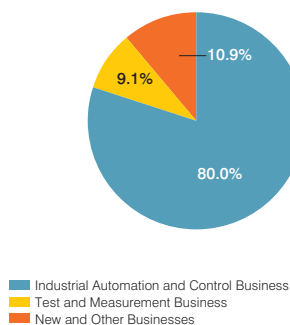


BUSINESS OVERVIEW

Net Sales by Business Segment
(Billions of yen)



Net Sales by Business Segment
(Fiscal year ended March 31, 2009)



SEGMENT PROFILE

Industrial Automation and Control Business

Yokogawa is a leading control company and a pioneer in the development of distributed control systems for the monitoring and control of processes in a broad range of production facilities. Its comprehensive solutions range from sensors (such as pressure transmitters, flowmeters, and analyzers) to control systems, software that improves productivity, and services that optimize plant lifecycle costs. These solutions currently play vital supporting roles for our customers in the oil, chemical, iron and steel, pulp and paper, natural gas, electric power, pharmaceutical, food, and other industries.

Test and Measurement Business

Yokogawa has been involved in the testing field since its founding and has contributed to many industries through its supply of test and measurement equipment. In the measuring instrument business, Yokogawa's products play indispensable roles in the development and production of electrical, electronic, and automotive equipment. The Company provides its customers optimal solutions through a wide-ranging product lineup and an extensive range of calibration and other services. In the semiconductor tester business, Yokogawa has developed products that can handle high-speed, high-performance semiconductors and always offers the latest testing solutions.

New and Other Businesses

Leveraging the technologies cultivated in the areas of control, measurement, and information, Yokogawa provides next-generation optical communications devices that enable ultra-high-speed, high-capacity communications as well as confocal scanners that can observe the behaviors and rapid reactions of live cells in real time. Yokogawa also provides a new drug discovery support system that automatically tests candidate compounds and direct drive motors that position devices with high accuracy. In addition, Yokogawa is steadily developing its aviation & marine engine equipment and marine navigation device businesses.



BUSINESS OVERVIEW

		MARKET TRENDS	MAIN MARKETS	
Industrial Automation and Control Business		<p>With the increasing demand for energy that has accompanied the economic growth of newly industrialized nations, investment in oil, petrochemical, and natural gas projects had been extremely active. However, market conditions significantly worsened in the second half of fiscal year 2008 due to the global financial crisis and the downturn in the economy, and companies responded to falling oil prices by cutting production and postponing investment. While we expect the current severe conditions to continue in the short term, an eventual increase in the demand for energy is inevitable, enabling us to forecast stable growth for our industrial automation and control business.</p>	<ul style="list-style-type: none"> Oil and gas Chemicals Iron and steel Pulp and paper Electric power Water supply Pharmaceuticals Foods Semiconductors Electrical and electronics Automotive Nonferrous ceramics Machinery 	
Test and Measurement Business		<p>Market conditions continue to be challenging in our measuring instrument business. Although investment has been brisk in fields such as alternative energy and energy saving, major customers in the electrical equipment and automotive industries have significantly curtailed their capital investment and R&D spending. Similarly, the semiconductor tester market has been impacted by the major cutbacks in capital investment by semiconductor manufacturers due to falling prices and the weakening economy, and it has shrunk to a level never seen before. We anticipate that these tough conditions will continue and that further integration and reorganization of semiconductor manufacturers will occur.</p>	<ul style="list-style-type: none"> Telecommunications Electrical equipment and electronics Precision machinery Automotive Equipment maintenance Semiconductors 	
New and Other Businesses		<p>In our photonics business, the widening use of 40Gbps next-generation optical communications networks is driving demand for our transponders — devices used in communications equipment that receive and transmit optical signals. Following on from Japan, markets are being established not only in the United States and Europe, but also newly industrialized nations in Asia and other regions.</p> <p>In the life science business, the market for live cell imaging has grown steadily, particularly outside Japan. In addition, we forecast considerable market growth for the new drug discovery support system that we launched in fiscal year 2008.</p>	<ul style="list-style-type: none"> Optical backbone networks Biotechnologies Pharmaceuticals Industrial machinery Aviation equipment Marine equipment 	

PRODUCTS, SOLUTIONS	YOKOGAWA'S STRENGTHS AND STRATEGIES
<ul style="list-style-type: none"> Production control systems Safety instrumented systems Production management systems Quality management systems Asset management systems Energy management systems Differential pressure / pressure transmitters Flowmeters Analyzers Recorders Maintenance services 	<p>In 1975, Yokogawa launched the world's first distributed control system, and since then has sold more than 20,000 of these systems worldwide. We are highly regarded by our customers for our reliable products and high-level project execution capabilities. In Japan, we are the leading manufacturer of IA systems, and outside Japan our position in this industry is preeminent. Yokogawa has taken on the challenge of the VigilantPlant initiative, our vision of the ideal plant, and we are enhancing our products and solutions to increase our share of the global market. Going forward, we will construct a strong business foundation and come out ahead in global competition by strengthening our cost competitiveness and investing management resources in key areas. Our aim is to increase market share and become a top global player, by leveraging the synergies of our control, measurement, and information technologies to aggressively develop our energy saving and environmental conservation businesses, and by proposing new maintenance services to our customers.</p>
<ul style="list-style-type: none"> Waveform measuring instruments Power measuring instruments Basic measuring instruments Data loggers Signal generators Optical communications measuring instruments Network monitoring systems Time and frequency measuring instruments Wireless telecommunications measuring instruments Semiconductor test systems 	<p>In the measuring instrument business, we maintain a high market share in fields including power analyzers, optical spectrum analyzers, and mixed signal oscilloscopes. Looking ahead, we will target devices used in the fields of alternative energy, energy saving, and environmental conservation, as well as optical communications networks and other types of infrastructure, and we will strive to improve our product development efficiency and provide high-value-added solutions.</p> <p>In the semiconductor tester business, we aim not only to reduce fixed costs in response to the structural changes taking place in the market, but also to focus our resources in the memory tester field. As measurement is the starting point for a myriad of technologies, we will develop our other businesses, such as industrial automation and control, by leveraging our differentiated measurement technologies.</p>
<ul style="list-style-type: none"> Optical communications modules Transponders Confocal scanners Drug discovery support systems Image quality inspection systems Aviation and marine equipment 	<p>In the photonics business, we launched our 40G RZ-DQPSK transponders ahead of the competition and constructed a system that ensured their stable production. In anticipation of market growth, we are developing our international operations to increase our production capabilities, and are working to reduce costs.</p> <p>In the life science business, we are striving to develop sales of our confocal scanners outside Japan and to rapidly start up the business for our recently launched new drug discovery support system. Previously positioned as new businesses, the photonics, life science, and advanced stage businesses were integrated into the test and measurement business in fiscal year 2009. Our goal in this is not only to select and concentrate on specific businesses, but to bring together technologies that will allow us to provide new solutions for our customers.</p>

FINANCIAL HIGHLIGHTS

Yokogawa Electric Corporation and Consolidated Subsidiaries
For the Years Ended March 31

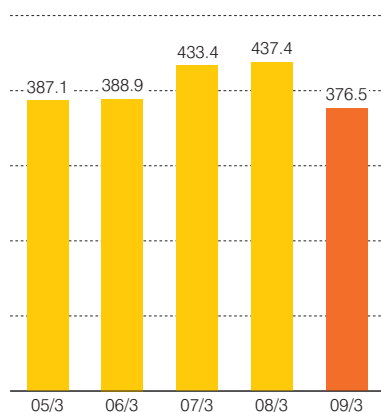
	Billions of yen		Millions of US dollars	
	2007/3	2008/3	2009/3	2009/3
For the year:				
Net sales	¥433.4	¥437.4	¥376.5	\$3,833
Operating income	29.3	27.4	4.7	48
Operating income ratio (%)	6.8	6.3	1.3	—
Net income (loss)	12.6	11.7	(38.4)	(391)
At year-end:				
Total assets	438.7	444.6	401.0	4,081
Shareholders' equity	234.3	220.7	167.2	1,702
Shareholders' equity ratio (%)	53.4	49.6	41.7	—
Per share data (yen / US dollars):				
Net income (loss)	47.79	44.76	(149.26)	(1.52)
Cash dividends	15.00	16.00	16.00	0.16
Shareholders' equity	891.08	856.72	649.20	6.61
Stock information:				
Stock price at the end of the term (yen / US dollars)	1,806	998	394	4.01
Market capitalization	485.1	268.1	105.8	1,077
Number of issued shares	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, and a 985 million yen increase in net income.

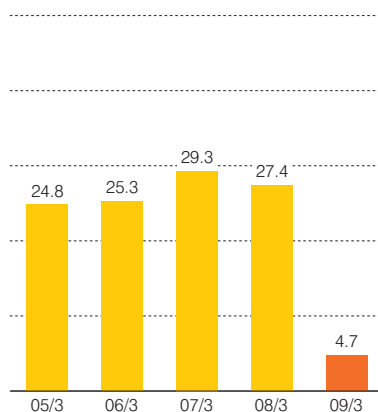
Net Sales

(Billions of yen)



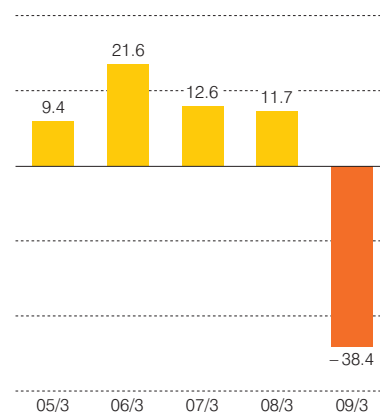
Operating Income

(Billions of yen)



Net Income (Loss)

(Billions of yen)



TO OUR STAKEHOLDERS

The Yokogawa Group is committed to realizing a healthy and profitable operation in accordance with its VISION-21 & ACTION-21 corporate strategy.

In the fiscal year ended March 31, 2009 (fiscal year 2008), our business performance was affected by factors such as the downturn in the real economy brought about by the global financial crisis, the major reduction in capital investment by semiconductor manufacturers, and the appreciation of the yen. In these extremely challenging operating conditions, we recorded decreases in both sales and earnings in each of our three business segments — our mainstay industrial automation and control business, the test and measurement business, and the new and other businesses.

In order to make it through the prevailing severe operating conditions, we are currently implementing measures to return to profitability and resume growth in fiscal year 2011. To achieve this, the Group has positioned fiscal years 2009 and 2010 as a period of structural reforms leading toward our next growth stage. Our goal is to increase corporate value by implementing exhaustive and far-reaching fixed cost reduction measures that will enhance management efficiency, and by reevaluating our business portfolio.

This annual report describes the operating environment and issues that the Group faces as well as the reforms that we will pursue to overcome these challenges. In these difficult times, we ask for the continued support and encouragement of our stakeholders.

August 2009



Isao Uchida

Chairman of the Board



Shuzo Kaihori

President and Chief Executive Officer



MESSAGE FROM THE PRESIDENT AND CEO



Positioning fiscal years 2009 and 2010 as a period of structural reforms for our next growth stage, we will steadily implement our action plan.

Shuzo Kaihori
President and Chief Executive Officer

Business results for fiscal year 2008

Our operating environment in fiscal year 2008 was influenced by cutbacks in capital investment at companies in a number of industries, a consequence of the rapid economic downturn in the second half of the year that was a direct result of the global financial crisis. Our mainstay industrial automation and control business, which constitutes approximately 80% of consolidated net sales, was affected outside Japan by the postponement of a number of plant construction projects in the oil and petrochemical sectors due to factors that included difficulties in raising capital. In Japan, reductions in production and capital investment were also readily apparent across a range of industries.

Under these conditions, the Group strengthened its product lineup in response to changing market needs and worked to expand the scope of its businesses. This included the launch of a new manufacturing execution system (MES) platform that contributes to improved production efficiency and the release of highly durable, low power consumption control and monitoring modules that are suitable for use in harsh environmental conditions, such as extreme temperatures and high altitude, which are typically found in oil and gas fields and at pipeline sites.

Moreover, we have been strengthening our ability to provide solutions that reduce energy consumption and CO₂ emissions. Toward this end we have acquired Analytical Specialties, Inc. of the United States, which has original technologies in the field of gas analyzers, and have added to our product lineup their laser gas analyzer that can measure gas levels in pipes and other locations in real time. By monitoring oxygen and carbon monoxide concentrations, this analyzer can be used to determine the optimal combustion state, thereby reducing fuel costs and CO₂ emissions.

More than 60% of the sales of the industrial automation and control business came from outside Japan, and we received contracts for large-scale projects in each of the regions that we operate in. We have made a full-fledged entry into the oil and gas upstream markets — which includes exploration, development, and production — and have strengthened our capabilities in the power plant market, centering on newly industrialized nations. As a result, we have won large-scale projects in these countries. In addition, we have commenced the provision of VigilantPlant Services that make it possible for companies to enhance operations over the entire plant lifecycle.

In these ways, we have actively carried out initiatives across the entire range of our business activities — from development to sales, marketing, and services; however, as a result of the rapid deterioration in market conditions from the second half of fiscal year 2008 and the appreciation of the yen, net sales outside Japan for the industrial automation and control business fell to 182.4 billion yen, a 14.2 billion yen decline from the previous year. Within Japan, we made proactive

efforts to capture a greater share of the plant replacement market and focused our resources on fields that are relatively shielded from the downturn in the economy. These include social infrastructure such as electricity, gas, and water supply; food and pharmaceuticals; and energy saving and environmental protection. However, these efforts could not entirely offset the severe market conditions and net sales were down 6.8 billion yen, to 118.8 billion yen. As a result, in the industrial automation and control business, net sales decreased 21.1 billion yen, to 301.2 billion yen, and operating income fell 10.0 billion yen, to 29.1 billion yen.

As for the test and measurement business, the semiconductor tester market was sluggish because of the decline in capital investment caused by the falling prices for DRAM and other semiconductor devices.

In the measuring instrument market, demand for power analyzers for the new energy and energy-saving sectors was solid, but the overall market was sluggish as a consequence of the major curbs in capital investment and R&D spending put in place by major Japanese customers in the automotive and electrical machinery manufacturing sectors. Under these conditions, we worked to capture orders for new products such as power and waveform measuring instruments that offer high levels of cost performance; however, the effects of the market contraction from the second half of fiscal year 2008 were significant, with net sales for the test and measurement business declining 34.6 billion yen, to 34.1 billion yen, and operating loss increasing 11.8 billion yen, to 13.8 billion yen.

Regarding the new and other businesses, the photonics business' 40Gbps backbone optical communications market grew thanks to the full-fledged introduction of next-generation networks (NGNs). While there was strong demand outside Japan for the life science business' confocal scanners, the market for the advanced stage business trended downward due to the slump in demand from semiconductor manufacturers, its main customers. Under these conditions, we launched a miniaturized 40Gbps transponder that is compliant with communications industry standards, and developed sales and marketing initiatives for the international market.

In the life science business, we strengthened our international sales of confocal scanners through a sales tie-up with Carl Zeiss, a world-leading manufacturer of high-performance microscopes. We also leveraged our confocal scanner and precision positioning technologies to develop a new drug discovery support system that can automatically test candidate compounds and entered the drug discovery market.

Thanks to these efforts, we were able to increase sales in the photonics and life science businesses; however, in addition to the substantial decline in advanced stage orders from semiconductor manufacturers, we incurred start-up costs for each of these new businesses. As a result, net sales for new and other businesses fell 5.2 billion yen, to 41.2 billion yen, and the operating loss increased 1.0 billion yen, to 10.6 billion yen.

Consequently, consolidated net sales were down 60.9 billion yen, to 376.5 billion yen, and operating income fell 22.7 billion yen, to 4.7 billion yen, both failing to meet initial targets. Regarding bottom-line profit and loss, in addition to the recording of extraordinary losses related to the write-down of investment securities, a restructuring loss, and impairment loss for fixed assets, we also reversed deferred tax assets. As a result, a net loss of 38.4 billion yen was recorded in fiscal year 2008, which compares to the previous year's net income of 11.7 billion yen.

Changes in the operating environment confronting the Group

In the industrial automation and control business, the financial crisis has meant our customers face an increasingly difficult environment in which to raise funds. We remain convinced that the markets outside Japan will grow in the medium-to-long term due to the increased demand for energy and raw materials accompanying the rising standard of living in newly industrialized and developing nations; however, we think that the markets will not begin a full-fledged recovery soon.

MESSAGE FROM THE PRESIDENT AND CEO

In the test and measurement business, major reductions in capital investment by semiconductor manufacturers in the current severe economic downturn have exacerbated the impact of the sharp fall in semiconductor prices over the past two years. As a consequence, semiconductor tester orders plunged in the second half of fiscal year 2008. Further, we anticipate that conditions will remain tough for all of the new and other businesses, with the exception of the photonics business.

Based on the above factors, we anticipate that the Group's operating environment will continue to be extremely challenging in the short term. While we are positive that the major economic stimulus policies implemented by the world's leading nations will ultimately lead to economic recovery, we cannot merely wait for the benefits of these measures to be realized. The Group is not optimistic about an imminent market recovery, but the following management strategy and action plans for fiscal years 2009 and 2010 describe how we intend to respond to and overcome this present crisis.

Management strategy

Under the Yokogawa Group's VISION-21 & ACTION-21 corporate strategy, we pushed forward with reforms in business structure and Group management that set new records for net sales and operating income in each of the three years leading up to fiscal year 2005, this strategy's First Milestone. In May 2006, we updated our ACTION-21 strategy in order to realize the long-term vision stated in VISION-21.

We established numerical targets for fiscal year 2010, our Second Milestone, calling for consolidated orders of 610.0 billion yen, net sales of 600.0 billion yen, and operating income of 75.0 billion yen. To achieve these targets, we have been taking steps to realize high priority policies that call for us to operate in a truly consolidated manner to dramatically improve managerial efficiency, to boost sales on a global scale by increasing market share, and to remain committed to proactive technology development and the start up of new businesses that will create new demand; however, the changes to our operating environment resulted in a decline in business performance that exceeded the Group's forecasts, and we were consequently forced to conclude that we would be unable to achieve the fiscal year 2010 numerical targets.

In response to the current challenging conditions, on February 10, 2009 — the same date on which we disclosed our financial results for the third quarter — we announced a two-year action plan for fiscal years 2009 and 2010 that centered on the two main themes of a major reduction in fixed costs and a complete review of our business portfolio. Moreover, in consideration of how rapidly

Action Plan for Reduction of Fixed Costs

Target

Reduce fixed costs by 38.0 billion yen ► Lowering our sales break-even point

Key measures

Reduction of labor costs

- Terminate contracts with non-regular employees
- Reduce salaries and bonuses
- Furlough employees

Reduction of depreciation

- Restrict capital investments
- Fiscal year 2008, 26.8 billion yen ► Fiscal year 2009, 16.5 billion yen (plan)

Reduction of fixed costs

- Thoroughly curtail business activity costs
- Reduce R&D costs through selection and concentration

our operating environment is changing, we decided that we had to accelerate implementation of the action plan so as to complete it within fiscal year 2009.

Reduction of fixed costs

We aim to reduce fixed costs by a total of 38.0 billion yen in order to lower the sales break-even point, thereby realizing a financial structure that can generate profits even in tough conditions. To achieve this, we will first cut salaries and bonuses and furlough employees to reduce personnel expenses. In addition, we will reduce depreciation expenses by decreasing capital investment by more than 10.0 billion yen year on year. We will eliminate unnecessary costs in all our activities and pursue selection and concentration in our R&D to improve our management efficiency. By taking decisive steps, we will achieve a substantial reduction in fixed costs.

Review of business portfolio

To rapidly improve our profits — which have been impacted by the losses incurred by the test and measurement business and new and other businesses — we are thoroughly reviewing our business portfolio. Specifically, we will create a new business portfolio centering on the industrial automation and control business by carrying out three fundamental policies: withdraw from unprofitable businesses, concentrate management resources in the industrial automation and control business, and maintain and develop our test and measurement technologies.

In the medium-to-long term, we believe that demand for energy and raw materials will expand as the standard of living rises in newly industrialized and developing nations. Further, the world is confronted by two major issues: the preservation of the global environment and the effective utilization of limited resources. In both areas, the future business potential for our industrial automation and control business is enormous. The Yokogawa Group aims to be a market leader by providing total solutions that incorporate elements such as improved production efficiency in plants, energy saving, and environmental conservation. With this goal in mind, we will concentrate management resources in these fields and enhance our ability to provide total solutions on a global scale.

We are addressing the decline in profitability in the test and measurement business by dealing with unprofitable areas and prioritizing resources for key fields. In addition, as our superior test and measurement technologies serve to differentiate us from our competitors, we are utilizing these technologies in each of our growth markets, including industrial automation and control, environmental conservation, medical treatment and drug discovery support, telecommunications, and social infrastructure.

Action Plan for Review of Business Portfolio

Target

For the coming growth phase, building a new portfolio that is centered on the control business

Basic policy

- Discontinue loss-making businesses
- Focus resources on the control business
- Maintain and develop measurement technologies

Measure for each business

Industrial Automation and Control Business

Inject substantial management resources and enhance competitiveness with the aim of being the No.1 company in the global control market

Test and Measurement Business

Improve profitability by restructuring loss-making businesses and concentrating on priority businesses

New and Other Businesses

Select and concentrate on specific businesses based on market growth potential, profitability, and competitiveness

Through selection and concentration, assign personnel to priority fields or to a different job classification

MESSAGE FROM THE PRESIDENT AND CEO

To help achieve this, in fiscal year 2009 we integrated the photonics, advanced stage, and life science businesses — which had all been within new and other businesses — with the test and measurement business. This enables us to evolve the test and measurement business into a high-value-added business compliant with next-generation technologies. We have also pursued measures to streamline the semiconductor tester business. In addition to freezing development of the SoC tester that had been underway since 2006, we have been transferring its management resources to the memory tester business and redeploying its staff to other areas.

Through such concrete measures, we are striving to improve profitability and to lower the sales break-even point for the semiconductor tester business to one-half its fiscal year 2007 level, which was prior to the deterioration of market conditions. By taking the positive step of accelerating and completing the implementation of the action plan in fiscal year 2009, we are aiming to bring down the break-even point for sales in fiscal year 2010 and to change to a financial structure that is capable of generating profits even if only a limited recovery in sales is achieved.

The outlook for fiscal year 2009

Our fiscal year 2009 forecasts for the industrial automation and control business incorporate our assumptions that customers will continue to cut back their capital investment and that the yen will be stronger than in the previous fiscal year*. As a result, we anticipate net sales of 248.0 billion yen, a decrease of 53.2 billion yen year on year. Due to the impact of the decline in sales, the increase in R&D costs, and the appreciation of the yen, we forecast operating income of 8.0 billion yen, down 21.1 billion yen year on year.

In the test and measurement business, in addition to the self-imposed restrictions on capital investment put in place by semiconductor manufacturers, we expect the market scale to shrink due to further semiconductor industry integration and reorganization. Consequently, we forecast that orders in the semiconductor tester business will continue to trend at a low level. In the measuring instrument business, while we are optimistic that investment will be active in alternative energy and energy saving, we expect operating conditions will continue to be challenging due to reduced levels of capital investment by our main customers in the electrical equipment and automotive fields.

On the other hand, in the photonics business, which was integrated into the test and measurement business at the start of fiscal year 2009, 40Gbps transponders are being installed at an accelerating rate in backbone optical communications networks around the world, and as in the previous fiscal year we forecast an increase in orders. Similarly, in the life science business we expect the market for our confocal scanners to remain strong.

While these new businesses will contribute to sales, we forecast that the sales for the test and measurement business, as previously defined, will remain at its present sluggish level. Therefore, for the newly reformulated (2009) test and measurement segment, we forecast net sales of 37.0 billion yen and an operating loss of 18.0 billion yen, which is 7.0 billion yen less than in fiscal year 2008.

Due to the preceding segment changes, "other businesses" becomes a new business segment primarily consisting of the aviation equipment business. In fiscal year 2009, we anticipate net sales of 30.0 billion yen and operating income of 1.0 billion yen for this segment.

As a result of the above, in fiscal year 2009 we forecast consolidated net sales of 315.0 billion yen, a 61.5 billion yen fall year on year, and an operating loss of 9.0 billion yen. While the severe operating conditions are expected to continue into fiscal year 2009, the entire Group will work together as one to get through this difficult period by steadfastly implementing the action plan and striving to build solid foundations for our next stage of growth.

* Average exchange rates in fiscal year 2008: \$1=100.66 yen €1=143.28 yen
Assumed exchange rates for fiscal year 2009: \$1=95 yen €1=125 yen



Return of profit to shareholders and CSR

We recognize that, along with establishing a stable management foundation, the continued distribution of earnings to shareholders is one of our most important policies. With the objective of investing in new businesses and developing new products for growing markets, and taking into consideration the need to secure an internal reserve and strengthen our financial standing, we have set the consolidated dividend payout ratio at 30%.

For fiscal year 2008, we decided to pay an annual dividend of 16 yen per share, equally divided between interim and term-end dividends of 8 yen per share. The dividend policy for fiscal year 2009 is undecided at the current point in time.

In order to fulfill our corporate social responsibilities, we aim not only to enhance corporate governance, but to give compliance the highest priority. We will strive continuously to improve our corporate value and contribute to society by pursuing the highest levels of quality and customer satisfaction, training and effectively utilizing our human resources, improving industrial safety and health, and carrying out environmental management activities.

In 1994, we established the Standards of Business Conduct for the Yokogawa Group, and in 2007 set out specific guidelines for conduct in the Yokogawa Group *Compliance Guidelines*. Moreover, in accordance with our globally expanding business activities, Yokogawa joined the United Nations Global Compact in January 2009, thereby agreeing to abide by the Compact's ten principles with regard to human rights, labor, the environment, and anticorruption. In keeping with our corporate philosophy, we will use this as an opportunity to contribute to society by making sure that all Group employees and supply chain business partners adhere to its principles.

Our core competences are in measurement and control technologies, and through them we contribute to society in a myriad of ways — by providing products that can be used to develop new power generation technologies such as fuel cells and solar cells; analytical tools and instruments that can measure environmental burden; instruments that can be used in biomeasurement, regenerative medicine, and other medical fields as well as in new drug discovery; and various optical measurement instruments that can be used in disaster early warning systems. At the Yokogawa Group, we aim to improve our corporate value over the long term by focusing our resources in each of these important fields.

As we tirelessly advance each and every possible measure to secure the future of the Group, I would like to ask for your continued understanding and support.

August 2009

A handwritten signature in black ink, reading "Shuzo Kaihori". The signature is written in a cursive, flowing style.

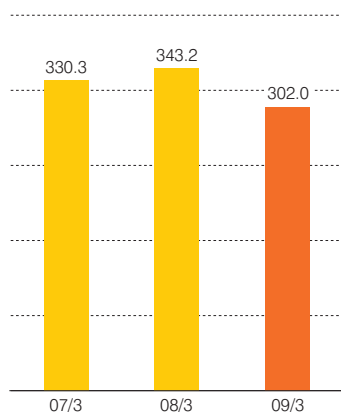
Shuzo Kaihori

President and Chief Executive Officer

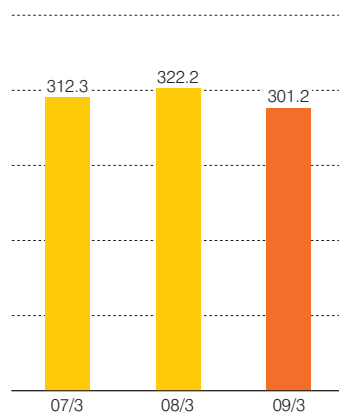
REVIEW OF OPERATIONS

Industrial Automation and Control Business

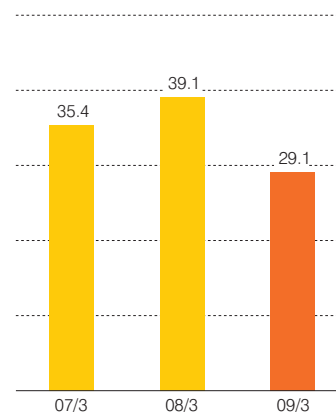
Orders
(Billions of yen)



Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Conditions remained favorable for the industrial automation and control market in the first half of fiscal year 2008, with it registering the same strong growth as in the preceding fiscal year; however, the situation changed suddenly in the second half when a drastic slowdown occurred in the real economy as a result of the global financial crisis. In Japan, this caused companies to reduce production and curb capital investment, while in other markets there was an increasing tendency to postpone projects.

The impact of this severe operating environment was further exacerbated by the appreciation of the yen, and consequently our industrial automation and control business, which for several years had been the driving force behind our growth, recorded a decrease in both sales and profits in fiscal year 2008.

We anticipate that the current severe market conditions will continue in the short term, but that in the medium-to-long term the industrial automation and control market will return to stable growth. Therefore, we will continue to actively invest management resources in this business.

Overview of business results for fiscal year 2008

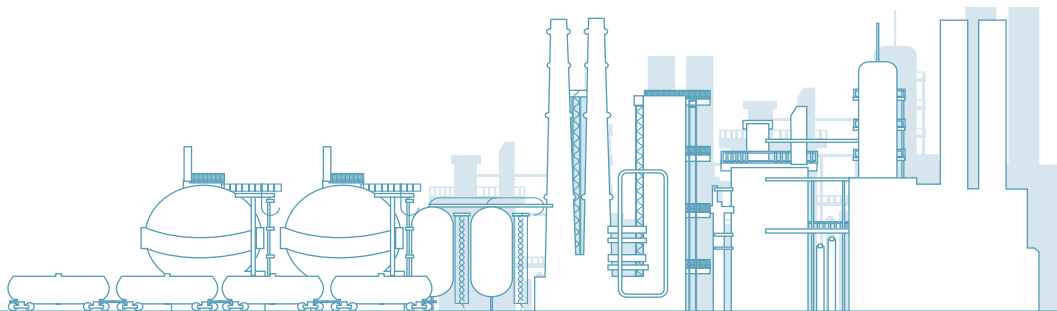
The industrial automation and control market continued its strong growth in the first half of the fiscal year, with active investment outside Japan in oil, petrochemical, and natural gas plant projects driven by rising demand for energy and raw materials as well as the surging price of crude oil.

However, starting in the second half of the fiscal year, operating conditions rapidly worsened. In addition to a slowdown in the real

economy — brought about by the global financial crisis that originated with the subprime mortgage crisis in the United States — a decline in the price of crude oil forced companies to postpone work on a number of projects that were underway outside Japan. In Japan, there was an increasing tendency within a large number of industries to reduce production and curb capital investment.

In these kinds of operating conditions, the Group worked to spur growth by strengthening its product lineup. In April 2008, we acquired Analytical Specialties, Inc. of the United States, which possesses original technologies in the field of gas analyzers, and in November 2008, we began sales of tunable diode laser (TDL) gas analyzers. By adding these analyzers to our product lineup, our goal is to improve our ability to propose industrial automation and control solutions that will help reduce energy consumption, protect the environment, and ensure safe operations.

Further, in December 2008, targeting international markets, we launched new low power consumption control and monitoring modules for use with field control node (FCN) autonomous controllers, a core element of the STARDOM Network-based Control System. These include a CPU module with embedded I/O and communication ports and a power supply module. With their high durability and low power consumption, these modules make it possible to control and monitor production facilities in oil and gas fields and other locations that are subject to harsh environmental conditions such as extreme temperatures and high altitude and/or lack infrastructure. Also, in February 2009 we again targeted markets outside Japan with the launch of Real-time Production Organizer™ (RPO), a new manufacturing execution system (MES) platform that improves production efficiency by linking management and control information.



**CENTUM VP
Integrated Production
Control System**

This is the latest addition to the CENTUM series, which has demonstrated in over 20,000 projects in 96 countries that it provides absolute reliability, with an industry-leading seven 9s (99.9999963%) availability.



**DPharp EJX
Differential Pressure /
Pressure Transmitters**

These differential pressure / pressure transmitters utilize a silicon resonant sensor that makes possible precision measurement of variables such as differential pressure, static pressure, and liquid levels within a plant's tanks and pipes.



**GC1000 Mark II
Process Gas Chromatograph**

This instrument can separate and analyze the individual components in gas and volatile liquid samples, and is widely used in fields such as petrochemicals, oil refining, metal refining, and inorganic chemistry.



**Econo-Pilot
Energy-saving System
for Water Pumps**

The Econo-Pilot system employs a variable water pressure control method to achieve substantial energy savings with air conditioner water pumps and other types of equipment. It is widely utilized in factory buildings and other types of structures.

Major Contracts Received / Signed in Fiscal Year 2008

Yokogawa concludes strategic partnership agreement with Russia's Gazprom Neft

Yokogawa will introduce integrated production control system and operation support software solutions on a priority basis at four Gazprom Neft refineries.

Yokogawa consortium wins pollution control systems order for Romania's largest power plant

As a member of a consortium that included two other electrical equipment manufacturers, Yokogawa will be in charge of overall project management and instrumentation.

Yokogawa signs FPSO program agreement with BP Angola

Yokogawa will be the main automation contractor (MAC) for BP Angola's Floating Production Storage and Offloading (FPSO) Program, and will be providing systems for a total of four FPSO facilities. This is Yokogawa's largest project in Africa.

Yokogawa receives control system order for large oil and petrochemical project in Republic of Tatarstan

Yokogawa has been selected by Taneco, a subsidiary of the Russian oil and gas company Tatneft, as the MAC for a refinery and petrochemical complex construction project.

Yokogawa receives control system order for large thermal power plant in India

Yokogawa has received a contract from Aravali Power Company Private Ltd. to supply an automation and control system for the Indira Gandhi Super Thermal Power Plant Project in Haryana State.

Yokogawa receives control system orders for LNG carriers from Australia and Brunei

Yokogawa has received two orders to supply control systems for an LNG carrier longevity project and a project to build two new carriers.

Yokogawa receives control systems contract for Australia's largest thermal power station

Yokogawa has been awarded the contract to replace the control and instrumentation systems at AGL Energy Limited's Torrens Island Power Station, Australia's largest natural gas-fired thermal power plant.

Yokogawa receives power plant control system orders from Egyptian Electricity Holding Co. (EEHC)

Yokogawa has received orders to supply integrated production control systems, transmitters, and analyzers for five government-run power plants. They are Yokogawa's first projects in Egypt.

REVIEW OF OPERATIONS

INDUSTRIAL AUTOMATION AND CONTROL BUSINESS

In addition to strengthening our product lineup, in Japan we have also worked proactively to respond to replacement demand at existing plants and focused management resources on fields that are relatively protected from fluctuations in the economy. These include electricity, gas, and water utilities; food and pharmaceuticals; and fields where the focus is on reducing energy consumption and protecting the environment. Further, we launched VigilantPlant in Japan. This is the industrial automation and control business' vision for the plant of the future, and it has already greatly strengthened the Yokogawa brand in other markets.

Outside Japan, we began full-fledged operations in the oil and gas upstream markets — exploration, development, and production. We also strengthened our capabilities in the power plant market, which has seen growing demand in recent years, particularly in newly industrialized nations. We received contracts for large-scale projects in each of the regions that we operate in, including an on-going contract from Egypt to provide automation and control systems for five government-run power plants.

In response to expected growth in the service sector, we began offering VigilantPlant Services, which help our customers optimize operations over the entire plant lifecycle. Further, we established offices and technical centers in Abu Dhabi, Colombia, and the Republic of Tatarstan, further enhancing our global sales and services network.

In these ways, we actively carried out a range of activities throughout our business, from development to sales, marketing, and services; however, in addition to the rapid deterioration in operating conditions from the second half of the fiscal year, we were also affected by the appreciation of the yen. As a result, net

sales for the industrial automation and control business were 301.2 billion yen, down 21.1 billion yen from the previous year, and operating income was 29.1 billion yen, down 10.0 billion yen, reflecting a decline in both sales and profits. Outside Japan, net sales were also down. This was primarily due to the rapid appreciation of the yen and the resulting decrease when foreign currency-denominated sales were translated into yen.

Outlook and strategic initiatives for fiscal year 2009

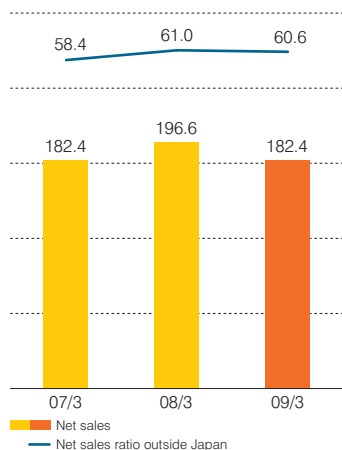
In Japan, we forecast that some industries will begin to see an easing of the trend toward declining production due to the expected increase in exports to China; however, we anticipate that restructuring will continue among companies in the oil and petrochemical industries and that a majority of industries will continue to see curtailed capital investment in fiscal year 2009.

In countries other than Japan, despite the efforts being made by many governments to stimulate economic recovery through various monetary and fiscal policies, it is unclear whether the industrial automation and control market will recover during the current fiscal year. Further, as our forecasts for fiscal year 2009 assume a stronger yen* than in fiscal year 2008, we anticipate that the corresponding yen totals for this business's foreign currency-denominated orders, net sales, and operating income will be down year on year.

We therefore believe that the current operating conditions are set to continue in the short term, but in the medium-to-long term we forecast stable growth in our industrial automation and control market following a recovery in demand for energy and raw materials, centering on newly industrialized and developing nations.

Net Sales / Net Sales Ratio Outside Japan

(Billions of yen / %)



Tunable diode laser (TDL) gas analyzer added to our lineup through the acquisition of Analytical Specialties, Inc.

Environmental issues concern everyone in this world, and we believe that we can make a positive contribution by reducing energy consumption and protecting the environment, two fields that show great promise for the Yokogawa Group.

Based on these factors, in fiscal year 2009 we will further solidify the foundations of our core industrial automation and control business by increasing related R&D spending, selecting and concentrating on specific businesses to make the best use of our human resources, and further strengthening our product lineup and ability to provide customer solutions.

In product development, we will further promote VigilantPlant — our vision for realizing the ideal plant — as a globally unified message. Based on the roadmap it describes, we will continue to develop products and services that ensure safety, make maximum use of plant assets, enhance production, and optimize operations over the entire plant lifecycle, thereby delivering solutions that achieve the ideal plant. Further, preparing for the establishment of markets

in resource-rich areas such as North Africa, the Caspian Sea region, and South America, we will establish bases of operation in these regions and work to strengthen our sales and services network.

In addition to strengthening our ability to provide solutions and enhancing our network, we will strive to achieve a level of cost competitiveness that will enable us to be a winner in global competition, accelerate the shift of operational functions outside Japan, and strengthen the foundations for our business through the focused investment of management resources. To realize our goal of increased market share, we will target growth industries in international markets and aggressively develop businesses that reduce energy consumption and protect the environment by leveraging our advanced control, measurement, and information technologies, as well as strive to provide customers with proposal-based maintenance services.

* Average exchange rates in fiscal year 2008: \$1=100.66 yen €1=143.28 yen
Assumed exchange rates for fiscal year 2009: \$1=95 yen €1=125 yen

Introduction of VigilantPlant — Yokogawa's Vision for Realizing the Ideal Plant — to the Japan Market

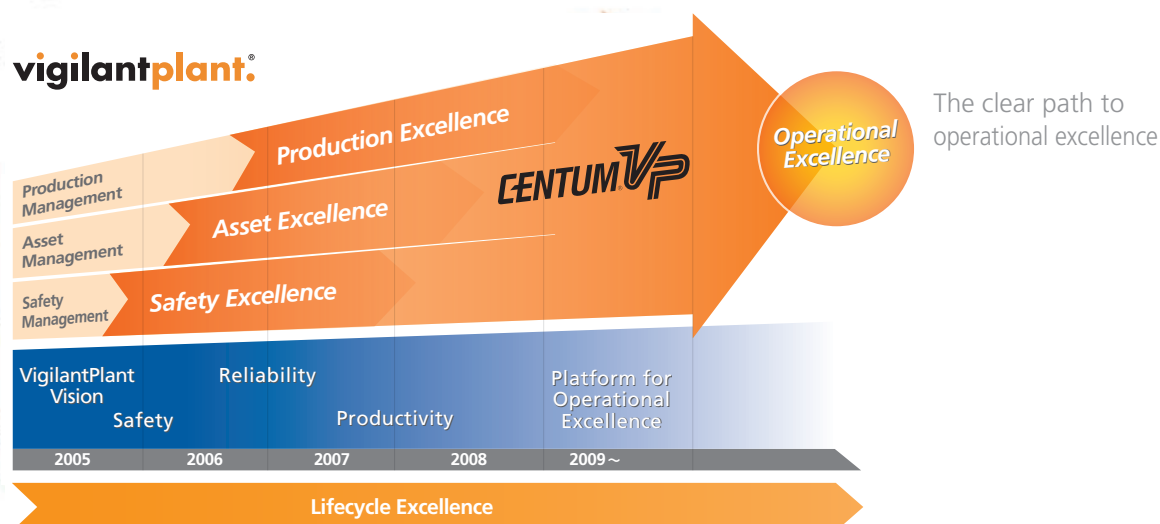
In fiscal year 2008, we sought to strengthen our competitiveness in Japan by introducing VigilantPlant to this market. Previously, this had been directed principally at the international market.

The Vigilance campaign was launched in 2003 to develop our presence in the international market. In 2005, we followed up on this by rolling out VigilantPlant, launching a series of products and services based on the four key initiatives of Production Excellence, Asset Excellence, Safety Excellence, and Lifecycle Excellence. These efforts were extremely successful,

and recognition of the Yokogawa brand dramatically increased outside Japan.

In addition to the points emphasized in other markets, the Japan campaign incorporates the elements of information, energy saving, and services. We are now working to share our vision for the ideal plant with our customers in Japan. By consistently communicating essentially the same message wherever we do business, we can ensure that our vision is understood worldwide.

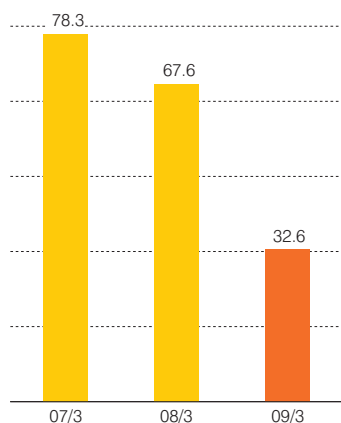
Developing a Full Range of VigilantPlant Solutions



Test and Measurement Business

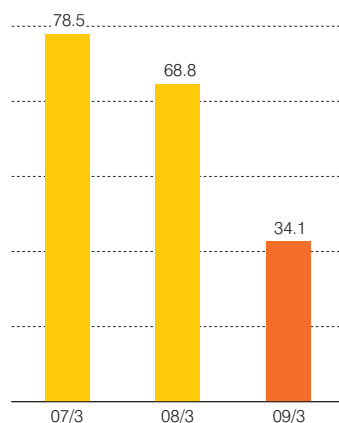
Orders

(Billions of yen)



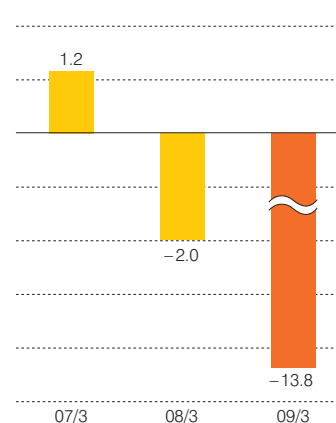
Net Sales

(Billions of yen)



Operating Income (Loss)

(Billions of yen)



In fiscal year 2008, both sales and profits were down for the test and measurement business. The semiconductor tester market shrank to an unprecedented level and the measuring instrument market was impacted by substantial cutbacks in capital investment by manufacturers in the electrical, electronics, and automotive sectors.

As we anticipate no change in these circumstances affecting the test and measurement business, our policy for fiscal year 2009 is to narrow our focus on specific development projects and to cut fixed costs.

Overview of business results for fiscal year 2008

In the test and measurement business, the semiconductor tester market shrank to a historically low level as semiconductor manufacturers responded to declining demand and falling prices for DRAM and other semiconductor devices by significantly reducing capital investment.

In keeping with our policy on business selection and concentration, we transferred our IC handler business to TESEC Corporation on July 1, 2008. We also reviewed our product development. We have decided to stop developing new SoC testers, and are concentrating on memory testers, a product for which demand exists among our major customers and a technology in which we are highly competitive. We have also reduced employee numbers by 40% in our semiconductor tester business and have redeployed personnel to growth areas such as the industrial automation and control business.

In these ways we have streamlined the test and measurement business and carried out far-reaching cost cutting measures. Even with these changes, however, the impact of the global market

slump was such that the semiconductor tester business recorded a decrease in both sales and profits.

In the measuring instrument business, we focused resources on sectors where growth is expected, such as environmental conservation and energy saving, optical communications, and automobiles. While demand for power analyzers was solid in the alternative energy and energy-saving sectors, manufacturers in our main electrical, electronics, and automotive markets dramatically reduced capital investment and R&D spending. As a result, the measuring instrument market trended downward.

In these market conditions, we capitalized on Yokogawa's leading position in the power meter market by launching the mid-range WT500 Power Analyzer, an instrument with superior cost performance that can be used in the alternative energy sector to evaluate power converters and is also suitable for use in the development of energy-saving consumer electronics and office equipment.

Further, in the optical communications measurement field, we have added the AQ6370B to our global market-leading lineup of optical spectrum analyzers. This newest optimal spectrum analyzer features substantially reduced measuring times and increased measuring efficiency, at a lower cost.

In the waveform measuring instrument field, we have responded to customer needs in fields such as mechatronics and electronics — where advances in the dual utilization of digital and analog technologies have been achieved — by launching the ultra-compact, light, inexpensive, and easy-to-use DLM2000 Mixed Signal Oscilloscope.

By launching products that provided superior cost performance and precisely met market needs, we made an effort to secure orders; however, the market plunge that commenced in the second half of



DLM2000
Mixed Signal Oscilloscope

This mixed signal oscilloscope is able to simultaneously measure and analyze analog and digital signals, and can also be used for the development and debugging of a wide variety of electric and electronic circuits and devices.



WT3000
Precision Power Analyzer

This precision power analyzer provides world-class levels of precision and stability. With its ability to simultaneously perform high-accuracy measurements of I/O efficiency, the WT3000 is ideal for applications such as the in-house calibration of general-purpose power measurement devices.



AQ6370B
Optical Spectrum Analyzer

This optical spectrum analyzer incorporates original Yokogawa components to provide best-in-class measurement speed and precision.



MT6121
Memory Test System

This memory test system can conduct tests of semiconductor wafers and packages for a wide variety of memory types, including DRAM and NAND / NOR flash memory.

the year had an enormous impact on the measuring instrument business, leading to an overall decline in sales and profits.

As a result, net sales in the test and measurement business declined 34.6 billion yen, to 34.1 billion yen.

Outlook and strategic initiatives for fiscal year 2009

We anticipate that the severe market conditions in the semiconductor tester business will remain unchanged in fiscal year 2009, with semiconductor manufacturers continuing to hold back on capital investment and increased integration and reorganization taking place within the industry. In this situation, we will strive to improve profitability through the timely launch of memory testers currently under development.

As for the measuring instrument market, despite active investment in the alternative energy and energy-saving fields, we anticipate that capital investment by our main customers in the electrical machinery and automotive sectors will continue at the current low

level; therefore, in fiscal year 2009 we expect no change in the challenging circumstances that we faced in the previous fiscal year.

In its measuring instrument business, Yokogawa is targeting developing fields such as alternative energy and energy saving, the environmental conservation field as a whole, and infrastructure fields such as optical communications. We will focus our product development on fields in which we have expertise and will aim to enhance the efficiency of our development organization.

At the beginning of fiscal year 2009, we integrated the photonics, advanced stage, and life science businesses — previously positioned within new and other businesses — into our test and measurement business segment. In doing so, we transformed the test and measurement business into an extremely diverse segment that is integrated as a single organization. We are combining our high-level technologies in communications, measurement, positioning control, biomeasurement, and photonics in order to provide customers with new and original solutions that also meet the needs of society.

Simultaneous Global Launch of the DLM2000 Mixed Signal Oscilloscope

In October 2008, we launched the new DLM2000 Mixed Signal Oscilloscope (MSO). Capable of simultaneously measuring both analog and digital signals and offering unparalleled ease of use, the DLM2000 is ideal for use in fields such as mechatronics and electronics that are becoming increasingly digitized. Despite costing less than other 200–500 MHz frequency bandwidth products, the DLM2000 provides best-in-class functionality, and is also smaller and lighter. With this product, we are developing new oscilloscope markets based on the concept of “one person, one MSO.”

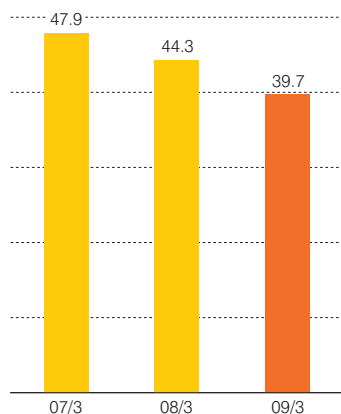


DLM2000 Mixed Signal Oscilloscope

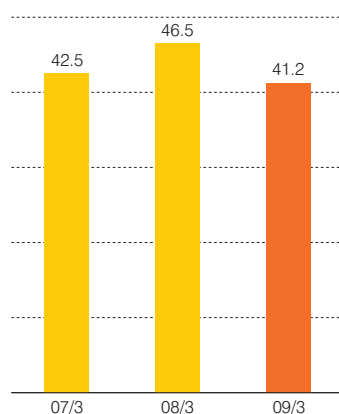
REVIEW OF OPERATIONS

New and Other Businesses

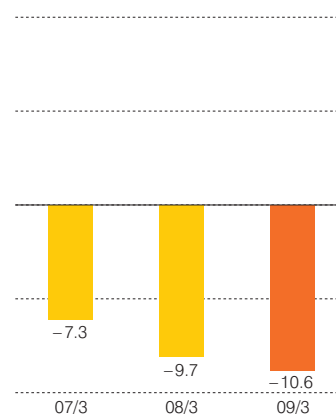
Orders
(Billions of yen)



Net Sales
(Billions of yen)



Operating Loss
(Billions of yen)



In fiscal year 2008, orders and sales in the photonics and life science businesses grew; however, the slump in advanced stage business sales and costs related to the start-up of new businesses meant that, overall, sales and earnings were down for the new and other businesses segment.

For fiscal year 2009, on the other hand, we forecast an expanded market for our photonics business, particularly outside Japan, and are targeting increased orders for our 40Gbps transponders.

Overview of business results for fiscal year 2008

Photonics, which is one of our new businesses, has benefited from the continued expansion of the 40Gbps backbone optical communications market. Next-generation networks (NGNs) are now in full-fledged use in Japan, and efforts to construct 40Gbps optical communications networks are underway in Europe, the United States, and elsewhere in Asia.

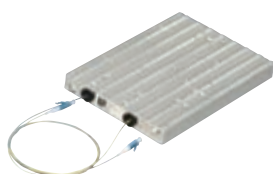
To capitalize on these opportunities, our photonics business launched a compact 40Gbps transponder that is compliant with a global telecommunications industry standard*, and pushed ahead with international sales and marketing initiatives in addition to our regular activities in the Japan market. Thanks to these efforts, photonics business orders have doubled year on year and sales have increased; however, the operating loss remains at virtually the same level as last year, which is principally due to an increase in business start-up costs.

In the life science business, the market outside Japan was strong for our confocal scanners, which are highly valued in the live cell imaging field. We actively strove to strengthen our international sales network. These efforts included a tie-up with Carl Zeiss — a world-leading manufacturer of high-performance microscopes — to launch through their sales network a confocal microscope system that utilizes our cutting-edge confocal scanner.

Moreover, we integrated a number of our original technologies, including confocal scanners, positioners, and image quality inspection systems, to create CellVoyager, a high-throughput cytological discovery system that helps to increase the efficiency of searches for new drug candidate compounds. In February 2009, we entered the drug discovery support system market with the launch of this new product. Consequently, in the life science business we were able to increase orders and sales as well as improve upon the operating loss recorded in the fiscal year. In the advanced stage business, on the other hand, demand from our main semiconductor manufacturer customers slumped and both sales and profits were down.

As a result of these factors, net sales for the new and other businesses segment decreased 5.2 billion yen, to 41.2 billion yen, while the operating loss increased 1.0 billion yen, to 10.6 billion yen.

* A standard based on a multisource agreement between nine of the world's leading telecommunication system and semiconductor manufacturers



40G RZ-DQPSK Transponder

This transponder transmits and receives optical signals and is used in telecommunication equipment installed at base stations for 40Gbps next-generation optical backbone networks. It is the product of Yokogawa's successful and industry-leading efforts to independently develop ultra-high-speed device technologies.



CSU-X1 Confocal Scanner

Integrated with an optical microscope, this confocal scanner is widely recognized as the most powerful live cell imaging tool in use today, and it has captured a large share of the market due to its high-speed imaging and low photobleaching.



CellVoyager High-throughput Cytological Discovery System

This system automatically tests new drug candidate compounds. With its combination of cutting-edge confocal scanner and precision positioning technologies, it produces high-resolution images and achieves high screening throughput.



Flat Panel Displays for Aviation Use

These flat panel color LCDs for cockpit use are highly visible in a variety of conditions, from darkness to direct sunlight, and offer excellent environmental resistance.

Outlook and strategic initiatives for fiscal year 2009

In the photonics business, we expect that active, global investment in 40Gbps backbone optical communications networks will lead to rapid market expansion, especially in Europe, the United States, and Asia. In response to this increased demand, we will strive to expand international sales of our compact 40Gbps transponder while increasing our production capacity and accelerating the implementation of cost-cutting measures.

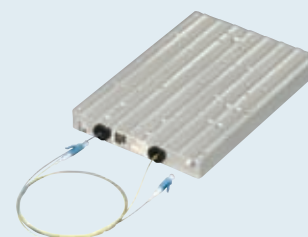
In the life science business, we forecast that demand for confocal scanners used in live cell imaging applications will continue to trend upward, and will focus our resources on this product. Further, we are targeting the remarkable growth that is currently occurring in the new drug development field by focusing our resources on our drug discovery support system.

In the advanced stage business, we have not seen any signs of recovery in the semiconductor manufacturing market, which has plummeted to an extremely low level; therefore, we will halt the development of our large XY stages for this market, and concentrate on our direct drive motors, a core component of positioning devices.

At the start of fiscal year 2009, we integrated the photonics, life science, and advanced stage businesses into the test and measurement business. In each of our new businesses, we will pursue a policy of selection and concentration, aiming to identify growth markets and ascertain areas where we can be profitable and utilize our world-class technologies to establish a competitive advantage.

Launch of Compact 40G RZ-DQPSK Transponder for Optical Communications

Transponders receive and transmit optical signals, and are essential components of the communications equipment used in telecommunication base stations. Our transponders utilize the differential quadrature phase-shift keying (DQPSK) scheme, which enables high-performance transmission and long reach. Sales have been steadily increasing as we are the only stable supplier of DQPSK transponders. Since launching this compact model in fiscal year 2008, we have actively promoted sales to major international telecommunication companies and telecommunication system manufacturers.



40G RZ-DQPSK transponder for optical telecommunications (5" x 7")

RESEARCH AND DEVELOPMENT

The role of R&D at Yokogawa

In order 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. We are pushing ahead with technology R&D in our core business domains of measurement, control, and information, and this supports our fundamental objective of guaranteeing the high reliability and stable performance of our products over the long term.

All the technological R&D functions for the Yokogawa Group are centered at our Corporate R&D Headquarters. Aligning R&D strategy with companywide business strategies, it works with today's basic technologies to develop next-generation leading-edge technology and prepares this for commercial launch. The Corporate R&D Headquarters also has the mission of increasing the efficiency of product development through the provision of companywide access to technical information and the development of infrastructure. A further mission of the Corporate R&D Headquarters is that of providing technology training.

The Semiconductor Headquarters is able to independently develop and produce semiconductor devices based on which each business headquarters can develop products with advantages that our competitors cannot match.

In their respective business domains, the business headquarters and Group companies own and evolve advanced technologies and make the most of cutting-edge basic technologies from the Corporate R&D Headquarters to develop optimum, high-quality solutions for customers.

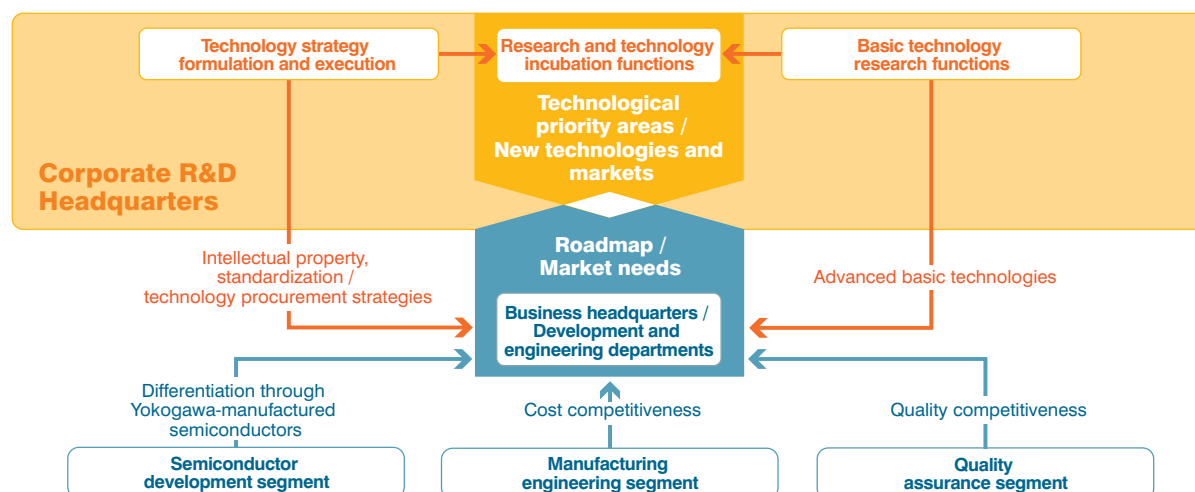
Our basic research approach

The Corporate R&D Headquarters, which is responsible for developing new technologies, carries out the following four basic R&D roles when managing a research project. To ensure these roles are carried out, we have constructed our own framework for making strategic technology decisions. By applying this framework to all research projects, the projects and technologies under development can be continually and objectively evaluated.

R&D Roles

1. Technology navigator
Without relying solely on forecasts based on acquired technological expertise, discern changes in the market and in technologies to determine what technologies Yokogawa should focus on 5 to 10 years from now, and push forward with plans based on achievement scenarios.
2. Technology incubator
While raising the technology standard to a level that is highly evaluated by the market, ensure that all product development at the business headquarters maintains a competitive advantage for Yokogawa, discover new businesses, and bridge the gap between research and actual business applications.
3. Technology driver
Strategically evaluate and utilize intellectual property and manage international standardization activities to ensure that our technologies maintain their competitive edge.
4. Innovation producer
Maintain a strategic and independent business mindset and foster a corporate culture that is conducive to continuous technological innovation. Further, train researchers and engineers who are ideally suited to work in this kind of environment.

Functions and Roles of R&D



The contribution of research to the creation of new businesses

In addition to strengthening existing businesses, a further R&D objective is to create new businesses. We are working to develop our optical communications business, which is based on ultra-high-speed compound semiconductor technologies that we have been researching and developing for the past 20 years. In 2006, we established the Photonics Business Headquarters, which is now integrated with our Communications and Measurement Business Headquarters. We are also developing a business that supplies 40Gbps transponders and modules for use in optical communications networks, which are entering widespread use.

Further, a Yokogawa confocal scanner that utilizes our independently developed confocal microscope technology is an essential component of a new drug discovery support system that is being introduced to the market. Also, we have developed a genetic analysis system with a biochip reader that utilizes integrated cartridges to fully automate DNA detection, a world first. This system could lead to the development of new businesses for Yokogawa, and we are currently investigating its potential not just in the medical industry, but in industries where there is a need for its application in tasks such as ensuring food safety, promoting plant growth, and protecting water quality.

Creation of added value

We established the Corporate R&D Headquarters to carry out the kinds of research that would allow us to create new forms of added value while taking into account specific market needs.

Responses to environmental issues

Going forward, we are fully aware of the impact that chemicals in various combinations have on the environment, and this has given rise to the concept of sustainable chemistry*. In anticipation of its commercial launch, we are testing a microreactor that functions as a miniature chemical plant. It generates very few by-products because the chemical reactions are so small — just one way this cutting-edge technology contributes to minimizing the impact on the environment.

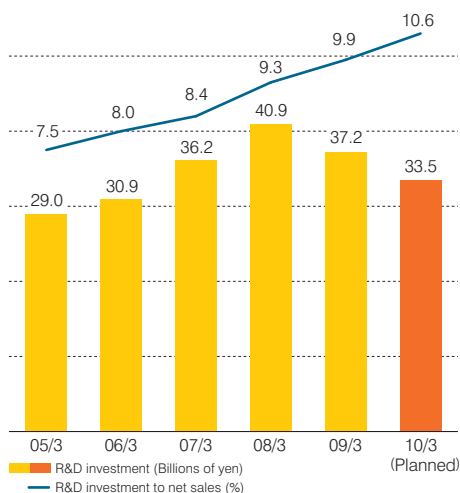
Modeling technology that opens up new possibilities in plant control

We are achieving steady progress with the verification of tracking simulators at customer sites. By modeling elements such as chemical reactors, we are able to apply the model parameters to actual plants. The tracking simulator makes it possible to optimize control by giving a precise grasp at any time of the dynamically changing conditions within a plant. This helps to achieve highly efficient operations without having to compromise on safety.

Our goal is to address problems today that the world will have to deal with in the future, in control-related areas such as environmental conservation and alternative energy. In its R&D, Yokogawa steadfastly takes a higher perspective and searches for solutions that go beyond conventional ways of thinking. Yokogawa will continue to contribute to society by always looking at things in fresh and novel ways and by developing new technologies that meet the needs of coming generations.

* The environmentally benign design, production, and use of chemicals

R&D Investment / R&D Investment to Net Sales



The CellVoyager high-throughput cytological discovery system was introduced to the market in February 2009.

INTELLECTUAL PROPERTY STRATEGY

The globalization of business and our intellectual property strategy

In recognition of the importance of intellectual property in producing high-value-added products and services and promoting social and industrial development, we are working in various ways to link our intellectual property, business, and R&D strategies. By patenting the inventions created through our ceaseless R&D efforts to protect them from being copied by our competitors, we are able to provide unique products and services in the measurement, control, and information fields.

Along with the rapid globalization of business, R&D competition is becoming more and more intense, not only in Europe and the United States, but also in Asia. The acquisition of intellectual property rights, mainly via patents, is significant for two reasons: to protect from third-party imitation and ownership the technologies that establish the basis for our preeminence over other companies, and to prevent competitors from entering into new fields or product categories.

In addition to Japan, which is the center of our R&D activities, our important development facilities in other countries such as Singapore are carrying out a full range of intellectual property-related functions, such as education and training, encouragement of employee inventions, and patent application. In fiscal year 2008, we established an infrastructure for intellectual property administration at our software development operation in India, and in April 2009 it began making patent applications.

For improved cost and management efficiency, we abandon the rights to any patents that play no role in our business strategies or whose role is considered to be complete. On the other hand, we

are pushing forward with measures to increase the number of patent applications; this explains why the number of registered patents has been gradually declining, despite an increase in the number of patent applications.

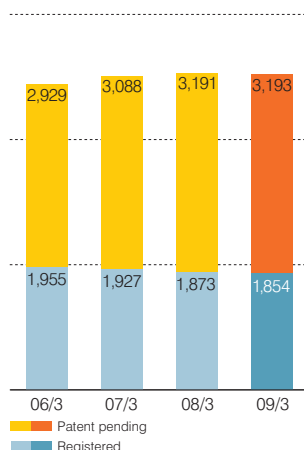
The creation of intellectual property in the technological development process

Yokogawa has established internal design standards for the R&D and product development processes. These standards maintain our competitive preeminence by encouraging employees to patent their inventions, and requiring an investigation that ensures we do not infringe on the property rights of other companies.

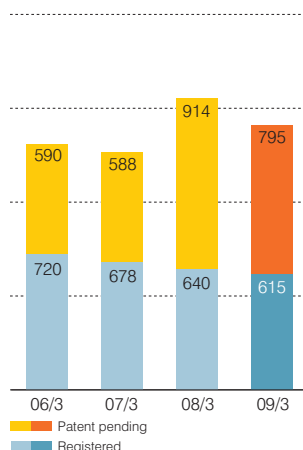
We have an in-house reward scheme for patented inventions that help to generate profits. Our royalty system provides considerable incentives for inventors, and we implement both a profit-linked model without an upper limit and a rank-based fixed-royalty model. Furthermore, we hold periodic corporate review meetings to examine excellent inventions for which patent applications have been filed in the last three years. From these applications, we select winners who receive a commendation from the president on the anniversary of the Company's founding, regardless of whether a patent has been granted.

We also proactively put forward our most highly regarded inventions for awards presented by external organizations. For the 2008 Kanto Region Invention Awards by the Japan Institute of Invention and Innovation, we received the Tokyo Branch Office Chief Prize in the information processing devices and methods category, and we were also awarded two other invention commendations.

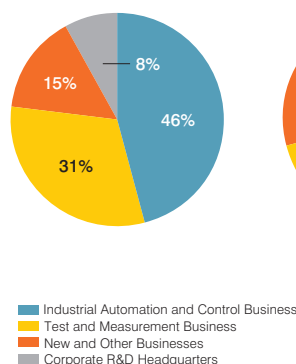
Trend for Patents in Japan
(Number of applications)



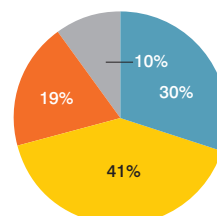
Trend for Patents Outside Japan
(Number of applications)



Patents in Each Business Segment in Japan



Patents in Each Business Segment Outside Japan



Open innovation

Yokogawa's VISION-21 & ACTION-21 long-term corporate strategy positions the provision of leading-edge technology as one of our most important initiatives. To create such technology, we are committed to the proactive pursuit of open innovation through R&D activities that utilize external resources. We do not rely solely on proprietary technologies; we are actively engaged in joint research with industry and academia, and are focusing our energies on ensuring that patent applications are generated from this research.

We are also making effective use of intellectual property related to operations that will be either transferred or terminated as the result of our selection and concentration on specific businesses, such as by the granting of patent licenses. At the same time, to ensure that we can continuously offer products and services to customers without interruption, we take decisive measures against any inappropriate infringement of our intellectual property rights to maintain our brands and protect the originality of our work.

Intellectual property communication and education

Regardless of whether they are to be assigned to a technical or non-technical function, all new employees attend a course on the fundamentals of intellectual property to deepen their understanding of this subject. We also provide various courses so that engineers and managers can learn how to practically manage and administer intellectual property.

Our objective is for the entire Group to best utilize the measurement, control, and information technologies that are used across all of Yokogawa's business operations and also to ensure that each Group company has access to information on our most outstanding patents. To achieve these goals, we regularly organize intellectual

property symposiums so that inventors can introduce and explain key patents that are owned by companies of the Group.

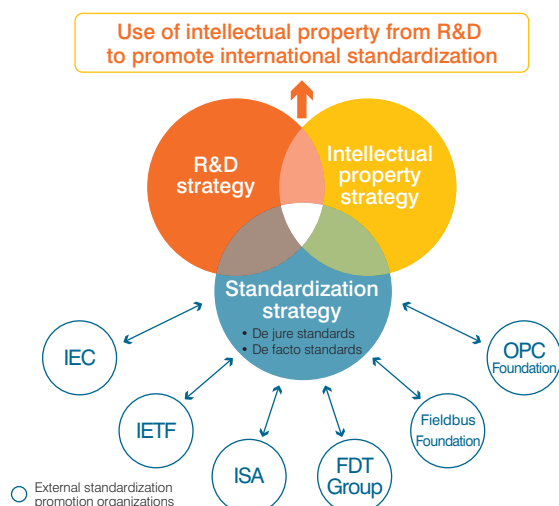
In addition, we publish the *Intellectual Property News* on the Company intranet to keep all Yokogawa Group employees up-to-date on intellectual property issues, and communicate our intellectual property activities to our external stakeholders through the Company's annual report and other publications. Further, we introduce Yokogawa's leading-edge technology in technical papers published in the *Yokogawa Technical Report*, which is released quarterly. In this way, we are communicating with and educating employees to foster a corporate culture that fully recognizes the importance of intellectual property.

Intellectual property and international standardization

International standardization has a direct connection to products and services, and consequently has a major influence on our business strategies. It is also an important element of our R&D strategies, since it determines whether the market will support technology that requires up-front investment. While linking standardization with our R&D and intellectual property strategies, we are proactively pushing forward with international standardization activities in each of our technological domains.

However, it is acknowledged that intellectual property and international standardization positions can be antithetical, and problems concerning the execution of patents frequently arise. To heighten customer convenience and invigorate the market, our policy is to prioritize activities in areas where interoperability is required, such as communications and software, and when necessary, to disclose information on intellectual property or permit its use through licensing contracts.

International Standardization Efforts



Intellectual Property Rights Owned by the Group

(As of March 31, 2009)

	In Japan			Outside Japan			Total
	Registered	Patent pending	Subtotal	Registered	Patent pending	Subtotal	
Patent	1,854	3,193	5,047	615	795	1,410	6,457
Design	145	10	155	5	6	11	166
Trademark	707	30	737	443	100	543	1,280
Total	2,706	3,233	5,939	1,063	901	1,964	7,903

ENVIRONMENTAL ACTIVITIES REPORT

Environmental Management

Environmental management system (EMS) activities

Yokogawa's Environmental Philosophy, Environmental Policy, and Code of Conduct for Environmental Protection are defined in the Yokogawa Group Environmental Management Standards. Based on these principles, Yokogawa is globally developing its environmental management and implementing environmental conservation activities that are closely integrated with its business operations.

Each Group company, in accordance with the Environmental

Policy of the Yokogawa Group and the Yokogawa Group's Environmental Voluntary Action Plan (both the medium-term and annual plans), has established environmental targets, and is thus independently engaged in environmental conservation activities.

As of the end of March 2009, there were 12 ISO14001-certified sites in Japan (including one that had been certified according to the KES Environmental Management System Standard) and 11 outside Japan.

Environmental Policy of the Yokogawa Group

Environmental Policy of the Yokogawa Group	Fiscal Year 2008 (main sites)		Self Evaluation ^{*4}
	Targets / Goals	Results	
EMS implementation, maintenance, and improvement	Confirm and achieve environmental conservation action targets that are closely integrated with our business practices ^{*3}	111 themes closely integrated with business operations attained	○
		Semi-annual internal audits conducted and effective environmental system confirmed	○
	Promote useful activities in line with existing business ^{*2}	47 useful environmental activities promoted	○
Implementation of environmental education	Provide all employees with basic environmental education that can be applied to activities undertaken on their own initiative ^{*3}	100% achieved	○
	Provide specialized environmental education to those who are engaged in business activities that have a particularly significant impact on the environment ^{*3}	100% achieved	○
Legal compliance	Strictly comply with the improved voluntary control limits ^{*2}	All items confirmed to be below the voluntary control limits	○
	Prevent boron and iodine values from exceeding limits set by regulations ^{*2}	Implemented measures to strengthen monitoring and measurement of boron and iodine; maintained levels within values set by standards	○
	Take measures to reduce environmental risks in 13 areas for environmental facilities and equipment ^{*2}	Measures taken to reduce risks in 13 areas for environmental facilities and equipment	○
Promotion of recycling-based management	Reduce CO ₂ emissions: • by 19.5% per unit floor space, compared to fiscal year 1990 (to 116.4 kg-CO ₂ /m ²) ^{*1} • to 26,519 t-CO ₂ /year ^{*2}	• 31.7% reduction (to 98.7 kg-CO ₂ /m ²) • Reduced to 23,248 t-CO ₂	○
	Reduce total waste: • by 14% compared to fiscal year 2003 (654 t/year in total emissions) ^{*1} • to 4,498 t/year ^{*2}	• 17% reduction (629 t/year) • Reduced to 3,317 t/year	○
	Zero emission of waste • Achieve 99.5% or higher waste recycling rate ^{*2}	• 99.75% waste recycling rate achieved	○
	Resource saving • Deploy green production lines and make improvements to 15 lines ^{*2}	• Achieved energy-saving improvements, including on manufacturing lines and for equipment, at 15 lines (reduced use of cutting oil, reduced volume of paper use, etc.)	○
Reduction of environmental pollutants	Reduce toluene and xylene by 1,450 kg ^{*2}	2,413 kg reduction	○
	Promote lead-free soldering and achieve 100% application in planned products [*]	Application to all planned products achieved	○
Development of environmentally friendly products	Reduce CO ₂ emissions of developed products by more than 25% ^{*1}	Completed for five models	○
	Promote green procurement • Introduce returnable tote boxes and pallets to seven more client companies ^{*2} • Upgrade at least four C-rated suppliers to B or higher	• Returnable tote boxes introduced to 14 more client companies • Rating of four C-rated suppliers upgraded to B or higher	○
Provision of environmental solutions	Increase sales of environmentally friendly products ^{*1}	Achieved	○
	Show visitors energy-saving efforts at the Kofu Factory ^{*1}	Achieved	○
Contribution to society through environmental protection	Contribute to society through participation in nature conservation and social and community activities ^{*1}	Participated in community clean-up activities	○
	Carry out nature conservation and social and community activities at least once a year at each site ^{*2}	A total of 29 social activities carried out	○
Disclosure of environmental conservation information	Promote information disclosure and enhance efforts to communicate with communities ^{*1}	CSR Report published	○
	Improve website ^{*2}	Risk management information published	○

Main sites: Yokogawa Electric Corporation Headquarters & Main Factory and Yokogawa Manufacturing Corporation

*1: Goals of Yokogawa Electric Corporation Headquarters & Main Factory *2: Goals of Yokogawa Manufacturing Corporation *3: Common goals *4: ○=Satisfactorily completed

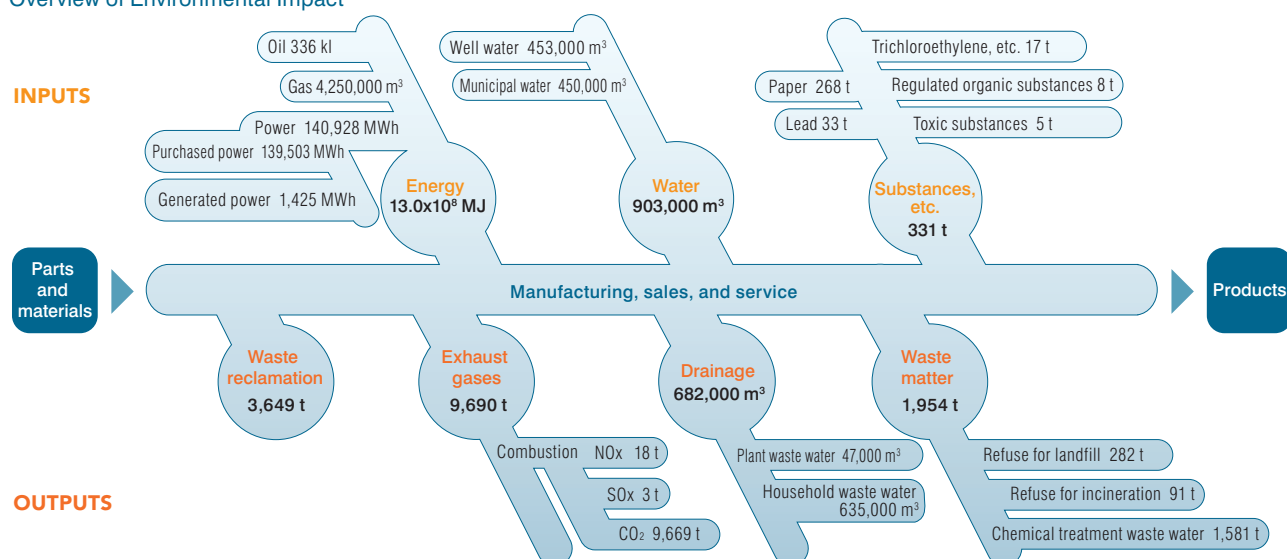
Yokogawa's overall environmental impact

The Yokogawa Group calculates the annual volume of the energy and material inputs for its business activities (including manufacturing, sales, and service) as well as their annual output of waste and other matter into the air and water. This analysis helps the Group effectively use resources, improve energy efficiency, and improve the waste recycling rate.

Environmental accounting

In accordance with the Ministry of the Environment's *Environmental Accounting Guidelines* (2005 edition), Yokogawa calculates the costs of its environmental activities and quantifies their economic impact. The cost of activities to protect the environment increased in fiscal year 2008 due to investment and expenditure for the construction of new buildings. Further, the application of a broader scope in the calculation of statistical totals resulted in an increase in emissions and in energy and water use.

Overview of Environmental Impact



Data was taken from ISO14001-certified manufacturing sites.

Environmental Accounting

Environmental Conservation Costs

(Millions of yen)

Category	Item	Main Initiatives	Capital Investment	Related Costs
Costs for reducing environmental impact of factories (areas of operation)	Pollution prevention costs	Monitoring and measurement	332	500
	Global environmental conservation costs	Energy savings	146	157
	Resource recycling costs	Minimize generation of waste matter	0	145
Costs for reducing environmental impact of procurement and logistics		Green procurement	0	25
Environmental conservation costs in EMS activities		EMS updates, education	0	239
Environmental conservation costs in R&D activities		Development of environmentally friendly products	0	1
Environmental conservation costs in community activities		Environmental events	0	33
Costs for correcting damage to the environment		Soil recovery	0	1
Total			478	1,101

Environmental Conservation Effects

Category	Description of Effect (unit)	FY2007	FY2008	Effect
Resource expenditure	Total amount of energy consumed (10⁹ MJ)	11	13	-2
	Total amount of water resources consumed (km³)	727	903	-176
Global warming prevention	CO₂ emissions (t)	8,899	9,669	-770
	CO₂ emissions on unit sales (t-CO₂/100 million yen)	3.2	3.5	-0.3
Air pollution	NOx emissions (t)	16	18	-2
	SOx emissions (t)	3	3	0

A minus effect indicates an increase in the environmental burden.

Economic Effects of Environmental Conservation Measures — Intrinsic Effect

(Millions of yen)

Description of Effect	Amount
Reduction in expenditure due to recycling (sale of valuable resources, etc.)	29.7
Reduction in expenditures due to energy savings (power, etc.)	66.8
Reduction in expenditures due to resource savings (reduced use of paper and water, etc.)	4.3
Total	100.8

Data was taken from ISO14001-certified manufacturing sites.

Activities to Improve Environmental Performance

The main objective of our environmental management is to reduce the environmental burden of the business activities carried out by Yokogawa and its customers. To achieve these goals, we are taking positive steps to lessen our impact on the environment through measures that reduce energy consumption and generate less chemical waste, which is in addition to an ongoing effort to create environmentally friendly products.

Measures to prevent global warming

To reduce its CO₂ emissions, Yokogawa is participating in the "Team Minus 6%" national campaign and its "Cool Biz" and "Warm Biz" initiatives. We are also participating in a campaign that reminds employees at each of our plants and business locations to switch off the lights. Further, since fiscal year 2006, Yokogawa has purchased 300,000 kWh of Green Power Certificates each year for its world headquarters building.

In March 2009, Yokogawa Manufacturing's Kofu Factory installed inverter equipment for its air conditioning system, which operates 24 hours a day. It is estimated that these inverters reduce the factory's electricity consumption by approximately 1,000 MWh per year, the equivalent of 425 tons of CO₂ emissions. Further, the Kofu Factory is also participating in the Green Curtain initiative, which is sponsored by the Kofu City Regional Committee on Global Warming Countermeasures and aims to reduce the heat island effect in urban areas.

Also, the Komine Factory has upgraded its air conditioning system and introduced highly efficient chiller equipment that reduces its

annual electricity consumption by 134 MWh, equivalent to 57 tons of CO₂ emissions.

For the Yokogawa Group companies in Japan, CO₂ emissions on a unit-sales basis were 10.4 t-CO₂ per 100 million yen in fiscal year 2008, a reduction of 60.1% from the fiscal year 1990 figure. The Group successfully reduced its CO₂ emissions by implementing energy-saving initiatives and adding energy-saving functions at new plants and other locations, and also benefitted from favorable climatic conditions. However, due to the decline in sales for the fiscal year under review, the unit-sales basis total was practically unchanged year on year.

Development of environmentally friendly products

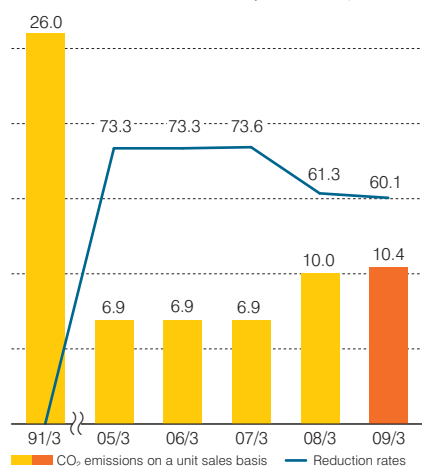
The Yokogawa Group is promoting the development of environmentally friendly products based on design guidelines and assessment standards regarding long-term use, energy saving, and other parameters. Based on the lifecycle assessment (LCA) standards, it assesses CO₂ emissions, NO_x emissions, and SO_x emissions.

In fiscal year 2008, we released the mid-range DLM2000 Mixed Signal Oscilloscope and other environmentally friendly products. The calculations based on the LCA standards show that, compared to previous models, CO₂, NO_x, and SO_x emissions over the lifetime of the DLM2000 were reduced by 61.7%, 62.1%, and 61.8%, respectively.



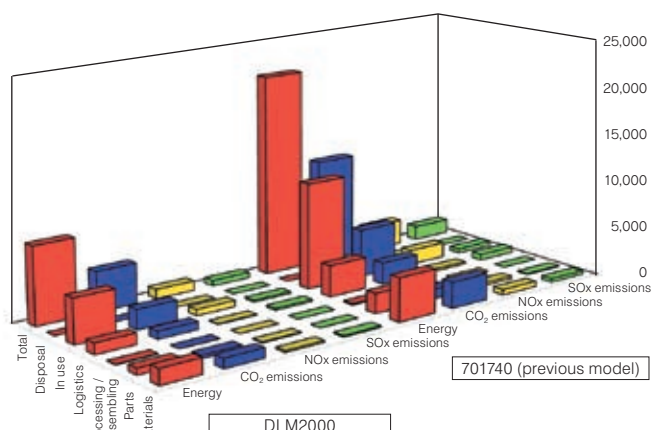
DLM2000 Mixed Signal Oscilloscope

Unit-sales-basis CO₂ Emissions and Reduction Rates (Compared to fiscal year 1990)



*CO₂ emissions on a unit sales basis: CO₂ emissions on a unit sales basis (t-CO₂ per 100 million yen) = CO₂ emissions (t-CO₂) ÷ sales (100 million yen) ÷ Japan's domestic corporate goods price index (electrical equipment) published by the Bank of Japan

LCA Comparison Chart



Measures to improve the production line

We are actively working to reduce the environmental burden of each production line process.

Measures in fiscal year 2008 included reducing the volume of water-soluble coolant used during cutting processes at Yokogawa Manufacturing's Kofu Factory. The density of water-soluble coolants used when cutting materials can be adjusted by adding oil into the water supply. However, at high oil densities, bubbles form in the coolant, which causes the solution to leak from the machinery. Based on the recommendations of the oil supplier, we carried out tests to determine the optimal density level for each piece of cutting machinery, and trained the machinery operators how to monitor and adjust this level each day using a Brix meter. By keeping all of its water-soluble coolants at the optimal density level, the Kofu Factory has been able to achieve an 898 liter reduction in the amount of coolant that it uses each month.

Moreover, during the cutting process some of the dispersed coolant can be collected and pumped back to the main reservoir for reuse, thereby creating further gains in efficiency. Going forward, we aim to further reduce coolant use, and are collaborating with oil suppliers to make the switch to water-soluble coolants that can be reused many times.

Measures to manage and reduce the use of chemical substances

Each year, Yokogawa Manufacturing strives to achieve the pollution reduction targets specified in the Environmental Policy of the Yokogawa Group. One of the targeted reductions is for the use of toluene and xylene; in fiscal year 2008, the solution used to clean painting equipment was changed to one that is toluene-free. Due to efforts such as this in fiscal year 2008, the Kofu Factory reduced the amount of toluene and xylene that it used from 3,270 kg to 2,350 kg, a 920 kg reduction.

Measures to promote zero emissions

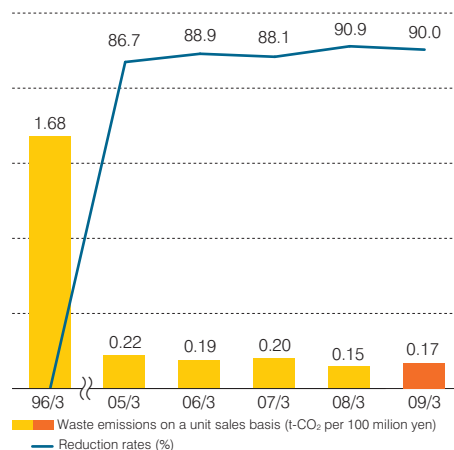
Yokogawa has pushed forward with its efforts to recycle waste and achieve zero emissions, which it defines as "recycling and reusing 99% or more of the total amount of waste generated." In fiscal year 2008, six Yokogawa sites, including the Yokogawa Electric Corporation Headquarters and Main Factory, achieved zero emissions, and waste emissions for the fiscal year was kept to just 0.17 tons per 100 million yen on a unit-sales basis, or 634 tons in total.

Moreover, initiatives to reduce specific types of waste were implemented, such as reusing surplus office furniture and returning direct mail to the sender. As a result of these efforts to separate, reuse, and recycle waste, we were once again recognized this fiscal year as an Eco Partner (a company that reduces waste and promotes recycling) by the Musashino City government.



Checking the density level with a Brix meter

Unit-sales-basis Waste Emissions and Reduction Rates (Compared to fiscal year 1995)



SOCIAL ACTIVITIES REPORT

In Harmony with Society

Based on our company philosophy of “We aim to combine good citizenship with the courage to innovate,” we carry out activities with the goal of coexisting in harmony with society. We proactively use our high-level capabilities with measurement, control, and information technologies to support science education and promote vigorous local communities, and we also pursue socially responsible (SR) procurement.

Developing the next generation:

The Yokogawa Science Class

To counter the recent trend of children turning away from science, in 2006 we began the Yokogawa Science Class for elementary school students. These classes focus on a theme such as optics or electricity and are taught by Yokogawa volunteers who seek to help the children develop an appreciation for the pleasure of studying science. Further, as part of our volunteer activities we provide educational support across a wide range of areas, such as sending Yokogawa employees to act as guest lecturers at universities and research facilities and providing measuring equipment or funding for research. Going forward, we intend to deepen our ties with local communities through exchange activities and to contribute to the education of the young people who are our future.

Our educational support campaign

In 2008, Yokogawa took part in a campaign sponsored by the Kuraray Company that supports the education of children in Afghanistan by collecting and sending to that country used *randoseru* (the backpacks used by elementary school children in Japan) as well as surplus stationery contributed by Company employees.

SR procurement

Based on the Yokogawa Philosophy and the Standards of Business Conduct for the Yokogawa Group, Yokogawa carries out its procurement in accordance with all applicable laws and regulations, and aims in this to respect human rights and protect the environment. In 2008, we established a basic policy for all procurement-related operations. Asking all our suppliers to understand the Yokogawa Supply Chain Guidelines, we work to develop partnerships based on mutual understanding, while optimizing quality, delivery schedules, costs, technologies, and services in our supply chains.

Yokogawa’s basic procurement policy:

- Establish a clean, clear, and open corporate culture and make our company more trusted by society.
- Promote SR procurement activities throughout the supply chain, including not only the Yokogawa Group but also Yokogawa suppliers.
- Comprehensively evaluate and select suppliers, giving priority to our commitment to being a good corporate citizen.

SR supply chain initiatives

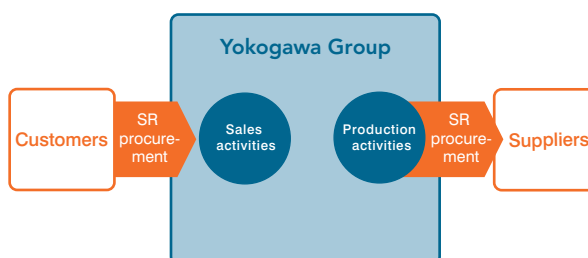
As Yokogawa is part of numerous supply chains we believe that our activities must include measures that address global issues.

In accordance with the principles on human rights, labor, the environment, and anticorruption set out in the United Nations Global Compact, Yokogawa has formulated guidelines and regulations for the entire Group and is engaged in legal compliance activities. Also, Yokogawa is actively cooperating with its customers and suppliers to be a good corporate citizen.



Soldering components to build a radio

SR Supply Chain



Occupational Safety and Health

In fiscal year 2007, we established the Yokogawa Group Safety and Health Policy and put in place an occupational safety and health management system (OSHMS). Since 2008, we have been making an ongoing effort to improve safety and health in the Yokogawa Group through OSHMS-related activities at each Group company.

The OSHMS system

In recognition that safety and health are a basis for the management of the Yokogawa Group, we set up an OSHMS in order to ensure the safety of all Group employees as well as to maintain and improve their overall health. Through this system, we have been developing Groupwide safety and health activities. Specifically, we have been pushing forward with measures to progressively improve the overall level of safety and health, such as risk assessments to eliminate or lessen potential risks and internal audits to evaluate and review existing safety and health measures.

In fiscal year 2008, each Group company implemented an internal audit. Furthermore, the department responsible for the Yokogawa Group OSHMS carried out management audits at 39 Group companies in order to identify areas for improvement. In fiscal year 2009, we will continue with these efforts. At present, 15 Group companies in 11 countries have acquired certification based on the OHSAS 18001 occupational health and safety assessment series.

Providing safety and health education

In order to fully disseminate the Yokogawa Group Safety and Health Policy throughout the Group, in fiscal year 2008 we

published the *Safety and Health Handbook* and distributed it to all Group employees. This covers basic subjects relating to safety and health and the rules for our employees' day-to-day activities. Further, to promote greater understanding of its contents, we carried out a Yokogawa Group safety and health comprehension check for 13,000 employees in Japan and 7,000 in other countries.

Accident analysis for fiscal year 2008

After the introduction of the OSHMS, in each quarter of fiscal year 2008 we collected and collated statistics on occupational accidents at 41 Group companies.

During fiscal year 2008, Yokogawa Electric (Japan) had five accidents. This was three less accidents than in the previous fiscal year, and two of these accidents involved four or more lost work days of leave and occurred during business trips outside the country. We will continue to devote resources to the prevention of accidents outside Japan.

Responding to the new influenza strain

Previously, the Yokogawa Group planned countermeasures in preparation for a global H5N1 influenza outbreak. In fiscal year 2008, we began creating guidelines for protecting employees from H5N1 that followed the Japan Ministry of Health, Labour and Welfare's guidelines for the prevention of influenza in the workplace. As part of our education activities, we distributed a prevention manual to all Yokogawa employees in Japan. In accordance with this manual, we began stockpiling items such as masks and disinfectant.

Occupational Accidents at Yokogawa Electric (Japan)

	FY2006	FY2007	FY2008
Annual average number of workers	6,308	5,145	6,154
Total actual working hours	12,087,160	10,094,954	11,553,033
Four or more days lost (persons)	0	1	2
One to three days lost (persons)	3	2	0
Subtotal (persons)	3	3	2
No lost days (persons)	6	5	3
Total (persons)	9	8	5
Total days lost	7	75	46
Lost work days	5.8	61.6	37.8
Frequency rate ^{*1} (national average: 0.80)	0.25	0.30	0.17
Severity rate ^{*2} (national average: 0.11)	0.000	0.006	0.003

*1: Number of workers involved in accidents /
Total actual working hours x 1,000,000 hours

*2: Total lost work days / Total actual working hours x 1,000 hours



Safety and Health Handbook



Stockpiled items and the distributed *H5N1 Prevention Manual*

Workplace Diversity

At Yokogawa, human resources are one of our most precious assets. As stated in the Standards of Business Conduct for the Yokogawa Group, we treat all individuals with dignity and respect their fundamental human rights. We work to provide the diverse range of individuals in our employ with career opportunities that allow them to fully live up to their potential, and actively seek to ensure that our employees maintain a sound work-life balance. We also encourage the employment of people with disabilities.

Developing careers for personal and company growth

We carry out a range of initiatives to ensure that we place each employee in the most suitable position and thereby make full use of his or her potential. We aim to proactively and quickly deploy and utilize our employees by having them submit career plans to their superiors and using an in-company recruitment system that is intended to discover from within the employees needed for new businesses and projects.

Moreover, we create a career-life design plan each time an employee reaches a turning point in his or her working life and provide that individual with health management training. This is one example of how we help employees plan for their futures.

Improving employee motivation by promoting work-life balance

We strive to provide the kind of work environment in which employees can achieve self-fulfillment while also balancing their work and home lives. We support our employees by establishing various systems that allow them to take leave to look after their child or nurse a sick or elderly family member. We have also introduced a system to provide financial support to employees who are raising children.

Many of our employees, both male and female, make full use of these support systems, and nearly all who take child-care leave subsequently return to their previous positions, which helps foster employee motivation.

Furthermore, we opened a child day care center near the Yokogawa Headquarters in September 2006 that can be used not only by employees, but also by people who live in the area. In recognition of our efforts, in fiscal year 2007, Yokogawa was certified as an Enterprise Supporting Balanced Work and Family Life by the Chief of the Tokyo Labor Bureau.

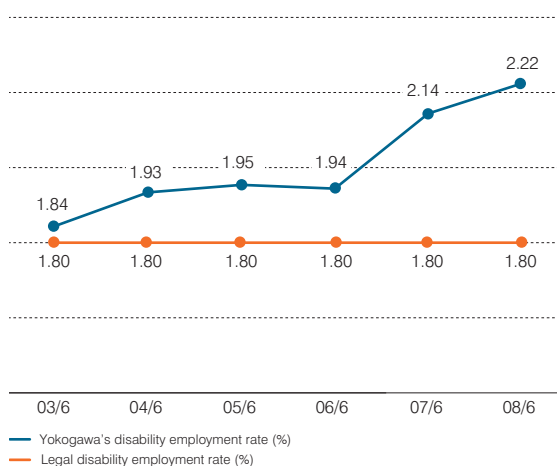
Promotion of well-being through the Employee Assistance Program (EAP)

We aim to avoid situations where employees are unable to fully demonstrate their true potential due to stress. To help them perform to the limit of their abilities, we have introduced the Employee Assistance Program (EAP). The main characteristic of Yokogawa's EAP is that it provides employees both psychological and career support. The psychological support includes stress checks for all employees, with feedback provided to organizations in the Company to help identify areas where additional support such as counseling and education is necessary. The career support includes career counseling for those employees who request it.

Employing and fostering the growth of people with disabilities

Since beginning the Normalization Project in 1992, we have made a proactive effort to employ people with disabilities. In addition to meeting the legally prescribed employment rate for people with disabilities on a non-consolidated basis, the Group as a whole has worked to promote the employment of people with disabilities and ensure they are provided with career opportunities. With the goal of recruiting people with mental disabilities, in 1999 we established the Yokogawa Foundry Corporation, and this was certified in the same year as a special subsidiary for the employment of disabled individuals. Employees of Yokogawa Foundry benefit from a full training program to improve their skills, and are provided with varied and challenging work as well as opportunities to broaden the scope of their daily lives. Further, Yokogawa Foundry employees are also active outside of the Company, and have, for example, won awards at the Abilympics.

Disability Employment Rate



CORPORATE GOVERNANCE

Basic policy on corporate governance

The Yokogawa 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 business operation, the Group is implementing important measures to enhance corporate governance.

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, thereby speeding up business execution. 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.

Directors and the Board of Directors

The Board of Directors has a maximum of 15 members. Their term of office is set at one year and their reappointment is approved each fiscal year by shareholders. The Company's articles of

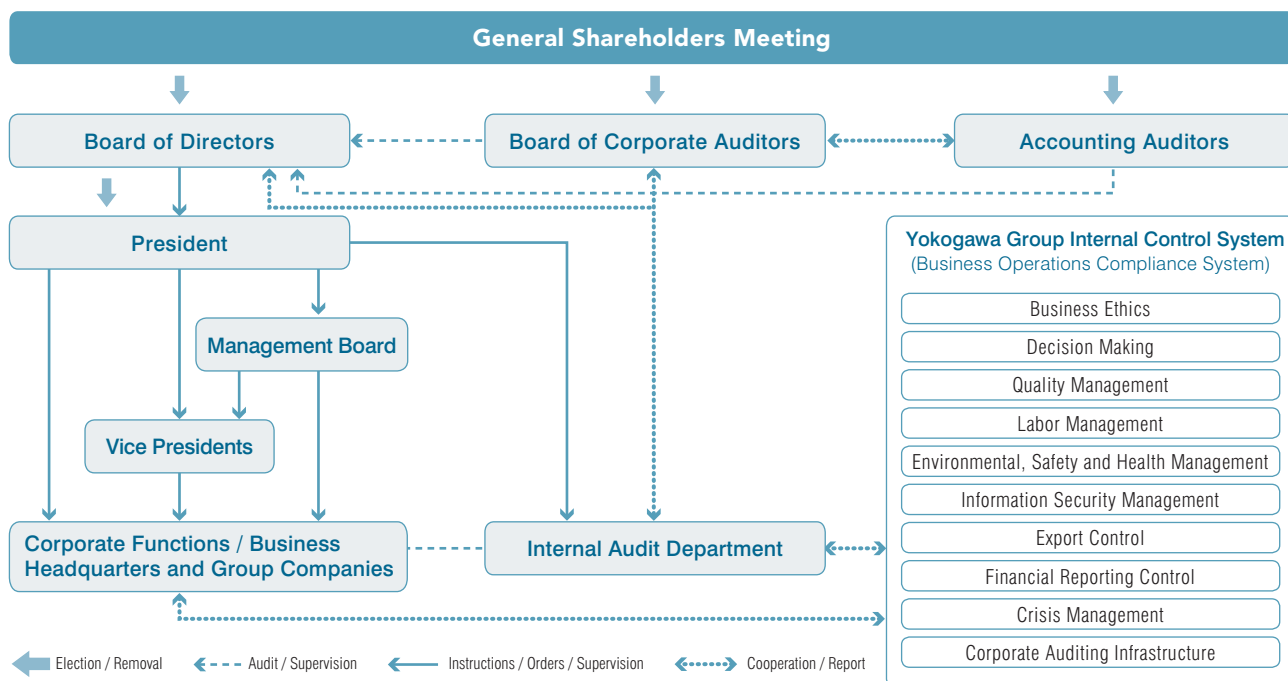
incorporation stipulate that the appointment of a director requires the presence of shareholders who hold at least one-third of the voting rights owned by all shareholders and that the director must receive a majority of the votes. Speedy decision making and transparency are assured through deliberations among directors who are well versed in the Group business, including highly independent outside directors. The Board of Directors is comprised of 10 directors, three of whom are outside directors. Meetings are convened on a monthly basis, and resolutions are made on legally determined items and items important to the Group.

Corporate auditors and the Board of Corporate Auditors

The Company employs a corporate auditor system. The Board of Corporate Auditors consists of five corporate auditors, including three outside corporate auditors. It meets each month and carries out auditing in accordance with the annual audit plan, which specifies priority audit items.

Through audits conducted by the corporate auditors, including outside corporate auditors, the legality and efficiency of the directors' execution of duties and the appropriateness of their decision-making process is rigorously examined, thereby reinforcing the management audit function.

Corporate Governance Structure



CORPORATE GOVERNANCE

Basic policy on internal control systems and their maintenance

The Yokogawa Group has set forth its basic compliance policies in the Standards of Business Conduct for the Yokogawa Group, and directors take the lead in working to ensure that business 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, have been set forth to ensure appropriateness and efficiency in Group operations.

Internal auditing

To ensure thorough compliance, the Company has established an Internal Audit Department. The department conducts internal auditing based on an annual audit plan and reports important matters to the Board of Directors and the corporate auditors.

Auditing by corporate auditors

The Board of Corporate Auditors carries out auditing in accordance with the annual audit plan, which specifies priority audit items. Corporate auditors hold regular meetings and exchange information with the Internal Audit Department and other departments that promote the compliance system. These meetings focus on the status of audits currently being conducted, compliance-related education, and the operational status of the internal reporting system. Also, the Board of Corporate Auditors regularly meets with the accounting auditors to exchange information concerning the status of account settlement.

Accounting auditors

The Company has concluded an audit agreement with Deloitte Touche Tohmatsu, an independent 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 Control 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.

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.

Remuneration paid to directors and corporate auditors

Remuneration paid to directors and corporate auditors during fiscal year 2008 was as follows.

Total Amount of Remuneration Paid to Directors and Corporate Auditors

Directors	10 persons	664 million yen
Corporate Auditors	8 persons	99 million yen
Outside Directors and Corporate Auditors (also included in above categories)	7 persons	54 million yen

Note: One director and three corporate auditors (including two outside corporate auditors) who stepped down from these positions upon the conclusion of the 132nd Annual General Meeting of Shareholders on June 26, 2008 are included in the above figures.

The remuneration paid to directors does not include employee salary for those directors concurrently serving as employees.

Remuneration paid to accounting auditors

Based on the duties performed by the accounting auditors for the Company and its subsidiaries, and as prescribed by Article 2-1 of the Certified Public Accountants Law (Law No. 103 of 1948), remuneration paid to the accounting auditors in fiscal year 2008 was 191 million yen, while remuneration for non-auditing and certification duties was 5 million yen.

Takeover defense measures

The Company believes that a framework is necessary for preventing acts that are contrary to its values and the common interests of shareholders. This enables the shareholders to have sufficient time to properly judge whether consent should be given to a large-scale purchase of the Company's shares, while it also enables the Board of Directors sufficient time to obtain information and present alternative plans to shareholders. A resolution entitled "Renewal of Countermeasures to Large-scale Acquisition of Yokogawa Electric Shares (takeover defense measures)" was issued at the Board of Directors meeting on April 28, 2009, and this was submitted to the 133rd Annual General Meeting of Shareholders on June 29, 2009. The resolution was approved and is consequently valid for two years.

For further details, please refer to the press release made available on the Company's website on April 28, 2009.
<http://www.yokogawa.com/pr/pdf/20090428-en.pdf>

COMPLIANCE

Compliance is a top priority management issue at Yokogawa. We aim to be a company that earns the trust of society with its fair and honest business activities. The Yokogawa Group is pushing forward as one single and unified organization with initiatives to strengthen its compliance management. As part of our efforts to be a sound and open company, we have been strengthening compliance management through the creation of systems that prevent ethical misconduct and the establishment of a culture that encourages ethical conduct.

Establishing systems to promote compliance

Led by the CSR and Business Ethics Department, a compliance system that addresses a wide range of issues through employee training in each workplace and other initiatives were implemented in fiscal year 2008 at all Japan and non-Japan subsidiaries.

In addition, to rapidly identify and address compliance issues, we have established and actively encourage the use by employees of compliance hotlines. In Japan, we have the internal Business Ethics Line (BEL) and the external (staffed by lawyers from a law firm) Compliance Hotline (CHL).

Moreover, each year we carry out the Global Opinion Survey to clarify our employees' perceptions of compliance issues. We subsequently analyze the results by workplace and function, and make full use of the results to create and implement a range of compliance measures.

Education and training to ensure employee compliance

In fiscal year 2008, we carried out the following measures to ensure that each and every one of our employees fully comprehends the importance of and the need for ethical conduct.

Compliance training

We implemented a variety of compliance training courses for employees, particularly managers and new employees, at locations all over the world.

- Business ethics training for managers in Japan (including subsidiaries)
- Training for new employees in Japan on the Standards of Business Conduct for the Yokogawa Group
- Business ethics training for newly appointed managers in Japan
- Training for Japan employees who are to be posted to other countries
- Business ethics training for managers outside Japan

Business Ethics Week

We conducted a Business Ethics Week campaign for all employees in Japan. In addition to sharing messages from the top management about the importance of compliance, we arranged for all employees to take a computer training course that deepened their understanding of compliance issue. To raise awareness and stimulate communication about compliance, we also encouraged employees to internalize and vocalize compliance slogans.

Issuance of the *Compliance Guidelines* and the *Yokogawa Compliance News*

We distributed to each employee a copy of the Standards of Business Conduct for the Yokogawa Group, which covers the Yokogawa Group philosophy and employee code of conduct, and the Yokogawa Group *Compliance Guidelines*, which sets out how employees are to maintain compliance in response to a variety of issues encountered on the job.

Through these documents, we aim to ensure that absolute compliance is always maintained. They also express our desire for employees to avoid all misbehavior and adhere to our code of conduct both on and off the job. Further, through a variety of initiatives such as the issuance of the *Yokogawa Compliance News*, we ensure that all employees understand that compliance is an issue that directly involves them.

In addition, in fiscal year 2008 we created a document entitled "Case Studies of Ethical Misconduct" and distributed this as a printed pamphlet and in PDF format on the company intranet. This collection of case studies helps employees learn about compliance issues through specific examples of unethical behavior, and it has been utilized in training sessions and study meetings at all of our workplaces. To promote understanding of compliance issues, we also translated the *Compliance Guidelines* into English and Chinese and modified the text to address specific local issues.



Compliance Guidelines

DIRECTORS, CORPORATE AUDITORS, AND OFFICERS

As of June 29, 2009

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



Nobuo Katsumata
Outside Director

Corporate Auditors



Takafumi Koyanagi
Corporate Auditor



Kiyoshi Makino
Corporate Auditor



Shigeru Hikuma
Outside Corporate Auditor



Teruhiko Ikeda
Outside Corporate Auditor



Kouichi Iki
Outside Corporate Auditor

Officers

Senior Vice President

Toshiaki Shirai
Satoru Kurosu
Manabu Sasada
Shuhei Sakuno
Hiroshi Yuhara

Vice President

Toshiki Okuzumi
Yasunori Kawata
Akira Miura
Makoto Torii
Hiroshi Yamada



FINANCIAL SECTION

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CONSOLIDATED SIX-YEAR SUMMARY

Yokogawa Electric Corporation and Consolidated Subsidiaries
For the Years Ended March 31

	Billions of yen					Millions of US dollars	
	2004/3	2005/3	2006/3	2007/3	2008/3	2009/3	2009/3
For the year:							
Net sales	¥371.9	¥387.1	¥388.9	¥433.4	¥437.4	¥376.5	\$3,833
Cost of sales	241.4	250.0	245.9	275.9	277.4	253.0	2,575
Selling, general and administrative expenses	112.3	112.3	117.6	128.2	132.6	118.8	1,209
Operating income	18.3	24.8	25.3	29.3	27.4	4.7	47
Operating income ratio (%)	4.9	6.4	6.5	6.8	6.3	1.3	—
Net income (loss)	24.3	9.4	21.6	12.6	11.7	(38.4)	(391)
Capital expenditures	21.4	18.7	29.5	40.3	38.0	26.8	272
Depreciation and amortization	13.5	14.3	15.1	16.5	23.1	21.6	220
Research and development cost	27.0	29.0	30.9	36.2	40.9	37.2	379
Cash flow from operating activities	8.3	18.3	25.6	40.5	20.8	24.5	249
Cash flow from investing activities	(10.2)	(11.2)	(11.7)	(39.0)	(51.0)	(24.1)	(245)
Cash flow from financing activities	(11.4)	(1.3)	(14.1)	(6.1)	23.9	28.5	289
At year-end:							
Total assets	397.4	400.3	417.8	438.7	444.6	401.0	4,081
Debt	233.2	227.0	188.3	199.8	219.8	230.0	2,341
Interest-bearing debt	99.6	100.3	61.3	59.6	93.0	124.3	1,265
Shareholders' equity	160.3	168.8	224.6	234.3	220.7	167.2	1,702
Shareholders' equity ratio (%)	40.3	42.2	53.7	53.4	49.6	41.7	—
Per share data:							
Net income (loss) (yen / US dollars)	99.84	38.43	87.45	47.79	44.76	(149.26)	(1.52)
Cash dividends (yen / US dollars)	7.50	7.50	15.00	15.00	16.00	16.00	0.16
Shareholders' equity (yen / US dollars)	658.97	693.75	854.24	891.08	856.72	649.20	6.61
Stock information:							
Stock price at the end of the term (yen / US dollars)	1,544	1,452	2,095	1,806	998	394	4.01
Market capitalization	392.1	368.8	562.8	485.1	268.1	105.8	1,077
Number of issued shares	253,967,991	253,967,991	268,624,510	268,624,510	268,624,510	268,624,510	—
Other information:							
Number of employees	18,364	18,972	17,858	19,286	20,266	20,247	—

Average exchange rate during the period

(yen)

	2004/3	2005/3	2006/3	2007/3	2008/3	2009/3
US dollar	113.97	107.46	113.09	117.00	113.80	100.66
Euro	132.73	134.90	137.81	150.33	162.26	143.28

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, and 46 consolidated subsidiaries have a 13-month accounting period. 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, and a 985 million yen increase in current net income.

FINANCIAL REVIEW

Overview of financial results for fiscal year 2008

The economic downturn in the second half of fiscal year 2008 triggered by the global financial crisis, together with falling investment in semiconductor manufacturing facilities as a result of the sluggish semiconductor market and the sharp appreciation of the yen since last September, caused consolidated net sales to plunge from the previous fiscal year, down 60.9 billion yen, to 376.5 billion yen.

We responded with measures such as reducing expenses and capital investment in order to achieve the operating income target; however, operating income nevertheless fell year on year because of the decrease in sales and a change in accounting policy this consolidated accounting period, which shifts the loss on disposal of inventories and the loss on write-down of inventories from non-operating expenses to operating expenses. As a result, operating income declined 22.7 billion yen, to 4.7 billion yen.

Consolidated net income shrank 50.1 billion yen year on year, for a net loss of 38.4 billion yen, due to extraordinary losses resulting from an increase in the loss on the write-down of investments in securities, a restructuring loss, an impairment loss for fixed assets, and higher corporate tax adjustments that were made necessary by the difficulty of forecasting future taxable income as well as a subsequent reversal of deferred tax assets.

Conditions of assets, liabilities, and net assets

Total assets at the end of this consolidated accounting period were 401.0 billion yen, a decrease of 43.7 billion yen over the previous period. This is mainly attributable to a 17.9 billion yen decrease in current assets and a 25.7 billion yen decrease in fixed assets. The main factors for the decrease in current assets were a 26.6 billion yen increase in cash and cash equivalents, a 32.5 billion yen decrease in trade notes and accounts receivable due to the decline in sales, and an 8.9 billion yen decrease in current deferred tax assets due to the reversal of deferred tax assets. The main factors for the decrease in fixed assets were a 7.7 billion yen

increase in intangible assets, a 9.8 billion yen decrease in property, plant and equipment, a 9.2 billion yen decrease in investment securities, and a 13.7 billion yen decrease in long-term deferred tax assets.

Total liabilities were 230.0 billion yen, up 10.2 billion yen year on year. The main factors were an 11.1 billion yen decrease in trade notes and accounts payable, a 6.2 billion yen decrease in loans due within a year, a 5.7 billion yen decrease in bonus allowances, a 4.5 billion yen decrease in other accounts payable, a 3.9 billion yen decrease in other current liabilities due to the repayment of commercial paper, and a 45.8 billion yen increase in long-term debt.

Net assets were 171.0 billion yen, down 53.8 billion yen year on year. The main factors were a 42.8 billion yen decrease in retained earnings, a 3.0 billion yen decrease in net unrealized gain on available-for-sale securities, and a 7.3 billion yen decrease in foreign currency translation adjustments. As a result, the shareholders' equity ratio was 41.7%, down 7.9 percentage points from the previous year.

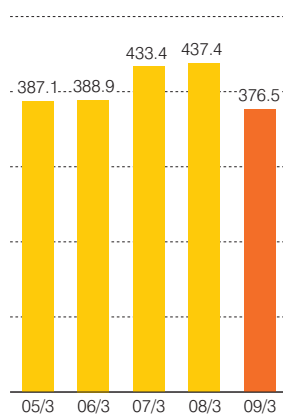
Cash flow status

The balance of cash and cash equivalents at the end of this consolidated accounting period was 56.8 billion yen, up 26.6 billion yen from the previous fiscal year. The main factors were proceeds of 24.5 billion yen from operating activities, payments of 24.1 billion yen from investing activities, and proceeds of 28.5 billion yen from financing activities.

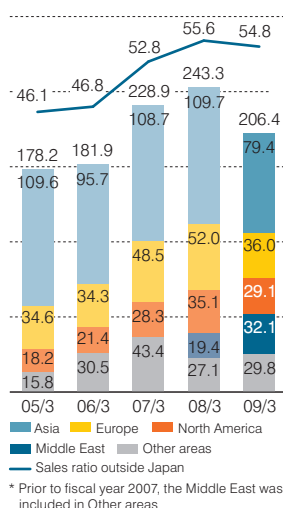
Net cash provided by operating activities was 24.5 billion yen, an increase of 3.6 billion yen compared to the previous fiscal year. This came from a loss before income taxes and minority interests of 9.4 billion yen, after adjusting for items such as 21.6 billion yen in depreciation and amortization, a 28.3 billion yen decrease in notes and accounts receivable-trade, a 7.4 billion yen decrease in notes and accounts payable-trade, and a 5.4 billion yen decrease in the provision for bonuses.

Net cash used in investing activities saw expenditure of 24.1 billion yen, a decrease of 26.9 billion yen over the previous fiscal year. The decrease was mainly due to outlays of 14.4 billion yen

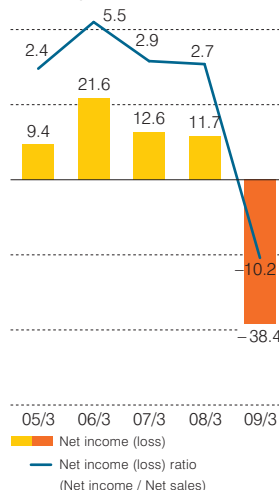
Net Sales
(Billions of yen)



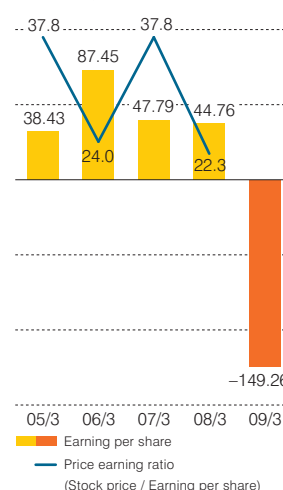
Sales Outside Japan by Geographic Area / Sales Ratio Outside Japan
(Billions of yen)



Net Income (Loss) / Net Income (Loss) Ratio
(Billions of yen / %)



Earning per Share / Price Earning Ratio
(Yen / Times)



for the purchase of property, plant and equipment and 13.2 billion yen for the acquisition of intangible assets.

Net cash provided by financing activities saw proceeds of 28.5 billion yen, which came from a 4.7 billion yen net decrease in short-term loans payable, an 8.0 billion yen decrease in commercial paper, and cash dividends of paid 4.1 billion yen, after adjusting for 46.0 billion yen in proceeds from long-term debt.

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 earnings to shareholders is one of its most important policies. With the objective of investing in new businesses and developing new products for growing markets, while also taking under consideration the need to secure internal reserves and strengthen our financial condition, we have set the consolidated dividend payout ratio at 30%.

We plan to set the yearly ordinary dividend for this year at 16 yen, with the year-end dividend and interim dividend each at 8 yen. In addition, the plan for a yearly dividend next year has not been finalized yet due to uncertainty about the future.

Risks relating to the Company's business

As described in its statutory annual financial report filed as stipulated by the Financial Instruments and Exchange Act, the following risks may impact the Company's business and accounting conditions, and therefore could have a significant effect on investor decision making. These risks include forward-looking statements that are based on judgments made by the Group at the end of fiscal year 2008. Further, the risks also include items that will not necessarily affect investment decisions. However, based on an awareness of these risks, the Company maintains the necessary risk management structure and works to avoid risk occurrence as well as to minimize the impact of a risk should it occur.

1. Risks relating to the business environment

(1) Economic conditions

The Group's main markets where it conducts its business activities are countries and regions including Japan, Asia, Europe, North America, and the Middle East. Economic trends in these markets may adversely affect the Group's business results and financial condition.

(2) International business activities

The Group is highly dependent on markets outside Japan for net sales in its industrial automation and control business and test and measurement business. In addition, the Group has developed a number of production operations outside Japan. Therefore, changes occurring in those markets, such as economic trends; exchange rate fluctuations; changes to laws and regulations relating to investment, trade, competition, taxation, or foreign exchange; differences in commercial practices or labor standards; or political, social, or other elements may adversely affect the Group's business results and financial condition.

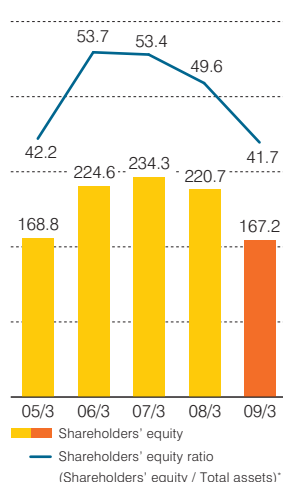
(3) Laws and regulations

The Group carries out its business activities while observing the laws and regulations of each country in which it operates. Future changes to laws and regulations or the enactment of a new law that could not be anticipated may adversely affect the Group's business results and financial condition. In addition, the increase in costs required to achieve compliance with environmental protection-related legislation may adversely affect the Group's business results and financial condition. Moreover, such legislation may also impact the Group's overall business activities, including its R&D and production activities.

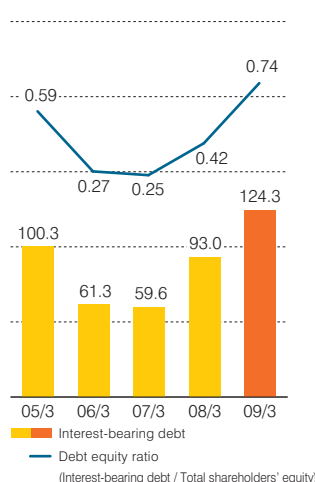
(4) Fluctuations in currency exchange rates and interest rates

The Company carries out policies to ameliorate risk relating to exchange rate fluctuations. However, by impacting the prices and costs of products and services for transactions denominated in foreign currencies, fluctuations in currency exchange rates may

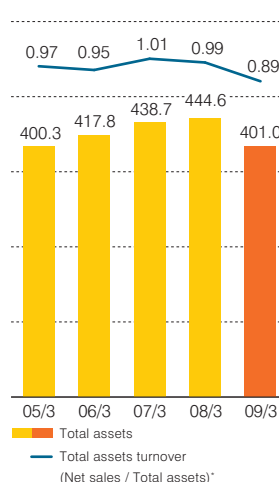
Shareholders' Equity / Shareholders' Equity Ratio
(Billions of yen / %)



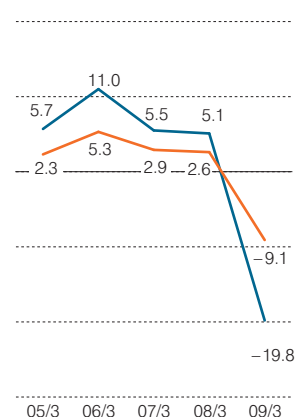
Interest-bearing Debt / Debt Equity Ratio
(Billions of yen / Times)



Total Assets / Total Assets Turnover
(Billions of yen / Times)



ROE / ROA
(%)



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

adversely affect the Group's business results and financial condition. Similarly, the Group also carries out policies to ameliorate risk relating to interest rate fluctuations. However, fluctuations in interest rates may adversely affect the Group's business results and financial condition.

(5) Changes in the value of assets owned

Changes in the value of shares, etc., owned by the Group may adversely affect the Group's business results and financial condition. Also, regarding the fixed assets owned by the Group, a decrease in asset value accompanying a decline in their market value or a fall in profitability may adversely affect the Group's business results and financial condition.

2. Risks relating to business activities

(1) Industrial automation and control business

We forecast that in the short term the industrial automation and control market will be stagnant due to the global economic recession, but in the medium-to-long term the demand for energy and raw materials, particularly from newly industrialized countries and resource-rich countries, will enable the market to recover and return to stable growth. Therefore, we are aiming to build solid foundations in this business through the concentrated investment of management resources. Accordingly, a delay in the recovery of demand for energy and raw materials may adversely affect the Group's business results and financial condition.

(2) Test and measurement business

Within the test and measurement business, we have developed the semiconductor tester business by focusing our resources on the memory tester business. A fall in memory tester demand significantly more than forecast may adversely affect the Group's business results and financial condition.

(3) New and other businesses

Within new businesses, an issue that has to be addressed in the photonics business is how to expand production capacity in response to the rapid increase in the scale of the next-generation network (NGN) market while also keeping costs down. If the Group is unable to address this issue or the market fails to perform as forecast, it may adversely affect the Group's business results and financial condition.

(4) Securing and training human resources

The Group's growth is supported by its talented and capable human resources. In particular, the technicians that support its leading-edge technology in the fields of measurement, control, and information, as well as the manufacturing engineers and other technicians that support its high levels of product quality, are extremely important to the Group.

Further, in the industrial automation and control business, securing and training human resources with the project management and engineering capabilities required to work in the international market is an ongoing issue. If the Group is unable to address this issue, it may adversely affect the Group's business results and financial condition.

(5) Product quality

The Group provides its customers with highly reliable products and services through the technologies and expertise that it has accumulated over many years as well as through its rigorous ISO-certified quality control system. If by any chance a defect should occur in a Group product or service, and if this defect causes any damage, then this may adversely affect the Group's business results and financial condition, and may also impact the Group's overall business activities.

(6) R&D activities

The Group has positioned the development of new technologies as one of its most important management issues, and is continuously carrying out R&D in its core technology areas of measurement, control, and information. However, if R&D investments do not match planned future market needs, it may adversely affect the Group's business results and financial condition.

3. Other risks

(1) Intellectual property

In order to maintain its competitive advantages, the Group accumulates differentiated technologies and expertise relating to the products and services it develops, and strives to protect these intellectual property assets. But if the Group is unable to sufficiently protect its intellectual property, and if this is consequently infringed upon by a third party, it may adversely affect the Group's business results and financial condition.

Moreover, the Group has established systems and conducts training to ensure it does not infringe upon the intellectual property rights of other companies. However, if due to a difference in viewpoint or some other reason the Group infringes on the intellectual property rights of another company, there is a risk that it will be subsequently disadvantaged by its inability to use important technology and/or may be liable for compensation, which may adversely affect the Group's business results and financial condition.

(2) Information security

Through its business activities, the Group acquires personal or otherwise confidential information on its customers and trading partners. The Group therefore establishes systems to manage this information and conducts employee training regarding information security. However, in the event that some unforeseen circumstance causes a leak of information and damage results, there is a risk the Group will be liable for compensation, which may adversely affect the Group's business results and financial condition.

(3) Disasters, new influenza, etc.

A disaster such as an earthquake, fire, or flood; the outbreak of war; a terrorist attack; or an attack via a computer virus may impact the Company's overall business activities, including the Group's production activities. In addition, while the Group carries out appropriate responses to the outbreak of diseases, such as new influenza strains, these diseases may have an impact on the Group's overall business results and financial condition.

INVESTOR INFORMATION

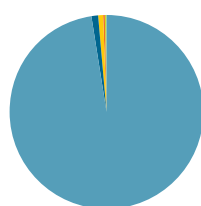
As of March 31, 2009

Number of Shares Authorized	600,000,000
Number of Shares of Common Stock Issued	268,624,510
Number of Shareholders	37,789
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
Accounting Auditors	Deloitte Touche Tohmatsu

Major Shareholders (Top 10)

Shareholders	Number of shares held (shares)	Shareholding ratio (%)
The Dai-ichi Mutual Life Insurance Company	22,697,000	8.45
The Master Trust Bank of Japan, Ltd. (trust account)	18,003,000	6.70
Japan Trustee Services Bank, Ltd. (trust account)	14,773,900	5.50
Nippon Life Insurance Company	14,284,615	5.32
Yokogawa Electric Corporation	11,037,684	4.11
Japan Trustee Services Bank, Ltd. (trust account 4G)	10,047,500	3.74
SSB Client Omnibus OM04	8,697,259	3.24
Yokogawa Electric Employee Shareholding Program	6,998,950	2.61
Retirement Benefit Trust in Mizuho Trust & Banking Co., Ltd. (Mizuho Corporate Bank, Ltd. account)	6,643,990	2.47
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,694,936	1.75

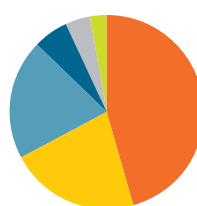
Shareholders by Category



Shareholders by Category
Number of shareholders: 37,789

Individual Investors	36,915	(97.69%)
Others	417	(1.10%)
Foreign Investors	347	(0.92%)
Financial Institutions	72	(0.19%)
Securities Companies	37	(0.10%)
Treasury Stock	1	(0.00%)

Shareholding by Category



Shareholding by Category
Number of shares held: 268,624 (thousand shares)

Financial Institutions	122,699	(45.68%)
Foreign Investors	57,984	(21.59%)
Individual Investors	53,637	(19.97%)
Others	16,224	(6.04%)
Treasury Stock	11,037	(4.11%)
Securities Companies	7,041	(2.62%)

CORPORATE DATA

As of March 31, 2009

Corporate Name	Yokogawa Electric Corporation
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	20,247 (consolidated) 4,848 (non-consolidated)
Subsidiaries and Affiliates	19 subsidiaries and 4 affiliates in Japan 68 subsidiaries and 2 affiliates outside Japan

CONSOLIDATED BALANCE SHEETS

Yokogawa Electric Corporation and Consolidated Subsidiaries
March 31, 2009 and 2008

	Millions of yen		Thousands of US dollars (Note 1)
	2009	2008	2009
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 2c and 11)	¥ 56,834	¥ 30,210	\$ 578,581
Short-term investment securities (Notes 2e and 8)		301	
Receivables (Note 3)			
Trade notes and accounts	110,387	142,903	1,123,765
Other	5,619	5,285	57,207
	116,006	148,188	1,180,972
Less: Allowance for doubtful accounts	(2,931)	(3,256)	(29,841)
	113,075	144,932	1,151,131
Inventories (Notes 2d and 4)	44,707	44,815	455,127
Deferred tax assets (Notes 2l and 16)	3,281	12,217	33,400
Other	6,534	9,892	66,513
Total current assets	224,431	242,367	2,284,752
Property, Plant and Equipment (Notes 2f, 2g, 5, 6 and 7):			
Land (Note 11)	18,829	18,626	191,682
Buildings and structures, net (Note 11)	57,405	51,133	584,397
Machinery, equipment and vehicles, net	14,926	21,694	151,946
Tools, furniture and fixtures, net	7,436	10,162	75,702
Construction in progress	2,655	9,928	27,022
Leased assets, net (Notes 2j and 5)	465		4,733
Total property, plant and equipment	101,716	111,543	1,035,482
Investments and Other Assets:			
Investment securities (Notes 2e, 8, 9 and 11)	31,111	40,267	316,719
Long-term loans receivable	80	105	810
Intangible assets	29,713	22,037	302,487
Deferred tax assets (Notes 2l and 16)	2,908	16,605	29,606
Other	11,581	12,359	117,897
Less: Allowance for doubtful accounts	(580)	(639)	(5,909)
Total investments and other assets	74,813	90,734	761,610
Total Assets	¥400,960	¥444,644	\$4,081,844

See notes to consolidated financial statements.

	Millions of yen		Thousands of US dollars (Note 1)
	2009	2008	2009
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term loans payable (Notes 11 and 12)	¥ 12,295	¥ 8,212	\$ 125,166
Current portion of long-term debt (Notes 5 and 10)	465	10,767	4,732
Payables (Note 11)			
Trade notes and accounts	28,887	40,035	294,070
Other	14,657	18,807	149,212
	43,544	58,842	443,282
Income taxes payable (Note 2 l)	1,892	2,604	19,262
Accrued expenses	22,641	27,965	230,490
Other (Notes 2 l and 16)	32,290	36,981	328,717
Total current liabilities	113,127	145,371	1,151,649
Long-term Liabilities:			
Long-term debt (Notes 5, 10, 11 and 12)	101,813	55,993	1,036,475
Provision for retirement benefits (Notes 2h and 13)	3,192	5,222	32,500
Other (Notes 2k, 2 l and 16)	11,819	13,214	120,320
Total long-term liabilities	116,824	74,429	1,189,295
Commitments and Contingent Liabilities (Note 18)			
Equity (Note 19):			
Common stock, authorized, 600,000,000 shares; issued, 268,624,510 shares in 2009 and 2008	43,401	43,401	441,831
Capital surplus	50,346	50,355	512,527
Retained earnings	97,135	139,952	988,850
Net unrealized gain on available-for-sale securities	18	2,991	182
Deferred gains on derivatives under hedge accounting (Note 2o)		1	
Adjustment relating to pension liability	(384)		(3,913)
Foreign currency translation adjustments (Note 2n)	(12,312)	(5,036)	(125,333)
Treasury stock, 11,037,684 shares in 2009 and 11,045,061 shares in 2008	(10,979)	(10,990)	(111,765)
Total	167,225	220,674	1,702,379
Minority interests	3,784	4,170	38,521
Total equity	171,009	224,844	1,740,900
Total Liabilities and Equity	¥400,960	¥444,644	\$4,081,844

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Yokogawa Electric Corporation and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

	Millions of yen		Thousands of US dollars (Note 1)
	2009	2008	2009
Net Sales	¥376,535	¥437,448	\$3,833,193
Cost of Sales (Notes 2 i and 14)	253,006	277,430	2,575,647
Gross profit	123,529	160,018	1,257,546
Selling, General and Administrative Expenses (Notes 2 i and 14)	118,822	132,605	1,209,627
Operating income	4,707	27,413	47,919
Other Income (Expenses):			
Interest and dividend income	1,955	2,004	19,899
Interest expenses	(1,595)	(1,308)	(16,239)
Net loss on disposal/write-down of inventories		(5,903)	
Net loss on sale/impairment loss on investment securities	(3,476)	(583)	(35,388)
Foreign exchange losses (Note 2m)	(3,453)	(4,570)	(35,152)
Net loss on sale/disposal of property, plant and equipment	(657)	(327)	(6,692)
Impairment loss (Notes 2g and 6)	(1,846)	(1,116)	(18,794)
Equity in earnings of affiliates	568	869	5,779
State subsidy	500	1,904	5,092
Gain on transfer of retirement benefit plan	647		6,584
Restructuring loss (Notes 6 and 15)	(2,521)	(103)	(25,667)
Other	(4,230)	(3,845)	(43,040)
Other expenses, net	(14,108)	(12,978)	(143,618)
(Loss) Income Before Income Taxes and Minority Interests	(9,401)	14,435	(95,699)
Income Taxes (Notes 2 l and 16):			
Current	3,098	5,187	31,544
Deferred	25,612	(3,129)	260,733
Total income taxes	28,710	2,058	292,277
Minority Interests in Income	(336)	(710)	(3,420)
Net (Loss) Income	¥ (38,447)	¥ 11,667	\$ (391,396)

	Yen		US dollars (Note 1)
	2009	2008	2009
Per Share of Common Stock (Notes 2p and 19):			
Basic net (loss) income	¥(149.26)	¥44.76	\$(1.52)
Cash dividends applicable to the year	16.00	16.00	0.16

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Yokogawa Electric Corporation and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

Millions of yen

	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gain on available- for-sale securities	Deferred gains on derivatives under hedge accounting	Adjustment relating to pension liability	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
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 (Notes 2p and 19)				(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
Net loss				(38,447)						(38,447)		(38,447)
Cash dividends, ¥16 per share (Notes 2p and 19)				(4,121)						(4,121)		(4,121)
Purchase of treasury stock	(14,412)								(10)	(10)		(10)
Disposal of treasury stock	17,368		(9)						17	8		8
Effect of accounting changes of subsidiaries outside Japan				102						102		102
Other	4,421			(351)					4	(347)		(347)
Net change in the year					(2,973)	(1)	¥(384)	(7,276)		(10,634)	(386)	(11,020)
Balance, March 31, 2009	257,586,826	¥43,401	¥50,346	¥ 97,135	¥ 18		¥(384)	¥(12,312)	¥(10,979)	¥167,225	¥3,784	¥171,009

Thousands of US dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Net unrealized gain on available- for-sale securities	Deferred gains on derivatives under hedge accounting	Adjustment relating to pension liability	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
Balance, March 31, 2008	\$441,831	\$512,628	\$1,424,740	\$ 30,450	\$ 14		\$ (51,272)	\$(111,885)	\$2,246,506	\$42,456	\$2,288,962
Net loss			\$(391,396)						(391,396)		(391,396)
Cash dividends, ¥16 per share (Notes 2p and 19)			(41,956)						(41,956)		(41,956)
Purchase of treasury stock								(106)	(106)		(106)
Disposal of treasury stock		(101)						176	75		75
Effect of accounting changes of subsidiaries outside Japan			1,041						1,041		1,041
Other			(3,579)					50	(3,529)		(3,529)
Net change in the year				(30,268)	(14)	\$(3,913)	(74,061)		(108,256)	(3,935)	(112,191)
Balance, March 31, 2009	\$441,831	\$512,527	\$ 988,850	\$ 182		\$(3,913)	\$(125,333)	\$(111,765)	\$1,702,379	\$38,521	\$1,740,900

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Yokogawa Electric Corporation and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

	Millions of yen		Thousands of US dollars (Note 1)
	2009	2008	2009
Operating Activities:			
(Loss) income before income taxes and minority interests	¥ (9,401)	¥ 14,435	\$ (95,699)
Adjustments for:			
Income taxes paid	(3,819)	(5,860)	(38,876)
Interest expenses paid	(1,451)	(1,389)	(14,772)
Interest and dividend income received	2,143	2,073	21,820
Depreciation and amortization	21,616	23,130	220,051
(Decrease) increase in allowance for doubtful accounts	(1)	1,406	(15)
Decrease in provision for retirement benefits	(1,715)	(766)	(17,460)
Decrease in provision for bonuses	(5,400)	(80)	(54,976)
Interest and dividend income	(1,955)	(2,004)	(19,899)
Interest expenses	1,595	1,308	16,239
Equity in earnings of affiliates	(568)	(869)	(5,779)
Impairment loss on investment securities	4,872	726	49,593
Gain on sale of investment securities	(1,395)	(142)	(14,205)
Loss of disposal of property, plant and equipment	690	416	7,023
Impairment loss	1,846	1,116	18,794
Restructuring loss	2,521	103	25,667
Changes in assets and liabilities, net of effects:			
Decrease (increase) in notes and accounts receivable-trade	28,322	(10,461)	288,319
(Increase) decrease in inventories	(2,486)	3,795	(25,303)
(Decrease) increase in notes and accounts payable-trade	(7,384)	661	(75,168)
Decrease in payment liability due to change in retirement payment system	(2,298)	(4,309)	(23,397)
Other, net	(1,271)	(2,454)	(12,937)
Total adjustments	33,862	6,400	344,719
Net cash provided by operating activities	24,461	20,835	249,020
Investing Activities:			
Purchase of property, plant and equipment	(14,411)	(35,589)	(146,709)
Proceeds from sale of property, plant and equipment	139	2,284	1,412
Purchase of investment securities	(2,482)	(6,879)	(25,270)
Proceeds from sale and redemption of investment securities	3,486	2,412	35,492
Acquisition of intangible assets	(13,190)	(11,191)	(134,280)
Proceeds from business transfer	1,011		10,297
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(775)		(7,892)
Other, net	2,123	(2,081)	21,615
Net cash used in investing activities	(24,099)	(51,044)	(245,335)
Forward	¥ 362	¥(30,209)	\$ 3,685

(Continued)

	Millions of yen		Thousands of US dollars (Note 1)
	2009	2008	2009
Forward	¥ 362	¥(30,209)	\$ 3,685
Financing Activities:			
Net decrease in short-term loans payable	(4,719)	(8,715)	(48,037)
(Decrease) increase in commercial paper	(8,000)	18,000	(81,442)
Proceeds from long-term debt	46,000	45,580	468,289
Repayments of long-term debt	(15)	(11)	(162)
Redemption of bonds		(20,000)	
Purchase of treasury stock	(10)	(6,604)	(106)
Cash dividends paid to minority shareholders	(692)	(259)	(7,046)
Cash dividends paid	(4,121)	(4,070)	(41,948)
Other, net	7	3	75
Net cash provided by financing activities	28,450	23,924	289,623
Effect of Exchange Rate Change on Cash and Cash Equivalents	(2,188)	(1,823)	(22,269)
Net Increase (Decrease) in Cash and Cash Equivalents	26,624	(8,108)	271,039
Increase in Cash and Cash Equivalents Resulting from		139	
Change of Scope of Consolidation			
Cash and Cash Equivalents, Beginning of Period	30,210	38,179	307,542
Cash and Cash Equivalents, End of Period (Note 2c)	¥ 56,834	¥ 30,210	\$578,581

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Yokogawa Electric Corporation and Consolidated Subsidiaries
Years Ended March 31, 2009 and 2008

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 Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), 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 2008 financial statements to conform to the classifications used in 2009.

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 ¥98.23 to \$1, the exchange rate at March 31, 2009. 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, 2009 include the accounts of the Company and 83 significant (84 in 2008) 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 2 (3 in 2008) unconsolidated subsidiaries and 4 (5 in 2008) affiliated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and affiliate 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. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements — In May 2006, the Accounting Standards Board of Japan (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." PITF No.18 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 foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America 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) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of fair value model accounting for property, plant and equipment and investment properties and incorporation of cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of any minority interests from net income. PITF No.18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company applied this accounting standard effective April 1, 2008. The effect of this change is not material.

c. 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.

d. Inventories — Prior to April 1, 2008, inventories were stated at cost, determined by the average method. In July 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories." 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. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change is not material.

e. Investment Securities — 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.

f. 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 and leased assets of the Company and its subsidiaries in Japan, and all property, plant and equipment of most consolidated subsidiaries outside Japan.

The range of useful lives is principally from 3 to 50 years for buildings and from 4 to 10 years for machinery and equipment. The useful lives for leased assets are the terms of the respective leases.

g. 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.

h. Retirement and Pension Plans — The Company and most subsidiaries have adopted defined contribution plans, and some other subsidiaries have adopted defined benefit plans for employees. Under a defined benefit plan, liability for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of plan assets less unrecognized actuarial gain/loss and unrecognized prior service costs. Unrecognized actuarial gain/loss is 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.

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

j. Leases — In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 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.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were 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 should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. This change has no effect on the consolidated statements of operations.

k. Bonuses to Directors and Corporate Auditors — At certain subsidiaries, bonuses to directors and corporate auditors are accrued at the end of the year 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 consolidated statements of operations.

n. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated foreign subsidiaries 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 qualify for hedge accounting are measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of operations, and b) derivatives used for hedging purposes, if the 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. 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 loss (income) per share is computed by dividing net loss (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 operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

q. New Accounting Pronouncements

Construction Contracts — Under current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. In December 2007, the ASBJ issued a new accounting standard for construction contracts. Under this new 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.

Asset Retirement Obligations — On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No.18, “Accounting Standard for Asset Retirement Obligations,” and ASBJ Guidance No.21, “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

3. Liquidation of Receivables

The Company and certain subsidiaries liquidated their notes and accounts receivable–trade based on an asset transfer agreement.

The balance of those receivables whose settlement date had not been reached as of March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Notes and accounts receivable–trade	¥18,282	¥21,354	\$186,110
(with recourse, included in above)	(2,498)	(3,032)	(25,453)

4. Inventories

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Merchandise and finished goods	¥20,842	¥18,856	\$212,178
Work in process	11,584	11,794	117,922
Raw materials and supplies	12,281	14,165	125,027
Total	¥44,707	¥44,815	\$455,127

5. Leases

The Group leases certain machinery, equipment and vehicles, tools, furniture and fixtures, and other assets. As discussed in Note 2j, the Group accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information

of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, and other information on a “as if capitalized” basis, for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen				Thousands of US dollars
	2009				2009
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Balance as of March 31, 2009	Balance as of March 31, 2009
Buildings and structures	¥ 10	¥ 6		¥ 4	\$ 38
Machinery, equipment and vehicles	99	57		42	428
Tools, furniture and fixtures	1,098	618		480	4,885
Intangible assets	228	154		74	755
Total	¥1,435	¥835		¥600	\$6,106

	Millions of yen			
	2008			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Balance as of March 31, 2008
Buildings and structures	¥ 10	¥ 5		¥ 5
Machinery, equipment and vehicles	558	290	¥135	133
Tools, furniture and fixtures	1,363	696		667
Intangible assets	283	188		95
Total	¥2,214	¥1,179	¥135	¥900

Acquisition cost includes the imputed interest expense portion.

Obligations under finance leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Due within one year	¥244	¥405	\$2,478
Due after one year	356	544	3,628
	¥600	¥949	\$6,106

The allowance for impairment loss on leased assets of nil and ¥48 million as of March 31, 2009 and 2008, respectively, is not included in the obligations under finance leases.

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Lease payment for the year	¥408	¥628	\$4,149
Reversal of allowance for impairment loss on leased assets		58	
Depreciation expense	408	628	4,149

Depreciation expense, which is not reflected in the accompanying consolidated statements of operations, 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, 2009 were as follows:

	Millions of yen	Thousands of US dollars
	March 31	March 31
Due within one year	¥1,474	\$15,007
Due after one year	3,754	38,213
	¥5,228	\$53,220

6. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2009 and 2008 and, as a result, recognized impairment losses of ¥1,846 million (US\$18,794 thousand) and ¥1,116 million, respectively. The main components of the impairment losses on long-lived assets for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of US dollars
	2009	2008	2009
Land		¥ 366	
Buildings and structures	¥ 537	451	\$ 5,468
Machinery, equipment and vehicles	2,127	264	21,654
Tools, furniture and fixtures	676		6,880
Other	85	35	872
Total	¥3,425	¥1,116	\$34,874

Out of ¥3,425 million (US\$34,874 thousand) of impairment loss, ¥1,579 million (US\$16,080 thousand) [building and structures ¥134 million (US\$1,360 thousand), machinery, equipment and vehicles ¥1,418 million (US\$14,438 thousand), tools, furniture and fixtures ¥20 million (US\$ 209 thousand), other ¥7 million (US\$73 thousand)], which is associated with a discontinued operation is included in restructuring loss – other income (expenses) in the consolidated

statements of operations. 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.

7. Accumulated Depreciation

Accumulated depreciation deducted from cost of property, plant and equipment in the accompanying consolidated balance sheets amounted to ¥146,821 million (US\$1,494,664 thousand) and ¥140,800 million at March 31, 2009 and 2008, respectively.

8. Investment Securities

Investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of US dollars
	March 31	March 31	March 31
	2009	2008	2009
Current:			
Government and municipal bonds		¥ 251	
Other		50	
Total		¥ 301	
Non-current:			
Government and municipal bonds	¥ 0	¥ 911	\$ 4
Equity securities and other	31,111	39,356	316,715
Total	¥31,111	¥40,267	\$316,719

The carrying amounts and aggregate fair values of investment securities at March 31, 2009 and 2008 were as follows:

Millions of yen				
	Cost	Unrealized gains	Unrealized losses	Fair value
March 31, 2009				
Securities classified as:				
Available-for-sale:				
Equity securities	¥18,571	¥1,599	¥6,375	¥13,795
Other	16		7	9
Held-to-maturity	0			0
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

Thousands of US dollars				
	Cost	Unrealized gains	Unrealized losses	Fair value
March 31, 2009				
Securities classified as:				
Available-for-sale:				
Equity securities	\$189,062	\$16,276	\$64,899	\$140,439
Other	164		71	93
Held-to-maturity	5			5

Available-for-sale securities and held-to-maturity securities whose fair value was not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying amount		
	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Available-for-sale:			
Equity securities	¥12,407	¥11,912	\$126,310
Total	¥12,407	¥11,912	\$126,310

Proceeds from sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were ¥2,306 million (US\$23,477 thousand) and ¥338 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost

basis, were ¥1,316 million (US\$13,400 thousand) and ¥0 million, respectively, for the year ended March 31, 2009 and ¥135 million and nil, respectively, for the year ended March 31, 2008.

The schedule for redemption of held-to-maturity securities as of March 31, 2009 was as follows:

	Millions of yen	Thousands of US dollars
	March 31	March 31
Due in one year or less		
Due after one year through five years	¥0	\$5
Total	¥0	\$5

9. Investment in Unconsolidated Subsidiaries and Affiliated Companies

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Investment securities	¥4,900	¥5,103	\$49,882
Total	¥4,900	¥5,103	\$49,882

10. Long-term Debt

Long-term debt as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Loans from banks and other financial institutions with mortgage and collateral	¥101,988	¥66,760	\$1,038,259
Obligation under finance leases	290		2,948
	102,278	66,760	1,041,207
Less: Current portion	465	10,767	4,732
	¥101,813	¥55,993	\$1,036,475

Annual maturities of long-term loans from banks and other financial institutions, excluding finance leases at March 31, 2009 were as follows:

	Millions of yen	Thousands of US dollars
	March 31	March 31
Within one year	¥ 391	\$ 3,980
Over one year, less than two years	24,246	246,830
Over two years, less than three years	48,183	490,506
Over three years, less than four years	1,677	17,076
Over four years, less than five years	26,177	266,487
Thereafter	1,314	13,380
Total	¥101,988	\$1,038,259

The annual average interest rate on long-term loans (excluding current portion) from banks was 1.176%.

11. Collateral and Secured Debt

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Collateral:			
Cash and time deposits	¥ 13	¥ 12	\$ 127
Buildings and structures	853	1,016	8,687
Land		90	
Investment securities	1	1	9
Assets in subsidiaries outside Japan	4,304	4,363	43,814
Total	¥5,171	¥5,482	\$52,637

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
	2009	2008	2009
Secured debt:			
Notes and accounts payable–trade	¥ 6	¥ 8	\$ 56
Short-term loans payable	140	183	1,425
Long-term debt		140	
Total	¥146	¥331	\$1,481

12. 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, 2009 and 2008 was as follows:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Total commitment line of credit	¥40,600	¥40,000	\$413,316
Outstanding borrowings	nil	nil	nil
Unused credit line	¥40,600	¥40,000	\$413,316

13. Retirement and Pension Plans

The Company and most 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, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of US dollars
	March 31		March 31
	2009	2008	2009
Projected benefit obligation	¥(6,101)	¥(14,114)	\$(62,104)
Fair value of plan assets	2,879	8,920	29,307
Unfunded projected benefit	(3,222)	(5,194)	(32,797)
Unrecognized actuarial gain	53	244	540
Unrecognized prior service cost	(23)	(32)	(243)
Accrued pension cost	(3,192)	(4,982)	(32,500)
Prepaid pension cost		240	
Net liability	¥(3,192)	¥ (5,222)	\$(32,500)

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of US dollars
	2009	2008	2009
Service cost	¥1,171	¥1,604	\$11,920
Interest cost	308	468	3,131
Expected return on plan assets	(210)	(347)	(2,144)
Amortization on actuarial gain (loss)	44	(0)	450
Amortization on prior service cost	(5)	(6)	(47)
Additional retirement benefit, etc.	353	119	3,596
Contribution to defined contribution plan	6,416	6,342	65,319
Sub total	8,077	8,180	82,225
(Gain) loss related to transfer from defined benefit plan	(21)	63	(214)
Net periodic benefit costs	¥8,056	¥8,243	\$82,011

Assumptions used for the years ended March 31, 2009 and 2008 are set forth as follows:

	2009	2008
Discount rate	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets	Mainly 0.0%	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

14. Research and Development Costs

Research and development costs charged to income were ¥37,229 million (US\$379,000 thousand) and ¥40,876 million for the years ended March 31, 2009 and 2008, respectively.

15. Restructuring Loss

Restructuring loss mainly consists of a ¥1,579 million (US\$16,080 thousand) impairment loss on fixed assets and a ¥750 million (US\$7,638 thousand) loss on disposal of inventory, which are associated with discontinued operations.

16. Income Taxes

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of US dollars
	2009	2008	2009
Deferred tax assets:			
Provision for retirement benefits	¥ 761	¥ 1,437	\$ 7,750
Tax loss carry forwards	28,462	20,386	289,747
Impairment loss on investment securities	2,333	1,590	23,747
Provision for bonuses	2,419	5,060	24,625
Write-down of inventories	3,449	2,142	35,108
Accrued expenses resulting from transfer of pension plan	4,870	5,519	49,576
Impairment loss on investment in subsidiaries	7,428	5,344	75,620
Other	7,471	8,995	76,055
Less: Valuation allowance	(50,651)	(13,310)	(515,639)
Total	¥ 6,542	¥ 37,163	\$ 66,589
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	¥ (1,383)	¥ (1,435)	\$ (14,081)
Undistributed earnings of subsidiaries outside Japan	(125)	(4,376)	(1,268)
Net realized gain on available-for-sale securities	(19)	(1,957)	(196)
Other	(454)	(757)	(4,617)
Total	¥ (1,981)	¥ (8,525)	\$ (20,162)
Net deferred tax assets	¥ 4,561	¥ 28,638	\$ 46,427

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

	Millions of yen		Thousands of US dollars
	2009	2008	2009
Current assets—Deferred tax assets	¥ 3,281	¥12,217	\$ 33,400
Investment and other assets—Deferred tax assets	2,908	16,605	29,606
Current liabilities—Other	(44)	(26)	(449)
Long-term liabilities—Other	(1,584)	(158)	(16,130)
	¥ 4,561	¥28,638	\$ 46,427

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2009 and 2008 is as follows:

	2009	2008
Normal effective statutory tax rate	40.7%	40.7%
Permanent differences		
Expenses not deductible for income tax purposes	(42.3)	8.7
Dividend income and other non-taxable income	8.6	
Equity in earnings of affiliates	2.5	(2.5)
Valuation allowance for deferred tax assets	(381.3)	(18.1)
Lower income tax rates applicable to income in certain subsidiaries outside Japan	23.5	(16.5)
Reversal of deferred tax liability resulting from tax system revision	46.6	
Other	(3.7)	2.0
Actual effective tax rate	(305.4)%	14.3%

17. Derivatives

Derivative transactions are used in order to manage foreign 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, 2009 and 2008:

(1) Currency Instruments

Millions of yen				
March 31, 2009				
	Contract amount, etc.		Fair value	Unrealized gains (losses)
	Total	Due over one year		
Forward exchange contracts				
Selling contracts				
US dollar	¥11,429		¥11,873	¥(444)
Other	305		302	3
Buying contracts				
US dollar	2,541		2,568	27
Other	115		111	(4)
Currency options				
Selling contracts				
CALL				
US dollar	7,171			
(option premium)	(—)			
PUT				
US dollar	1,210			
(option premium)	(—)			
Buying contracts				
PUT				
US dollar	2,390		(451)	(451)
(option premium)	(—)			
CALL				
US dollar	403		(4)	(4)
(option premium)	(—)			
Currency swaps	8,305	¥450	8,516	211
Total				¥(661)

(2) Interest Rate Instruments

Millions of yen				
March 31, 2009				
	Contract amount, etc.		Fair value	Unrealized losses
	Total	Due over one year		
Interest rate swaps				
Pay fixed/Receive floating	¥88	¥38	¥(1)	¥(1)
Total				¥(1)

(1) Currency Instruments

Thousands of US dollars				
March 31, 2009				
	Contract amount, etc.		Fair value	Unrealized gains (losses)
	Total	Due over one year		
Forward exchange contracts				
Selling contracts				
US dollar	\$116,354		\$120,869	\$(4,515)
Other	3,110		3,080	30
Buying contracts				
US dollar	25,872		26,148	276
Other	1,171		1,132	(39)
Currency options				
Selling contracts				
CALL				
US dollar	73,002			
(option premium)	(—)			
PUT				
US dollar	12,321			
(option premium)	(—)			
Buying contracts				
PUT				
US dollar	24,334		(4,590)	(4,590)
(option premium)	(—)			
CALL				
US dollar	4,107		(42)	(42)
(option premium)	(—)			
Currency swaps	84,543	\$4,578	86,693	2,150
Total				\$(6,730)

(2) Interest Rate Instruments

Thousands of US dollars				
March 31, 2009				
	Contract amount, etc.		Fair value	Unrealized losses
	Total	Due over one year		
Interest rate swaps				
Pay fixed/Receive floating	\$891	\$382	\$(8)	\$(8)
Total				\$(8)

(1) Currency Instruments

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

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. Currency options are zero cost options. Fair values and unrealized gains (losses) are net amounts of the selling contract and buying contract.

18. Contingent Liabilities

At March 31, 2009, the Group had the following contingent liabilities:

	Millions of yen March 31	Thousands of US dollars March 31
Guarantees and similar items of bank loans	¥144	\$1,465
Guarantees of lease obligation of certain customers, in the event of default	¥831	\$8,459

19. Per Share Information

(1) Basis for Net (Loss) Income per Share

The basis for the calculation of net (loss) income per share for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of US dollars
	2009	2008	2009
Net (loss) income	¥(38,447)	¥11,667	\$(391,396)
Net (loss) income available to common shareholders	(38,447)	11,667	(391,396)
Average outstanding shares of common stock (shares)	257,585,242	260,673,826	257,585,242

(2) Appropriations of Retained Earnings

The Board of Directors proposed the following appropriations of retained earnings, at March 31, 2009, which is subject to approval at a general meeting of the shareholders of the Company to be held on June 29, 2009:

	Millions of yen	Thousands of US dollars
Cash dividends (¥8.0 per share)	¥2,061	\$20,978

20. Segment Information

The Group operates in the Industrial Automation and Control Business, Test and Measurement Business, and 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 Businesses: 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 (Loss)

Millions of yen

	2009				
	Industrial Automation and Control	Test and Measurement	New and Other	Eliminations/Corporate	Consolidated
Sales to customers	¥301,153	¥ 34,138	¥ 41,244		¥376,535
Intersegment sales	17			¥(17)	
Total sales	301,170	34,138	41,244	(17)	376,535
Operating expenses	272,073	47,902	51,870	(17)	371,828
Operating income (loss)	¥ 29,097	¥(13,764)	¥(10,626)		¥ 4,707

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

Millions of yen

	2009				
	Industrial Automation and Control	Test and Measurement	New and Other	Eliminations/Corporate	Consolidated
Total assets	¥234,777	¥35,173	¥65,495	¥65,515	¥400,960
Depreciation and amortization	11,251	3,656	6,709		21,616
Impairment loss	263	1,534	1,628		3,425
Capital expenditures	19,261	4,469	3,084		26,814

a. Sales and Operating Income (Loss)

Thousands of US dollars

	2009				
	Industrial Automation and Control	Test and Measurement	New and Other	Eliminations/Corporate	Consolidated
Sales to customers	\$3,065,791	\$ 347,531	\$ 419,871		\$3,833,193
Intersegment sales	173			\$ (173)	
Total sales	3,065,964	347,531	419,871	(173)	3,833,193
Operating expenses	2,769,744	487,655	528,048	(173)	3,785,274
Operating income (loss)	\$ 296,220	\$(140,124)	\$(108,177)		\$ 47,919

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

Thousands of US dollars

	2009				
	Industrial Automation and Control	Test and Measurement	New and Other	Eliminations/Corporate	Consolidated
Total assets	\$2,390,071	\$358,067	\$666,752	\$666,954	\$4,081,844
Depreciation and amortization	114,537	37,214	68,300		220,051
Impairment loss	2,682	15,622	16,570		34,874
Capital expenditures	196,082	45,492	31,397		272,971

Note: As discussed in Note 6, out of ¥3,425 million (US\$34,874 thousand) of impairment loss, ¥1,579 million (US\$16,080 thousand) [building and structures ¥134 million (US\$1,360 thousand), machinery, equipment and vehicles ¥1,418 million (US\$14,438 thousand), tools, furniture and fixtures ¥20 million (US\$ 209 thousand), other ¥7 million (US\$73 thousand)], which is associated with a discontinued operation is included in restructuring loss—other income (expenses) in the consolidated statements of operations.

a. Sales and Operating Income (Loss)

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 and Amortization, 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 and amortization	12,102	4,443	6,585		23,130
Impairment loss					
Capital expenditures	23,528	5,662	8,801		37,991

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the years ended March 31, 2009 and 2008 are summarized as follows:

Millions of yen

	2009						
	Japan	Asia	Europe	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥187,075	¥74,519	¥45,473	¥29,336	¥40,132		¥376,535
Interarea transfers	52,768	23,759	4,993	903	996	¥(83,419)	
Total sales	239,843	98,278	50,466	30,239	41,128	(83,419)	376,535
Operating expenses	247,702	92,037	49,059	29,811	37,501	(84,282)	371,828
Operating (loss) income	¥ (7,859)	¥ 6,241	¥ 1,407	¥ 428	¥ 3,627	¥ 863	¥ 4,707
Total assets	¥260,116	¥63,630	¥31,093	¥15,959	¥23,154	¥ 7,008	¥400,960

Thousands of US dollars

	2009						
	Japan	Asia	Europe	North America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$1,904,463	\$ 758,611	\$462,922	\$298,644	\$408,553		\$3,833,193
Interarea transfers	537,188	241,872	50,828	9,199	10,136	\$(849,223)	
Total sales	2,441,651	1,000,483	513,750	307,843	418,689	(849,223)	3,833,193
Operating expenses	2,521,653	936,951	499,432	303,487	381,762	(858,011)	3,785,274
Operating (loss) income	\$ (80,002)	\$ 63,532	\$ 14,318	\$ 4,356	\$ 36,927	\$ 8,788	\$ 47,919
Total assets	\$2,648,033	\$ 647,763	\$316,537	\$162,464	\$235,711	\$ 71,336	\$4,081,844

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

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	China, Singapore, South Korea, India, etc.
Europe	The Netherlands, France, the United Kingdom, Germany, etc.
North America	The United States, Canada
Others	The Middle East, Russia, Brazil, Australia, etc.

(3) Sales to Foreign Customers

Millions of yen

	2009					
	Asia	Europe	North America	Middle East	Others	Total
Overseas sales	¥79,372	¥36,004	¥29,088	¥32,096	¥29,820	¥206,380
Consolidated sales						¥376,535
Ratio	21.1%	9.6%	7.7%	8.5%	7.9%	54.8%

Thousands of US dollars

	2009					
	Asia	Europe	North America	Middle East	Others	Total
Overseas sales	\$808,022	\$366,529	\$296,119	\$326,744	\$303,576	\$2,100,990
Consolidated sales						\$3,833,193
Ratio	21.1%	9.6%	7.7%	8.5%	7.9%	54.8%

Millions of yen

	2008					
	Asia	Europe	North America	Middle East	Others	Total
Overseas sales	¥109,652	¥51,969	¥35,148	¥19,355	¥27,130	¥243,254
Consolidated sales						¥437,448
Ratio	25.1%	11.9%	8.0%	4.4%	6.2%	55.6%

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 China, Singapore, South Korea, India, etc.

Europe The Netherlands, France, the United Kingdom, Germany, etc.

North America The United States, Canada

Middle East Bahrain, Saudi Arabia, etc.

Others Russia, 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



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Yokogawa Electric Corporation:

We have audited the accompanying consolidated balance sheets of Yokogawa Electric Corporation and consolidated subsidiaries (the "Company") as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, and cash flows for the years 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 statement based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yokogawa Electric Corporation and consolidated subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits 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.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

June 16, 2009

Member of
Deloitte Touche Tohmatsu

Yokogawa Electric Corporation

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