YOKOGAWA ELECTRIC CORPORATION

Enterprise
Technology
Solutions

Annual Report 1998

For the Fiscal Year Ended March 31, 1998

YOKOGAWA

Profile

Founded in 1915, Yokogawa Electric Corporation is one of the world's leading suppliers of solutions to industries and enterprises. In October 1997, Yokogawa ushered in a new business concept, announcing it would become a provider of enterprise technology solutions that encompass resource management information, manufacturing execution information, and production control.

The company is dedicated to promoting the quality, efficiency, and profitability of enterprise customers around the globe by providing total solutions in addition to supplying the most reliable leading-edge instruments and control systems.

Yokogawa's facilities in Japan, consisting of 3 factories, 21 offices and 69 affiliates, are complemented by a global network that extends throughout Asia, North and South America, Europe, Africa and Oceania. Our strong presence all over the world includes 17 factories, 61 affiliates in 25 countries and over 150 sales and engineering offices.

Contents

Financial Highlights

Consolidated

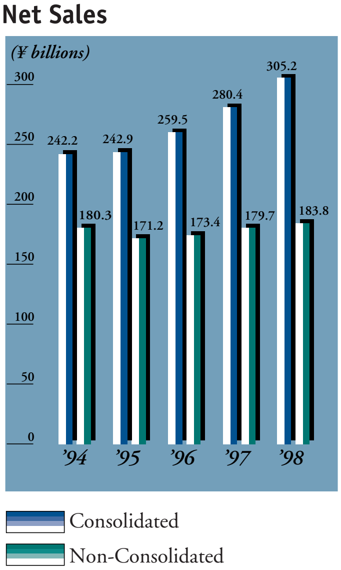
	Millions of Yen			Thousands of U.S. Dollars
	31st March,			31st March,
	1996	1997	1998	1998
For the Year				
Net sales	¥259,534	¥280,426	¥305,231	$2,310,650
Net income	1,824	3,853	7,564	57,260
At Year-End				
Total assets	¥403,539	¥424,000	¥439,417	$3,326,397
Total shareholders' equity	178,083	180,496	177,728	1,345,405
	Yen			U.S. Dollars
Per Share Data				
Net income, adjusted	¥ 7.0	¥ 14.9	¥ 29.6	$ 0.224

Non-Consolidated

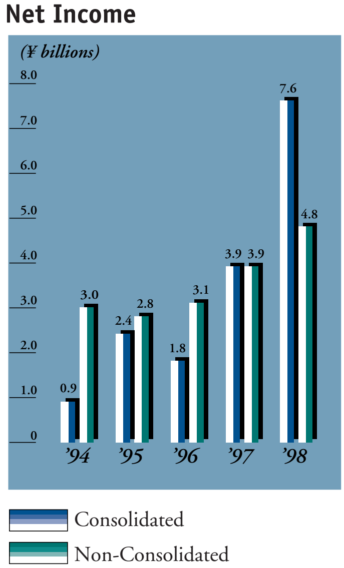
	Millions of Yen			Thousands of U.S. Dollars
	31st March,			31st March,
	1996	1997	1998	1998
For the Year				
Net sales	¥173,437	¥179,651	¥183,831	$1,391,605
Net income	3,129	3,895	4,759	36,026
Capital investment	3,624	6,189	7,191	54,436
Depreciation and amortization	7,587	6,737	6,611	50,045
Research and development expenditures	16,324	16,808	17,778	134,580
At Year-End				
Total assets	¥273,710	¥286,704	¥309,697	$2,344,413
Total shareholders' equity	171,248	173,130	169,209	1,280,916
	Yen			U.S. Dollars
Per Share Data				
Net income, adjusted	¥ 12.1	¥ 15.0	¥ 18.6	$ 0.141
Cash dividends, unadjusted	7.5	7.5	7.5	0.057

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at ¥132.10=US$1.00, the approximate rate in effect on 31st March, 1998.

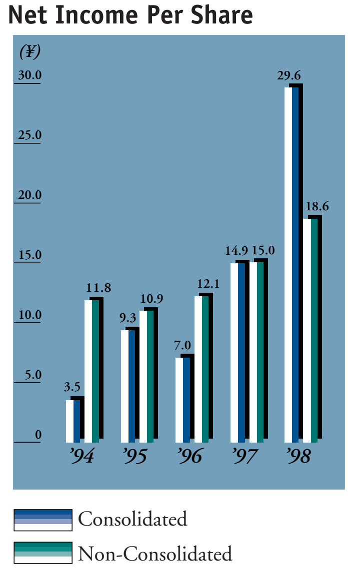
Net Sales



Net Income



Net Income Per Share



Eiji Mikawa
President

Despite a difficult operating climate, Yokogawa's consolidated performance improved in the fiscal year ended on March 31, 1998. Net sales increased 8.8 percent to ¥305.2 billion (US$2.3 billion). Operating expenses were ¥97.2 billion (US$735.9 million), an increase of 3 percent. Operating profit increased 6 percent to ¥12.1 billion (US$91.9 million), while net income increased to ¥7.6 billion (US$57.3 million). The company has recorded increases in net sales and net income for 3 consecutive years. Of these totals, sales outside Japan accounted for 21 percent.

Europe Remains Strong While Asia Faces Challenges

Yokogawa is currently operating in 25 countries. Buoyed by strong economies, expanding cooperation and the unification of economic activities in Europe, Yokogawa's operations in the Netherlands, the United Kingdom, France, and Central and Eastern Europe grew steadily. Yokogawa Europe acquired a company engaged in the sale, engineering and service of Yokogawa industrial automation products in South Africa in order to enhance the speed and quality of services to customers in the region.

The Asian economic crisis that began in the summer of 1997 has had a significant effect on Yokogawa's business in that region. Several industrial projects were suspended or postponed in Indonesia and Thailand. Nevertheless, Yokogawa enhanced its capabilities and facilities in Singapore and the Philippines by establishing engineering and sales offices and by expanding its production facilities to extend better services to customers. In Japan, weak capital spending due to the inactive economy had an impact on the performance of the Industrial Automation Business Division. China and India were less affected by the economic climate. Manufacturing operations in China, particularly those of EJA transmitters in Sichuan and meters in Suzhou, expanded significantly. In the absence of large industrial projects, our joint ventures in China increased their sales of small systems and field instruments.

Our North American operations were reorganized in September 1997. The company acquired the remaining shares of a joint venture and established wholly owned Yokogawa Industrial Automation America, Inc. In South America, to make effective use of resources and facilities and to extend better services and solutions to customers in Latin America, industrial automation and test and measurement operations were consolidated into Yokogawa America do Sul S.A. in March 1998.

Effective R&D Results in New Products

Yokogawa regards research and development as the moving force behind the company's operations. This is reflected in the high percent of investment in R&D. The company has allocated more than 9 percent of its total sales in Japan and 6 percent of the consolidated sales to R&D for the past 10 years. Focusing on selected technologies has proved successful.

Exciting new products were introduced in 1997. One after another, our Test and Measurement Division released sophisticated, high-performance instruments, among which were the TA 320 Time Interval Analyzer, the DL1540 Digital Oscilloscope, the DL708 Digital Scope, and the DR230 Hybrid Recorder. The rate of new product development in this division is approximately 70 percent.

The Mobilefellow AC Adapter, the HS1020 and HS1040 IC Handlers, and the TS6700 LCD Driver Test System also drew considerable attention from the test and measurement market.

Yokogawa's advanced measurement technologies and solutions are used in a wide range of disciplines. Confocal scanners are a key element in confocal microscope technology that allows observation and analysis of the movement of live bacteria and chip surfaces in semiconductor applications.

Yokogawa's technology is now employed in the medical field, too. The company's expertise in systems integration can be found in health-check, image and other medical information systems.

The company again introduced new field instruments. ADMAG SE, a new magnetic flowmeter, and ULTRA YEWFLO, a new vortex flowmeter, were released on the world market in August 1997.

In distributed control systems, Yokogawa took another step forward to meet the needs of our customers who desire open and flexible systems. The latest in the CENTUM CS family for small and medium plant applications, CENTUM CS 1000 which runs Windows NT, was introduced worldwide in September 1997.

Another significant advancement in technology that Yokogawa introduced in 1997 was in the area of fieldbuses. Believing that the fieldbus will become the language of field communications and industrial automation, Yokogawa released Fieldbus Foundation products including CENTUM CS, EJA and YEWFLO, with others to follow later.

The continuing enhancement of technologies, products, services and resources will prepare us to move forward into the next millennium as a provider of Enterprise Technology Solutions.

Enterprise Technology Solutions

In October 1997, Yokogawa announced its foresighted plan to provide customers in all types of process industries solutions that encompass the optimization of plant operations, performance, and management and business management. We hope to provide a positive impact on a customer's business by looking at the business from the customer's point of view of management, using the latest and most advanced technologies and providing the best solutions to meet that customer's expectations and needs.

Yokogawa's solutions are based on total integration of a wide range of capabilities and various types of hardware, software and services. This will involve developing information systems, such as Enterprise Resource Planning (ERP) and the Manufacturing Execution System (MES), for the highest production management levels.

Since the company's founding 82 years ago, Yokogawa has cemented a significant presence in the measurement, control and information sectors with such products as meters, calibration equipment, field instruments and process control systems. Times have changed dramatically, however, bringing about more competition on a wider and more global scale. To surmount these challenges we must reinvent our operating base for growth and success in the 21st century. To further its design as a leading solutions provider, Yokogawa made a number of strategic investments and developed partnerships in 1997. Among these, the company:

- ❖ Obtained certification as an implementation partner for the R3 ERP package from SAP® of Germany

- ✥ Agreed on a comprehensive alliance with Aspen Technologies, which has the world's largest market share in the plant control and process information field
- ✥ Acquired Netherlands-based GTI-IA, which possesses state-of-the-art safety instrumentation technology, and established Yokogawa Industrial Safety Systems Sdn. Bhd.
- ✥ Acquired England's Marex Technology Limited, a maker of MES plant information management systems
- ✥ Formed an alliance with ABB, a Swiss conglomerate, on original equipment manufacturing contracts covering measurement and control products for the pulp and paper industry
- ✥ Acquired a 51-percent equity interest in Measurementation Inc., a US-based company and the world's leading supplier of analytical instruments for systems integration.

Our efforts to provide solutions have already yielded benefits and won high marks for quality and efficiency. In the United States, we signed a 5-year agreement with General Electric's Plastics Division to supply comprehensive solutions to automate its plants. In the Middle East and Asia, we are offering similar solutions to large-scale industrial projects at major oil refineries in the petrochemical and chemical industries.

Environment-oriented Operations

Yokogawa has been promoting environmentally friendly business operations for many years. Our endeavors to save on energy and resources and to design and supply eco-minded products, as well as our other conservation activities, have been recognized by the community and public organizations. Following the acquisition of ISO 14001 environmental management certification at the Kofu site in July 1997, Yokogawa's headquarters and Komine plant were accorded the same certification in January 1998. Yokogawa's joint venture in Suzhou, China also became one of 30 sites in China certified for ISO 14001.

Keeping Financial Strength Intact

While directing our expertise and technology to Enterprise Technology Solutions and environmental conservation, we have not lost sight of the necessity to preserve our financial strength. We continued programs to reduce production costs, to concentrate on selected areas of R&D, to review product designs, and to trim expenses. These initiatives stabilized profits despite the absence of a double digit increase in sales. Our success proves that it is possible to build an operating base even in stagnant economic conditions.

Outlook for 1998

Economic forecasts for Japan and the rest of Asia predict this to be a slow year. At such a time as this, it is our responsibility to extend to our enterprise customers optimum solutions and the most cost effective management proposals.

The company's new headquarters building, completed in April of this year, is playing a major role in our own cost management. Accommodating fully 1,000 employees who previously worked out of leased premises, the new intelligent and environmentally friendly building will benefit the company's cash flow to the tune of approximately ¥800 million as a result of saving on rent, information networking and energy co-generation.

The forecast for the present fiscal year ending in March 1999 predicts net sales of ¥325 billion (US$2.5 billion), operating profits of ¥9 billion (US$68 million) and a net income of ¥8 billion (US$61 million).

August 1998

Eiji Mikawa
President

Financial Review

Yokogawa Electric Corporation (Financial year ending March 31, 1998)
Consolidated Basis

Results of Operations

In 1997, Yokogawa's net sales increased by 9 percent. This growth rate was healthy considering the economic climate in Japan and the remainder of Asia during the year. Earnings from operations were 6 percent higher than the prior year. As a result of higher revenue, operating expenses held in check, and lower non-operating expenses, 1997 net income improved to ¥7.6 billion (US$57.3 million), up from ¥3.9 billion (US$29.2 million) in 1996.

1997 consolidated sales were ¥305.2 billion (US$2.3 billion), up from ¥280.4 billion (US$2.1 billion) in 1996. Gross profit, as a percentage of sales, declined slightly from 37.8 percent in 1996 to 35.8 percent in 1997, primarily due to the mix of products sold. Operating expenses were ¥97.2 billion (US$735.9 million), an increase of only 3 percent. As a result, 1997 operating profit increased to ¥12.1 billion (US$91.9 million), an increase of 6 percent over 1996.

Japanese revenues were approximately ¥241 billion (US$1.8 billion), which represents a 7 percent increase from the previous year. Japanese sales represent approximately 79 percent of total sales, indicating significant growth potential outside Japan in the coming years.

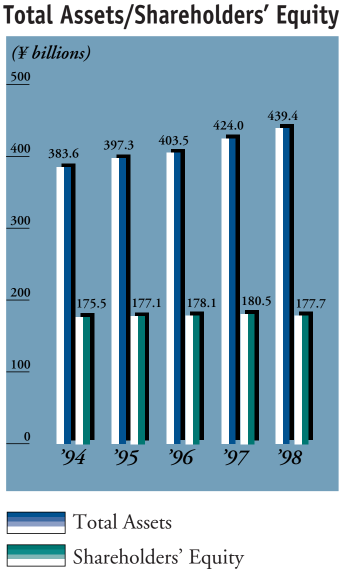
In 1997, Yokogawa significantly expanded sales in its Test and Measurement business. LSI Testers and Digital Oscilloscopes were key products for Test and Measurement growth. Yokogawa also benefited from substantial growth in its component-manufacturing sector, primarily power supplies for computer peripheral equipment. Yokogawa acquired the shares of NSG, a Japanese software development firm, in order to enhance its Enterprise Technology Solutions capability. In addition, Yokogawa entered into an alliance with ABB to provide specialized equipment and components to the pulp & paper industry in Japan.

The company continues to invest heavily in Research and Development in order to maintain its technical dominance in core markets. Research & Development expenses were ¥19.4 billion (US$147 million) in 1997. This represents a 7 percent increase over the prior year and is approximately 6.3 percent of current year sales. The Research and Development function is primarily carried out in Japan based on market research obtained in the major markets around the world. While increasing total R&D spending, we have refocused our R&D efforts. R&D expenditures are now focused on creating products and services that directly increase our customers' production efficiency by conserving energy and reducing operating costs in an environmentally friendly manner.

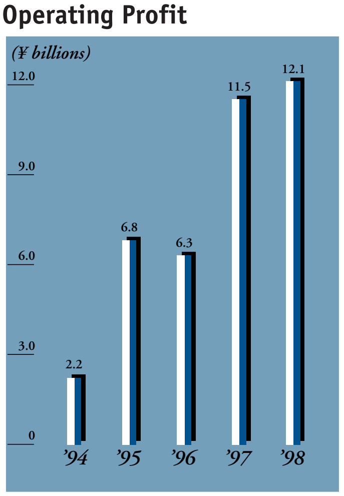
Yokogawa continues to invest in international growth, which is focused in 3 regional headquarter companies located in Singapore, Amsterdam, and Atlanta. In addition to these 3 regional headquarters, we have also created successful sales and manufacturing organizations in China, Korea, India and almost all other industrialized regions around the world.

Sales outside Japan were approximately ¥64 billion (US$484 million). This represents an increase of 12 percent over the previous year. Over the last 3 years, non-Japanese revenue has grown from ¥44 billion to ¥64 billion. While we are achieving

Total Assets/Shareholders' Equity



Operating Profit



reasonable growth rates internationally, we still have not fully realized our potential in overseas markets. In the coming years, we will focus on gaining market share in the strong economies of the US and Europe. Operating income from sources outside Japan has improved from a loss of ¥1.8 billion (US$14 million) in 1995 to a profit of ¥544 million (US$4 million) in 1997.

During the year, Yokogawa made several investments and improvements in its international operations. Yokogawa acquired the remaining shares of one of its US companies, which was formally a joint venture. This has cleared the way for a more efficient US operation that has been subsequently reorganized and is expected to turn profitable in the coming fiscal year. In California, Yokogawa acquired a controlling interest in Measurementation, a leading global supplier of analyzer systems. In South America, in order to provide a more efficient operation, the Brazilian operations were merged, which were formally operated as two independent companies.

In Europe, 3 significant acquisitions were made. In the Netherlands, Yokogawa acquired GTI-IA, a firm that has developed as a global supplier of industrial safety systems, which has been subsequently renamed Yokogawa Industrial Safety Systems. Yokogawa acquired 100 percent of the shares of Marex Technology, a UK company and a leading provider of software for the industrial automation marketplace. In addition, the long time South Africa sales representative was acquired and is operated under our European Headquarters.

In Singapore, Yokogawa is expanding manufacturing capacity by adding transmitter production lines and will soon begin the production of the latest line of systems products, CS1000. Construction is in progress to double the size of the main facility in Singapore. The expanded facility will house manufacturing, sales, and service functions. Despite economic and currency turmoil in Southeast Asia, Yokogawa remains committed to a growing and healthy operation in the region.

Non-Operating Items

Net non-operating expenses and non-recurring charges decreased from ¥7.6 billion (US$57 million) to ¥4.5 billion (US$34 million). The main reason for the substantial decrease was the one time write-off of a Japanese affiliate in 1996.

Net interest expense increased from ¥500 million (US$3.8 million) in 1996 to ¥750 million (US$5.7 million) in 1997. Interest expense remains relatively insignificant in light of the company's liquidity.

Equity in earnings of unconsolidated subsidiaries (generally companies that Yokogawa holds less than a 50 percent interest) was ¥3.9 billion (US$29.6 million), the majority of which was derived from successful joint ventures. This continues to be an important income stream to Yokogawa.

Income tax expense for the year was ¥5.5 billion (US$41.6 million), an effective rate of 57 percent, substantially lower than prior years due to the overall increase of profitability of companies outside Japan, which were formally recording losses.

Financial Condition and Liquidity

Yokogawa remains in strong financial condition. The company maintains in excess of ¥147 billion (US$1.1 billion) of working capital and is able to borrow funds at favorable rates without pledging its operating assets as collateral.

Yokogawa invests excess cash in short- and long-term investments, depending on its projected cash needs from operations, capital expenditures, and other business purposes. Yokogawa supplements its internally generated cash flow with a combination of short- and long-term borrowings.

Capital expenditures for the year were ¥17.4 billion (US$131.9 million). As described earlier, the biggest expenditure related to the increase in construction in progress of a new headquarters building in Tokyo, which will replace a major operating lease for the sales headquarters. The replacement of the operating lease with the new building will have a substantial positive effect on cash flow due to the relatively low borrowing rates the company is able to obtain. The Japan Development Bank is financing approximately 40 percent of the cost of the new building via a 25-year fixed interest loan. The company also spent heavily on implementation of management information systems to support its high growth in international markets and preparation of Year 2000.

During the year, Yokogawa issued ¥30 billion (US$227 Million) of straight bonds due in years 2001-2003, at interest rates ranging from 2.15 percent to 2.90 percent. The proceeds from the bonds were used for strategic acquisitions (as described earlier), the re-capitalization of certain subsidiary companies, and for other general operating purposes. Excess proceeds have been temporarily invested in short-term marketable securities, and will be used to repay bonds that mature in March 1999.

During the year, Yokogawa took advantage of the stagnant Japanese stock market and repurchased approximately 8.7 million of its own shares for an aggregate price of ¥6.7 billion (US$51 million). The shares were subsequently cancelled.

The company has outstanding convertible bonds due in March 1999 amounting to ¥29.9 billion (US$227 million). The company currently plans to retire the bonds by reducing excess cash and marketable securities at the due date.

Consolidated Statements of Income and Retained Earnings

Yokogawa Electric Corporation and Subsidiaries
For the years ended March 31, 1996, 1997, and 1998

	Millions of Yen for the year ended March 31,			Thousands of U.S. Dollars (Note 3) for the year ended March 31,
	1996	1997	1998	1998
Net Sales	¥259,534	¥280,426	**¥305,231**	**$2,310,605**
Cost of Sales	167,706	174,286	**195,879**	**1,482,808**
Gross profit	91,828	106,140	**109,352**	**827,797**
Selling, General and Administrative Expenses	85,537	94,652	**97,207**	**735,859**
Operating profit	6,291	11,488	**12,145**	**91,938**
Other Income and Expenses:				
Interest and dividend income	1,460	1,417	**1,535**	**11,620**
Interest expenses	(1,622)	(1,917)	**(2,285)**	**(17,298)**
Loss on disposal/write-down of inventories	(1,483)	(1,641)	**(1,126)**	**(8,524)**
Gain on sale of short-term investments in marketable securities	480	–	**–**	**–**
Loss on write-down of investments in marketable securities	–	–	**(708)**	**(5,359)**
Gain/(loss) on sale/write-down of investments in securities	(126)	(124)	**1,925**	**14,572**
Foreign exchange gain/(losses)	–	1,095	**(552)**	**(4,179)**
Gain/(loss) on disposal of property	(958)	(775)	**(1,139)**	**(8,622)**
Loss on liquidation of subsidiaries and affiliates	(388)	(1,031)	**–**	**–**
Other, net	(1,568)	(1,022)	**(179)**	**(1,355)**
Income before income taxes	2,086	7,490	**9,616**	**72,793**
Income Taxes	3,624	6,823	**5,495**	**41,597**
	(1,538)	667	**4,121**	**31,196**
Minority Interests in Earnings of Consolidated Subsidiaries	51	(60)	**51**	**386**
Amortization of Difference between Cost and Equity in Net Assets of Consolidated Subsidiaries	62	(155)	**(517)**	**(3,913)**
Equity in Earnings of Unconsolidated Subsidiaries and Affiliates	3,453	3,401	**3,909**	**29,591**
Adjustments on Foreign Currency Statement Translation	(204)	–	**–**	**–**
Net income	¥ 1,824	¥ 3,853	**¥ 7,564**	**$ 57,260**
Retained Earnings:				
Balance at beginning of year	105,790	106,591	**108,802**	**823,633**
Increase due to application of the equity method to investments in additional affiliates	535	52	**249**	**1,885**
Increase/(Decrease) due to consolidation of additional subsidiaries	(34)	586	**(1,225)**	**(9,273)**
Decrease due to redemption of treasury stock	–	–	**(6,665)**	**(50,454)**
Decrease due to adjustments on foreign currency statement translation	–	–	**(522)**	**(3,952)**
Decrease due to merger of subsidiaries	–	–	**(79)**	**(598)**
Appropriations:				
Cash dividends	(1,942)	(1,971)	**(1,977)**	**(14,966)**
Transfer to legal reserve	(202)	(202)	**(202)**	**(1,529)**
Officers' bonuses	(107)	(107)	**(112)**	**(848)**
Adjustments on foreign currency statement translation	727	–	**–**	**–**
Balance at end of year	¥106,591	¥108,802	**¥105,833**	**$ 801,158**

	Yen			U.S. Dollars (Note 3)
Per Share:				
Net income (Note 6)	¥7.0	¥14.9	**¥29.6**	**$0.224**
Cash dividends	¥7.5	¥ 7.5	**¥ 7.5**	**$0.057**
Weighted average number of shares (in thousands)	259,306	259,306	**255,961**	**–**

The accompanying notes are an integral part of the statements.

Consolidated Balance Sheets

Yokogawa Electric Corporation and Subsidiaries
March 31, 1997 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1997	1998	1998
ASSETS			
Current Assets:			
Cash on hand and in banks	¥ 24,137	¥ 54,592	$ 413,263
Short-term investments in marketable securities	96,884	46,102	348,993
Notes and accounts receivable:			
Trade	102,158	113,790	861,393
Unconsolidated subsidiaries and affiliates	15,225	13,964	105,707
Other	1,665	1,982	15,004
	119,048	129,736	982,104
Less: Allowance for doubtful accounts	(1,070)	(1,321)	(10,000)
	117,978	128,415	972,104
Inventories	31,000	36,712	277,911
Other current assets	13,698	24,653	186,624
Total current assets	283,697	290,474	2,198,895
Investments and Advances:			
Investments in securities	29,295	28,790	217,941
Investments in and advances to unconsolidated subsidiaries and affiliates	17,658	16,388	124,058
Long-term loans	1,109	1,120	8,478
Other	12,905	14,126	106,934
Total investments and advances	60,967	60,424	457,411
Property, Plant and Equipment, at book value (Note 4):			
Buildings and structures	33,390	32,370	245,042
Machinery and equipment	7,907	9,210	69,720
Furniture and fixtures	10,510	12,007	90,893
Land	13,281	14,360	108,705
Construction in progress	3,407	7,991	60,492
Total property, plant and equipment	68,495	75,938	574,852
Deferred Charges and Other Assets	7,644	8,638	65,390
Excess of Investment Cost over Underlying equity in Net Assets of Consolidated Subsidiaries	–	545	4,126
Adjustments on Foreign Currency Statement Translation	3,197	3,398	25,723
	¥424,000	¥439,417	$3,326,397

The accompanying notes are an integral part of the statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1997	1998	1998
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans	¥ 34,205	¥ 40,052	$ 303,194
Current maturity of bonds with warrants	9,554	29,949	226,715
Notes and accounts payable:			
Trade	24,658	36,000	272,521
Unconsolidated subsidiaries and affiliates	6,956	4,976	37,668
Other	3,124	3,669	27,775
	34,738	44,645	337,964
Accrued expenses	16,176	16,740	126,798
Income taxes payable	5,531	5,181	39,220
Advances received and other current liabilities	6,387	6,885	52,044
Total current liabilities	106,591	143,452	1,085,935
Long-Term Debt	96,329	76,755	581,037
Reserve for Retirement Benefits	38,748	38,762	293,429
Minority Interests in Consolidated Subsidiaries	1,778	2,720	20,591
Underestimate of Investment Cost under underlying equity in Net Assets of Consolidated Subsidiaries	58	–	–
Shareholders' Equity:			
Common stock:			
Authorized: 500,000,000 shares			
Issued (par value, ¥50 per share):			
259,306,012 shares and 250,653,012 shares at March 31, 1997 and 1998, respectively	32,306	32,306	244,557
Additional paid-in capital	35,020	35,020	265,102
Legal reserve	4,368	4,569	34,588
Retained earnings	108,802	105,833	801,158
Total shareholders' equity	180,496	177,728	1,345,405
	¥424,000	¥439,417	$3,326,397

The accompanying notes are an integral part of the statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting the Consolidated Financial Statements

(1) Accounting Principles

The accompanying consolidated financial statements of Yokogawa Electric Corporation (the "Company") have been prepared by the Company in conformity with accounting principles and practices generally accepted in Japan. The accounts of the Company and its domestic consolidated subsidiaries are maintained in accordance with the provisions set forth in the Japanese Commercial Code, the Securities and Exchange Law and in conformity with generally accepted accounting principles prevailing in Japan. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries. In general, no adjustments to the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements.

The accompanying Consolidated Financial Statements of the Company and its subsidiaries are essentially the translation of those included in the Securities Annual Report filed with the Minister of Finance and the Stock Exchanges as required by the provisions of the Securities and Exchange Law and related regulations in Japan.

Accordingly, the information disclosed in the accompanying consolidated financial statements is derived from the original text and the scope and nature of the information is limited to those disclosed therein. However, certain reclassification or summarization of accounts have been made to present the consolidated financial statements in a form which is more familiar to foreign readers.

(2) Reference as to Accounting Policies

Accounting principles and practices employed by the Company and its domestic consolidated subsidiaries in preparing the accompanying consolidated financial statements, which have significant effects thereon, are explained in Note 2 of the Notes to the Non-Consolidated Financial Statements. Therefore, unless otherwise set out below, the accompanying consolidated financial statements should be read in conjunction with such notes.

2. Summary of Significant Accounting Policies

(a) Scope of Consolidation

The Company had 91 subsidiaries (majority-owned companies) as at March 31, 1998 (77 as at March 31, 1997). The consolidated financial statements include the accounts of the Company and its 76 subsidiaries as at March 31, 1998 (59 for 1997).

In line with this change in the regulation, the Company included in the consolidation, the accounts of the 76 major subsidiaries listed below (the Company and these consolidated subsidiaries are together, referred to as the "Companies"):

Name of subsidiary	Percentage owned by the Company (directly or indirectly)
Yokogawa Electronics Co., Ltd.	100.00%
Kokusai Chart Corporation	86.00
Yokogawa Precision Corporation	92.00
Yokogawa Engineering Service Corporation	100.00
Yokogawa Sertec Co., Ltd.	85.00
Yokogawa Flowtech Co., Ltd.	100.00
Yokogawa Weathac Corporation	92.00
Yokogawa Denshikiki Co., Ltd.	74.00
Yokogawa Digital Computer Corporation	68.00
Yokogawa Graphic Arts Corporation	100.00
Yokogawa IMT Corporation	100.00
Yokogawa Business Service Corporation	80.00
Yokogawa Financial Service Corporation	100.00
Yokogawa MEC Corporation	100.00
Yokogawa Human Create Corporation	100.00
Yokogawa System Engineering Corporation	100.00
Yokogawa Infotec Corporation	100.00
Yokogawa M&C Corporation	100.00
Yokogawa Logistics Corporation	100.00
Yokogawa Research Institute Corporation	100.00
Yokogawa Pionics Co., Ltd.	84.00
Yokogawa Mechatronics Corporation	100.00

Name of subsidiary		Percentage owned by the Company (directly or indirectly)
	Techno Systems Kyushu Corporation	65.00
	YS Techno Systems Co., Ltd.	60.00
	Yokogawa International Finance B.V.	100.00
	Yokogawa USA, Inc.	100.00
	Yokogawa Corporation of America	100.00
	Yokogawa Electric Asia Pte, Ltd.	100.00
	Yokogawa Controle Bailey S.A.	100.00
	Yokogawa Europe B.V.	100.00
	Rota Yokogawa GmbH & Co., KG	100.00
	Yokogawa Italia S.R.L.	100.00
	Yokogawa Austria Ges.m.b.H.	100.00
	Yokogawa Belgium N.V. - S.A.	100.00
	Yokogawa Deutschland GmbH	100.00
	Yokogawa United Kingdom Ltd.	100.00
	Yokogawa Espana S.A.	100.00
	Yokogawa Nederland B.V.	100.00
	Yokogawa NBN GmbH.	100.00
	Suzhou Yokogawa Meter Company	55.00
	Yokogawa Australia Pty Ltd.	100.00
	Yokogawa Taiwan Corporation	90.00
	Yokogawa Industrial Automation (America) Inc.	100.00
	P.T. Yokogawa Engineering Indonesia	80.00
	P.T. Yokogawa Manufacturing Batam	100.00
	Cenglos Philippines, Incorporated	80.00
	Yokogawa Sichuan Instrument Co., Ltd.	60.00
	Iker S/A Industria e Conercio	60.00
	Yokogawa America do Sul S.A.	97.00
	Shanghai Yokogawa Petrochemical Instrumentation Co., Ltd.	90.00
	Yokogawa Philippines Inc.	57.00
	P.T. Yokogawa Power Supply Batam	100.00
	Yokoshin Software Engineering (WUXI) Co., LTD.	100.00
	Beijing Yokogawa Automation Engineering Co., Ltd.	51.00
	Yokogawa Measuring Instruments Korea Corporation	100.00
	Yokogawa Middle East E.C.	100.00
	Yokogawa (Thailand) Ltd.	49.00
	Yokogawa Trading Corporation	100.00
	Yokogawa ADS Corporation	100.00
	Yokogawa Ibiden Components Corporation	65.00
	Yokogawa Multimedia Co., Ltd.	81.00
	Nippon System Gijutsu Co.	76.00
	Limited Yokogawa Electric	100.000
	Marex Technology Ltd.	100.00
	Kokusai Chart Corporation of America	100.00
	Yokogawa Engineering Asia Pte. Ltd.	100.00
	Yokogawa Trading U.S.A., Inc.	100.00
	Yokogawa Trading Europe B.V.	100.00
	Yokogawa Trading Asia Pte. Ltd.	100.00
	Yokogawa Trading Hong Kong Limited	100.00
	Yokogawa South Africa Pty. Ltd.	100.00
	Yokogawa Capital	100.00
	Rota France S.A.R.L.	100.00
	Yokogawa Industrial Safety Systems B.V.	100.00
	Yokogawa Industrial Safety Systems Ltd.	100.00
	Yokogawa Industrial Safety Systems Sdn. Bhd.	100.00

All of the above consolidated subsidiaries, except for Suzhou Yokogawa Meter Company ("SYC"), Yokogawa Taiwan Corporation ("YTW"), Yokogawa Sichuan Instrument Co., Ltd. ("CYS"), Yokogawa (Shanghai) Instrumentation Co., Ltd. ("YSI"), Beijing Yokogawa Automation Engineering Co., Ltd. ("BYC"), Yokogawa International Finance B.V. ("YIF"), and Marex Technology Limited ("MTL") use the same fiscal year ending on March 31, each year as that of the Company.

The majority of the major subsidiaries listed above have the same fiscal year end. However, "SYC", "YTW", "CYS", "YSI", "BYC", "YIF" and "MTL" use the fiscal year ending on December 31 of each year. The accounts of these subsidiaries have been consolidated by using the account balances for such fiscal year since there were no material transactions that occurred between the different fiscal year-ends.

This fiscal year, Yokogawa America do Sul S.A. ("YSA") changed the fiscal year end from December 31 to March 31. In consolidation of the accounts of "YSA", necessary adjustments have been made for the period from January 1, 1996 to March 31, 1997.

The remaining 15 (18 for 1997) unconsolidated subsidiaries' combined assets, net sales and net income in the aggregate are not significant compared to those of the consolidated financial statements of the Companies; therefore, the accounts of such subsidiaries have not been included in consolidation (See (c) below).

(b) Elimination and Combination

For the purposes of preparing the consolidated financial statements of the Companies, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated.

In elimination, any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability, as the case may be, and amortized over a period of five years on a straight-line basis.

Legal reserve of consolidated subsidiaries provided subsequent to the acquisition of such subsidiaries by the Company is included in retained earnings and is not shown separately in the consolidated financial statements.

(c) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 15 (18 for 1997) unconsolidated subsidiaries and 34 (33 for 1997) affiliates (meaning companies which are 20% to 50% owned) at March 31, 1998. The equity method is applied to the investments in 9 unconsolidated subsidiary (1 for 1997) and 27 major affiliates (15 major affiliates for 1997) since the investments in the other unconsolidated subsidiaries and remaining affiliates do not have a material effect on consolidated net income and retained earnings in the consolidated financial statements.

The 9 unconsolidated subsidiary and 27 affiliates accounted for by the equity method as at and for the year ended March 31, 1998 are listed below:

Name of subsidiary and affiliates		Percentage owned by the Company (directly orindirectly)
	Hewlett-Packard Japan, Ltd.	25.0%
	GE Yokogawa Medical Systems, Ltd.	25.0
	Kokusai Keiso Co., Ltd.	35.0
	Yokogawa System Construction Co., Ltd.	48.9
	Hankuk Yokogawa Electric Co., Ltd.	49.0
	Yokogawa Johnson Controls Corporation	45.0
	Yokogawa Rental & Lease Corporation	47.4
	Yokogawa Analytical Systems Inc.	49.0
	Yokogawa Xiyi Corporation	50.0
	Yokogawa & Co., Ltd.	50.0
	Aqua Consult & Engineering Co., Ltd.	100.0
	Yokogawa Wavetek Corporation	100.0
	Yokogawa A.I.M Corporation	60.0
	Morioka Tokki Corporation	65.0
	Yokogawa Elder Corporation	100.0
	Yokogawa Green Farm Corporation	100.0
	Yokogawa Marchandising Design Corporation	100.0
	Yokogawa Visual Production Corporation	95.0
	Yokogawa Advanced Applications, Inc.	66.7
	Yokogawa Denyo Corporation	50.0
	Omega Simulation Co., Ltd.	50.0
	Yokoshou Engineering Corporation	100.0
	YK System Engineering Co., Ltd.	35.0

Name of subsidiary and affiliates		Percentage owned by the Company (directly orindirectly)
	YN System Co., Ltd.	35.0
	Kanazawa System House Co., Ltd.	35.0
	YM Engineering Corporation	35.0
	Sansetsu Corporation	33.3
	Tokyo Sokuon Co.	25.0
	Toyota Macs Incorporated	26.0
	Yokogawa Fukuyama Keisou	50.0
	Yokogawa Blue Star Ltd.	40.0
	Beijing Metallurgy Yokogawa Automation Engineering Co., Ltd.	30.0
	Yokogawa Electric (Malaysia) Sdn. Bhd.	49.0
	Yokogawa Kontrol (Malaysia) Sdn. Bhd.	30.0
	Yokogawa Shanghai Instrumentation Co., Ltd.	49.0
	River Process Engineering Company Limited	49.0

All of the above unconsolidated subsidiary and affiliates accounted for by the equity method, except for Hewlett-Packard Japan, Ltd., ("HPJ"), Yokogawa Analytical System Inc.("YAN"), Yokogawa Xiyi Corporation ("YXC"), Yokogawa Shanghai Instrumentation Co., Ltd. ("YSI"), Beijing Metellurgy Yokogawa Automation Engineering Co., Ltd. ("AYC"), Kokusai Keiso Co., Ltd. ("KKC"), Sansetsu Corporation ("SST") and Yokogawa Wavetek Corporation ("YWT") use the same fiscal year as that of the Company.
"HPJ" and "YAN" use the fiscal year ending on October 31 of each year. "YXC", "YSI" and "AYC" uses the fiscal year ending on December 31 of each year. "KKC", "SST" and "YWT" uses the fiscal year ending on September 30 of each year. Equity method of accounting for these investments is applied based on the accounts of these affiliates for such fiscal year.

This fiscal year, GE Yokogawa Medical Systems Ltd. ("GEYMS") changed the fiscal year end from November 30 to March 31. In consolidation of the accounts of "GEYMS", necessary adjustments have been made for the period from December 1, 1996 to March 31, 1998.

The investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost or less.

(d) Translation of Foreign Currency Financial Statements (Accounts of Overseas Consolidated Subsidiaries)

The translation of foreign currency financial statements of overseas subsidiaries into Japanese yen for consolidation purposes is made by the method of translation prescribed by the statements issued by the Business Accounting Council (BAC) of Japan.

Until the year ended March 31, 1996, short-term monetary items were translated at current rates. In contrast, short-term non-monetary items and long-term assets and liabilities were translated at historical rates. Net income for the year and the balance of retained earnings at year-end were required to be translated at current exchange rates while revenue and expense items were translated at the average exchange rate or at the historical rate, as appropriate.

In this connection, certain adjusting accounts were set up in the balance sheets, statements of income, and shareholders' equity to enable balancing of debit and credit totals as well as the reconciliation of the beginning balance with the ending balance of retained earnings. Such adjusting account balances are shown as "Adjustments on Foreign Currency Statement Translation" in the accompanying consolidated financial statements as of March 31, 1996 and for the fiscal year ended March 31, 1996.

In compliance with the new accounting standards for foreign currency transactions, which became effective in the year ended March 31, 1997, the Company changed its translation method. Under the new standards, all assets and liabilities are translated into Japanese yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are, as before, shown as "Adjustments on Foreign Currency Statement Translation" in the accompanying balance sheets.

The "income before income taxes" for the year ended March 31, 1997 was increased by ¥3 million ($24 thousand) as compared with the amount which would have been reported if the previous method had been applied consistently.

(e) Reserve for Retirement Benefits

Eight of the consolidated subsidiaries have non-contributory funded pension plans.

Other consolidated subsidiaries generally provide for reserve for retirement benefits in an amount equivalent to 100 per cent of such benefits the subsidiaries would be required to pay if all eligible employees voluntarily terminated employment at the balance sheet dates.

Until the year ended March 31, 1996, Yokogawa Logistics Corporation ("YLC") and Yokogawa Mec Corporation ("YMK") had charged the officers' retirement payments to income when actually paid. During the year ended March 31, 1997, "YLC" and "YMK" changed its accounting policy for the recognition of accrued officers' retirement benefits to reserve as 100% of the liabilities "YLC" and "YMK" would have been required to pay if all eligible directors and statutory auditors had been retired at the respective balance sheet date in order to recognize periodic cost of such benefits over a period of services by the directors and statutory auditors and to achieve better measurement of results of operations and to strengthen the soundness of the financial structures.

As a result of the change, “operating profit” and “income before income taxes” for the year ended March 31, 1997 were decrease by ¥6 million as compared with the amounts which would have been reported if the previous method had been applied consistently.

Until the year ended March 31, 1997, Yokogawa Precision Corporation (“YPC”) and Yokogawa Research Institute Corporation (“YRC”) had charged the officers’ retirement payments to income when actually paid. During the year ended March 31, 1998, “YPC” and “YRC” changed its accounting policy for the recognition of accrued officers’ retirement benefits to reserve as 100% of the liabilities “YPC” and “YRC” would have been required to pay if all eligible directors and statutory auditors had been retired at the respective balance sheet date in order to recognize periodic cost of such benefits over a period of services by the directors and statutory auditors and to achieve better measurement of results of operations and to strengthen the soundness of the financial structures.

As a result of the change, past service costs of the retirement benefits to directors and statutory auditors determined by reference to YPC’s internal rules in an amount of ¥40 million have been amortized over a 2-year period by the straight-line method. The Company charged to income in amount of ¥20 million as “Other expenses” in the accompanying consolidated statement of income for the year ended March 31, 1998 and the current cost of the benefit for this year in an amount of ¥19 million was charged to “Selling, General and Administrative Expenses”.

As a result of the change, “operating profit” and “income before income taxes” for the year ended March 31, 1998 were decreased by ¥19 million and ¥39 million, respectively, as compared with the amounts which would have been reported if the previous method had been applied consistently.

(f) Accounting for Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

3. United States Dollar Amounts

The Company maintain accounting records in yen in consolidation. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥132.10=U.S.$1.00. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥132.10=U.S.$1.00 or at any other rate.

4. Accumulated Depreciation

Accumulated depreciation deducted from cost of property, plant and equipment in the accompanying consolidated balance sheet amounted to ¥105,419 million and ¥108,527 million ($821.6 million) at March 31, 1997 and 1998, respectively.

5. Lease transactions

The Company and its subsidiaries have various lease agreements whereby it acts as a lessee. The Company and its subsidiaries’ finance lease contracts which are not deemed to transfer the ownership of the leased assets. Certain key information on such lease contracts of the Company and its subsidiaries for the year ended March 31, 1998 as follows:

	Millions of Yen	Thousands of U.S. Dollars
	1998	1998
The scheduled maturities of future lease rental payments, which included the portion of interest thereon, on such lease contracts as of March 31, 1998 were as follows:		
Due within one year	¥ 417	$3,157
Due over one year	849	6,427
	¥1,266	$9,584

	Millions of Yen	Thousands of U.S. Dollars
Lease rental expenses for the year	¥426	$3,225
The scheduled maturities of future lease rental payments of operating lease as of March 31, 1998 were as follows:		
Due within one year	¥ 35	$ 265
Due over one year	18	136
	¥ 53	$ 401

6. Net income per share

Net income per share is based upon the weighted average number of shares of common stock outstanding during each year.

Since there is no dilutive effect of convertible bonds on net income per share such information is not required to be disclosed.

7. Segment Information

(1) Industry segment information

The Company and its subsidiaries operate principally in three industrial segments: Measurement, Control and Information Equipment Division, Finance Division and Other Division.

The Measurement, Control and Information Equipment Division produces and sells total control systems, scattering control systems, electric control systems, product line control systems and industrial computer systems, analyzing recorders, digital multi-meters, electric power measuring instruments, temperature measuring instruments, pressure measuring instruments, etc.

The Finance Division manages financing activities, settlement of foreign currency transactions, etc.

The Other Division produces and sells engine instruments, control instruments, integrated display systems, gyrocompasses, etc.

Segment information classified by industry segments of the Companies for each of the three years ended March 31, 1998 is as follows:

	1996							
	Millions of Yen							
Industry segments	Sales to outside Customers	Inter-segment Sales	Total Sales	Operating expenses	Operating profit	Assets	Depreciation	Capital expenditure
Measurement, Control and Information Equipment	¥223,113	¥ 544	¥223,657	¥202,211	¥21,446	¥183,209	¥7,406	¥ 7,283
Finance	1,925	484	2,409	3,063	(654)	64,643	0	1
Other	34,496	11,414	45,910	44,684	1,226	39,167	1,015	1,949
Total	259,534	12,442	271,976	249,958	22,018	287,019	8,421	9,233
Elimination of inter-segment sales/ profit or Common assets (Note 1)	–	(12,442)	(12,442)	3,285	(15,727)	116,520	1,095	901
Consolidated Total	¥259,534	–	¥259,534	¥253,243	¥ 6,291	¥403,539	¥9,516	¥10,134

	1997							
	Millions of Yen							
Industry segments	Sales to outside Customers	Inter-segment Sales	Total Sales	Operating expenses	Operating profit	Assets	Depreciation	Capital expenditure
Measurement, Control and Information Equipment	¥242,731	¥ 634	¥243,365	¥218,299	¥25,066	¥185,256	¥ 7,623	¥ 8,115
Finance	1,553	495	2,048	1,755	293	62,254	0	4
Other	36,142	11,733	47,875	45,539	2,336	40,194	1,135	1,170
Total	280,426	12,862	293,288	265,593	27,695	287,704	8,758	9,289
Elimination of inter-segment sales/ profit or Common assets (Note 1)	–	(12,862)	(12,862)	3,345	(16,207)	136,296	1,279	3,660
Consolidated Total	¥280,426	–	¥280,426	¥268,938	¥11,488	¥424,000	¥10,037	¥12,949

Industry segments	1998											
	Millions of Yen								Thousands of U.S. Dollars			
	Sales to outside Customers	Inter-segment Sales	Total Sales	Operating expenses	Operating profit	Assets	Depreciation	Capital expenditure	Operating profit/(loss)	Assets	Capital Depreciation	Capital expenditure
Measurement, Control and Information Equipment	¥263,791	¥ 779	¥264,570	¥237,381	¥27,189	¥222,440	¥ 8,115	¥11,535	$205,821	$1,683,876	$61,431	$87,320
Finance	2,526	497	3,023	3,004	19	52,094	2	4	144	394,353	15	30
Other	38,914	15,224	54,138	51,754	2,384	42,550	1,130	2,064	18,047	322,104	8,554	15,625
Total	305,231	16,500	321,731	292,139	29,592	317,084	9,247	13,603	224,012	2,400,333	70,000	102,975
Elimination of inter-segment sales/ profit or Common assets (Note 1)	–	(16,500)	(16,500)	947	(17,447)	122,308	1,127	3,830	(132,074)	925,874	8,531	28,993
Consolidated Total	¥305,231	–	¥305,231	¥293,086	¥12,145	¥439,392	¥10,374	¥17,433	$ 91,938	$3,326,207	$78,531	$131,968

(Note 1) The common assets of ¥140,646 million in the column "Elimination or common assets" mainly consist of surplus working fund (cash and marketable securities), long-term investment fund (investment in securities) and other assets which belong to the administrative departments.

(Note 2) As described in Note 2(e) of the Notes to the Consolidated Financial Statements, "YLC" and "YMK" changed accounting policy for the recognition of accrued officers' retirement benefits. As a result, the operating expenses for the year ended March 31, 1997 were increased by ¥6 million and operating profit was decreased by ¥6 million, as compared with the amounts which would have been reported if the previous method had been applied consistently.

(Note 3) As described in Note 2(e) of the Notes to the Consolidated Financial Statements, "YPC" and "YRC" changed accounting policy for the recognition of accrued officers' retirement benefits. As a result, the operating expenses aggregated for the year ended March 31, 1998 was increased by ¥19 million and operating profit was decreased by ¥19 million as previous method had been applied consistently.

(2) Geographic Segment Information

Segment information classified by geographic area (inside and outside Japan) for each of the three years ended March 31, 1998 is summarized as follows:

	1996					
	Millions of Yen					Thousands of U.S. Dollars
	Sales to outside Customers	Inter-segment Sales	Total Sales	Operating expenses	Operating profit	Operating profit
Domestic (inside Japan)	¥215,424	¥15,645	¥231,069	¥222,989	¥8,080	$75,976
Outside Japan	44,110	3,336	47,446	49,239	(1,793)	(16,859)
Total	259,534	18,981	278,515	272,228	6,287	59,117
Elimination of inter-segment sales	–	(18,981)	(18,981)	(18,985)	4	37
Consolidated Total	¥259,534	–	¥259,534	¥253,243	¥6,291	$59,154

	1997					
	Millions of Yen					Thousands of U.S. Dollars
	Sales to outside Customers	Inter-segment Sales	Total Sales	Operating expenses	Operating profit	Operating profit
Domestic (inside Japan)	¥223,581	¥18,379	¥241,960	¥230,299	¥11,661	$93,965
Outside Japan	56,845	6,018	62,863	62,281	582	4,690
Total	280,426	24,397	304,823	292,580	12,243	98,655
Elimination of inter-segment sales	–	(24,397)	(24,397)	(23,642)	(755)	(6,084)
Consolidated Total	¥280,426	–	¥280,426	¥268,938	¥11,488	$92,571

	1998					
	Millions of Yen					Thousands of U.S. Dollars
	Sales to outside Customers	Inter-segment Sales	Total Sales	Operating expenses	Operating profit	Operating profit
Japan	¥241,206	¥18,561	¥259,767	¥249,123	¥10,644	$80,575
Asia	15,411	7,734	23,145	22,043	1,102	8,342
Europe	23,667	766	24,433	24,356	77	583
North America	18,427	466	18,893	19,318	(425)	(3,217)
Other	6,520	171	6,691	6,901	(210)	(1,590)
Total	305,231	27,698	332,929	321,741	11,188	84,693
Elimination of inter-segment sales	–	(27,698)	(27,698)	(28,655)	957	7,245
Consolidated Total	¥305,231	–	¥305,231	¥293,086	¥12,145	$91,938

(Note 1) Asia Singapore, China, Korea etc.
Europe Netherlands, France, Britain, Germany etc.
North America USA
Other Brazil, Australia etc.

(Note 2) As described in Note 2(e) of the Notes to the Consolidated Financial Statements, "YLC" and "YMK" changed accounting policy for the recognition of accrued officers' retirement benefits. As a result, the operating expenses of Domestic division for the year ended March 31, 1997 were increased by ¥6 million and operating profit of Domestic division was decreased by ¥6 million as compared with the amounts which would have been reported if the previous method had been applied consistently.

(Note 3) As described in Note 2(e) of the Notes to the Consolidated Financial Statements, "YPC" and "YRC" changed accounting policy for the recognition of accrued officers' retirement benefits. As a result, the operating expenses of Domestic division for the year ended March 31, 1998 were increased by ¥19 million and operating profit of Domestic division was decreased by ¥19 million as compared with the amounts which would have been reported if the previous method had been applied consistently.

(3) Export sales and sales by overseas subsidiaries

	1997	1998				
	Total	Asia	Europe	North America	Other	Total
Overseas sales	87,299	36,683	26,144	26,005	10,286	99,118
Consolidated sales	280,426	–	–	–	–	305,231
Ratio	31.1%	12.0%	8.6%	8.5%	3.4%	32.5%

Report of Independent Certified Public Accountants

To: The Board of Directors of Yokogawa Electric Corporation

We have audited the consolidated balance sheets of Yokogawa Electric Corporation and its subsidiaries as at March 31, 1997 and 1998, and the related consolidated statements of income and retained earnings for each of the three years in the period ended March 31, 1998, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the 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 its consolidated subsidiaries as at March 31, 1997 and 1998, and the consolidated results of their operations for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

Chuo Audit Corporation

Tokyo, Japan
June 26, 1998

Chuo Audit Corporation
Independent Certified Public Accountants

Non-Consolidated Statements of Income

Yokogawa Electric Corporation
For the years ended March 31, 1996, 1997 and 1998

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	for the year ended March 31,			for the year ended March 31,
	1996	1997	**1998**	**1998**
Net Sales (Note 13)	¥173,437	¥179,651	**¥183,831**	**$1,391,605**
Cost of Sales (Notes 13 and 14)	118,015	118,039	**119,510**	**904,693**
Gross profit	55,422	61,612	**64,321**	**486,912**
Selling, General and Administrative Expenses (Note 14)	51,799	54,843	**57,776**	**437,366**
Operating profit	3,623	6,769	**6,545**	**49,546**
Other Income and Expenses (Note 13):				
Interest and dividend income	4,533	4,876	**5,268**	**39,879**
Interest expenses	(682)	(879)	**(1,129)**	**(8,547)**
Rental income	1,161	1,339	**1,320**	**9,993**
Rental expenses	(710)	(838)	**(810)**	**(6,132)**
Gain on sale of short-term investments in marketable securities	480	–	**–**	**–**
Loss on sale of maketable securities	–	–	**(709)**	**(5,367)**
Gain/(loss) on sale/write-down of investments in securities	(126)	(124)	**1,385**	**10,485**
Loss on write-down of investments in a subsidiary	–	–	**(3,073)**	**(23,263)**
Loss on liquidation of subsidiaries	(388)	(1,031)	**–**	**–**
Loss on sale/disposal of property	(844)	(492)	**(700)**	**(5,299)**
Loss on sale/disposal/write-down of obsolete inventories	(1,126)	(1,489)	**(877)**	**(6,639)**
Foreign exchange gains	–	909	**579**	**4,383**
Other, net	(1,015)	(877)	**(422)**	**(3,195)**
	1,283	1,394	**832**	**6,298**
Income before income taxes	4,906	8,163	**7,377**	**55,844**
Income Taxes (Note 10)	1,777	4,268	**2,618**	**19,818**
Net income	¥ 3,129	¥ 3,895	**¥ 4,759**	**$ 36,026**

	Yen			U.S. Dollars (Note 3)
Per Share:				
Net income, adjusted (Note 2(i))	¥12.1	¥15.0	**¥18.6**	**$0.141**
Cash dividends, unadjusted	¥ 7.5	¥ 7.5	**¥ 7.5**	**$0.057**
Weighted average number of shares (in thousands)	259,306	259,306	**255,961**	**–**

The accompanying notes are an integral part of the statements.

Non-Consolidated Balance Sheets

Yokogawa Electric Corporation
March 31, 1997 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1997	1998	1998
ASSETS			
Current Assets:			
Cash	¥ 39	¥ 43	$ 326
Time deposits and certificates of deposits	12,384	35,950	272,142
Short-term investments in marketable securities (Note 4)	57,958	25,738	194,837
Marketable securities held under non-money trust	6,000	8,002	60,575
Notes and accounts receivable:			
Trade	66,098	73,805	558,705
Subsidiaries and affiliates	19,079	19,955	151,060
Other	401	360	2,725
	85,578	94,120	712,490
Less: Allowance for doubtful accounts	(625)	(736)	(5,571)
	84,953	93,384	706,919
Inventories (Note 6)	10,035	11,445	86,639
Shout-term loans to subsidiaries	–	6,667	50,469
Beneficary certificate	–	4,986	37,744
Other current assets	3,006	3,901	29,531
Total current assets	174,375	190,116	1,439,182
Investments and Advances:			
Investments in securities (Note 4)	22,606	22,314	168,918
Investments in and advances to subsidiaries and affiliates (Note 7)	34,094	39,199	296,737
Long-term loans to employees mostly for housing	735	1,049	7,941
Other investments	6,017	5,844	44,239
	63,452	68,406	517,835
Property, Plant and Equipment:			
Buildings and structures	44,846	44,597	337,600
Machinery and equipment	21,097	19,568	148,130
Furniture and fixtures	29,395	29,609	224,141
	95,338	93,774	709,871
Less: Accumulated depreciation	(66,849)	(65,689)	(497,267)
	28,489	28,085	212,604
Land	8,601	8,585	64,989
Construction in progress	2,307	4,566	34,565
	39,397	41,236	312,158
Other Assets	9,480	9,939	75,238
	¥286,704	¥309,697	$2,344,413

The accompanying notes are an integral part of the statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1997	1998	1998
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 8)	¥ 3,000	¥ 2,390	$ 18,092
Current maturity of long-term debt (Note 8)	62	30,001	227,108
Notes and accounts payable:			
Trade	9,567	11,434	86,555
Subsidiaries and affiliates	9,572	13,252	100,318
Others	2,332	3,596	27,222
	21,471	28,282	214,095
Accrued expenses	9,647	10,018	75,837
Income taxes payable (Note 10)	3,645	2,314	17,517
Other	1,205	1,347	10,197
Total current liabilities	39,030	74,352	562,846
Long-Term Debt (Note 8)	42,505	34,430	260,636
Reserve for Retirement Benefits (Note 9)	32,039	31,706	240,015
Contingent Liabilities (Note 15)			
Shareholders' Equity:			
Common stock:			
Authorized: 500,000,000 shares			
Issued (par value, ¥50 per share):			
259,306,012 shares and 250,653,012 shares at March 31, 1997 and 1998, respectively	32,306	32,306	244,557
Additional paid-in capital	35,020	35,020	265,102
Legal reserve (Note 11)	4,367	4,569	34,588
Voluntary reserve (Note 11)	14,273	14,273	108,047
Special tax-purpose reserves (Note 12)	4,612	4,158	31,476
Retained earnings (Notes 11 and 17)	82,552	78,883	597,146
Total shareholders' equity	173,130	169,209	1,280,916
	¥286,704	¥309,697	$2,344,413

Non-Consolidated Statements of Shareholders' Equity

Yokogawa Electric Corporation
For the years ended March 31, 1996, 1997 and 1998

	Number of shares of common stock (in thousands)	Millions of Yen					
		Common stock	Additional paid-in capital	Legal reserve	Voluntary reserve	Special tax-purpose reserves	Retained earnings
Balance at March 31, 1995	259,306	¥32,306	¥35,020	¥3,963	¥14,273	¥5,470	¥79,099
Net income for the year	–	–	–	–	–	–	3,129
Cash dividends	–	–	–	–	–	–	(971)
Officers' bonuses	–	–	–	–	–	–	(70)
Transfer to legal reserve	–	–	–	105	–	–	(105)
Transfer to special tax-purpose reserves	–	–	–	–	–	125	(125)
Transfer from special tax-purpose reserves	–	–	–	–	–	(549)	549
Cash dividends – interim	–	–	–	–	–	–	(971)
Transfer to legal reserve	–	–	–	97	–	–	(97)
Balance at March 31, 1996	259,306	32,306	35,020	4,165	14,273	5,046	80,438
Net income for the year	–	–	–	–	–	–	3,895
Cash dividends	–	–	–	–	–	–	(971)
Officers' bonuses	–	–	–	–	–	–	(71)
Transfer to legal reserve	–	–	–	105	–	–	(105)
Transfer to special tax-purpose reserves	–	–	–	–	–	58	(58)
Transfer from special tax-purpose reserves	–	–	–	–	–	(492)	492
Cash dividends – interim	–	–	–	–	–	–	(971)
Transfer to legal reserve	–	–	–	97	–	–	(97)
Balance at March 31, 1997	259,306	32,306	35,020	4,367	14,273	4,612	82,552
Net income for the year	–	–	–	–	–	–	4,759
Cash dividends	–	–	–	–	–	–	(972)
Officers' bonuses	–	–	–	–	–	–	(71)
Transfer to legal reserve	–	–	–	105	–	–	(105)
Transfer from special tax-purpose reserves	–	–	–	–	–	(454)	454
Cash dividends – interim	–	–	–	–	–	–	(972)
Transfer to legal reserve	–	–	–	97	–	–	(97)
Redmption of treasury stock	(8,653)	–	–	–	–	–	(6,665)
Balance at March 31, 1998	**250,653**	**¥32,306**	**¥35,020**	**¥4,569**	**¥14,273**	**¥4,158**	**¥78,883**

	Number of shares of common stock (in thousands)	Thousands of U.S. Dollars (Note 3)					
		Common stock	Additional paid-in capital	Legal reserve	Voluntary reserve	Special tax-purpose reserves	Retained earnings
Balance at March 31, 1997	259,306	$244,557	$265,102	$33,059	$108,047	$34,913	$624,920
Net income for the year	–	–	–	–	–	–	36,026
Cash dividends	–	–	–	–	–	–	(7,358)
Officers' bonuses	–	–	–	–	–	–	(538)
Transfer to special tax-purpose reserves	–	–	–	795	–	–	(795)
Transfer from special tax-purpose reserves	–	–	–	–	–	(3,437)	3,437
Cash dividends – interim	–	–	–	–	–	–	(7,358)
Transfer to legal reserve	–	–	–	734	–	–	(734)
Redmption of treasury stock	(8,653)	–	–	–	–	–	(50,454)
Balance at March 31, 1998	**250,653**	**$244,557**	**$265,102**	**$34,588**	**$108,047**	**$31,476**	**$597,146**

The accompanying notes are an integral part of the statements.

Non-Consolidated Statements of Cash Flows

Yokogawa Electric Corporation
For the years ended March 31, 1996, 1997 and 1998

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	for the year ended March 31,			for the year ended March 31,
	1996	1997	1998	1998
Cash Flows from Operating Activities:				
Net income	¥ 3,129	¥ 3,895	¥ 4,759	$ 36,026
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	7,587	6,737	6,611	50,045
Loss on sale/disposal of property	844	492	700	5,299
Loss on liquidation of subsidiaries	388	1,031	–	–
Provision for reserve for retirement benefits	2,662	2,979	2,508	18,986
(Gain)/Loss on sale/write-down of investments in securities	126	124	(1,385)	(10,485)
Loss on write-off of investments in affiliate	–	–	3,073	23,263
Loss on write-off/disposal of obsolete inventories	1,126	1,489	877	6,639
Loss on write-down of other assets	–	–	451	3,414
	12,733	12,852	12,835	97,161
Changes in assets and liabilities				
Decrease/(increase) in receivables	(2,417)	1,027	(8,431)	(63,823)
Decrease/(increase) in inventories	(1,322)	3,766	(2,287)	(17,312)
(Increase)/decrease in other current assets	1,074	(5,148)	(9,564)	(72,400)
Increase/(decrease) in payables	(95)	(3,109)	6,811	51,560
Increase/(decrease) in income tax payables	(1,674)	2,751	(1,331)	(10,076)
Decrease in accrued expenses	227	380	371	2,808
Increase/(decrease) in other current liabilities	(285)	(1,669)	142	1,075
Other payments	(1,368)	(1,618)	(2,912)	(22,044)
Net cash provided by operating activities	10,002	13,127	393	2,975
Cash Flows from Investing Activities:				
Acquisition of property, plant and equipment	(3,800)	(6,190)	(7,227)	(54,709)
Proceeds from sales of plant and equipment	–	–	110	833
Increase in short-term investments	–	–	(4,986)	(37,744)
Decrease/(increase) in investments in equipment	(1,013)	(5,906)	1,677	12,695
Decrease/(increase) in investments in and advances to subsidiaries and affiliates	5,584	(4,620)	(8,178)	(61,908)
Increase in other investments	(145)	(921)	(141)	(1,067)
Increase in other assets	(1,317)	(1,941)	(2,943)	(22,279)
Net cash used for investing activities	(691)	(19,578)	(21,688)	(164,179)
Cash Flows from Financing Activities:				
Proceeds from issue of bonds	–	10,000	20,000	151,400
Borrowing of long-term debt	–	1,600	2,000	15,140
Cash dividends	(1,942)	(1,942)	(1,944)	(14,716)
Repayment of long-term debt	(19,950)	(310)	(136)	(1,029)
Decrease in short-term bank loans	–	–	(610)	(4,618)
Increase in other long-term debt	–	37	–	–
Redemption of treasury stock	–	–	(6,665)	(50,454)
Net cash provided by (used for) financing activities	(21,892)	9,385	12,645	95,723
Increase/(Decrease) in Cash and Cash Equivalents	(12,581)	2,934	(8,650)	(65,481)
Cash and Cash Equivalents at Beginning of Year	80,028	67,447	70,381	532,786
Cash and Cash Equivalents at End of Year	¥67,447	¥ 70,381	¥61,731	$ 467,305

The accompanying notes are an integral part of the statements.

1. Basis of Presenting the Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been prepared from accounts and records maintained by Yokogawa Electric Corporation (the “Company”) in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles and practices in Japan. The financial statements are presented on a non-consolidated basis and do not include accounts of subsidiaries and affiliates.

Relevant notes have been added and certain reclassifications of account balances as disclosed in the non-consolidated financial statements in Japan have been made so as to present them in a form which is more familiar to readers outside Japan.

2. Summary of Significant Accounting Policies

(a) Valuation of Securities

Short-term investments in marketable securities (current portfolio) and investments in securities (non-current portfolio) are valued at cost. In both cases, cost is determined by the moving-average method.

Appropriate write-downs are recorded for the securities of which the value has declined substantially and such impairments of the value are considered not to be temporary.

Marketable securities held under non-money trust are valued at cost determined by the moving-average method. In applying the valuation at cost, all securities under one money trust are considered as one unit of securities and the cost is aggregated for each money trust.

(b) Inventories

Inventories are stated mostly at cost. Cost is determined by the following methods:

Products and material . . . . the average method
Work-in-process . . the individual identified cost method
Supplies . . . . the last purchase-invoice price method

When the net realizable value of certain classes of inventories is substantially less than the carrying value (cost) due to deterioration and obsolescence, and the decline of value is not expected to be recoverable, appropriate write-downs are recorded on such items and loss on such write-downs are included in other expenses.

(c) Investments in and Advances to Subsidiaries and Affiliates

Investments in subsidiaries (majority-owned companies) and affiliates (20% to 50% owned companies) are carried at cost. Accordingly, income from subsidiaries and affiliates is recognized only when the Company receives dividends from such companies and unrealized intercompany profits arising from transactions among the Company, subsidiaries and affiliates, if any, have not been eliminated in the accompanying non-consolidated financial statements.

(d) Depreciation and Amortization

Depreciation is computed on the declining balance method for property, plant and equipment at rates mostly based on the estimated useful lives of assets which are prescribed by the Japanese income tax laws.

Amortization of intangible assets and deferred charges is computed on the straight-line method over the period regulated by the Japanese Commercial Code or income tax laws. Research and development costs and bond issue expenses are charged to income as incurred.

The cost of property, plant and equipment retired or otherwise disposed of and accumulated depreciation are eliminated from the related accounts, and the resulting profit or loss is reflected in income.

(e) Allowance for Doubtful Accounts

Allowance for doubtful accounts are provided at the maximum amount deductible for tax purposes.

(f) Income Taxes

Income taxes are provided based on amounts required by the tax returns for the year. No tax effect is recorded for timing differences in the recognition of certain revenue and expenses between tax and financial reporting.

Enterprise tax, which is included in the selling, general and administrative expenses in the original Japanese financial statements, has been reclassified to the income taxes account in the accompanying non-consolidated statements of income in order to show all taxes on income on one line.

(g) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors should be approved by the annual shareholders’meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying non-consolidated financial statements is applicable to the immediate preceding financial year but it was approved by the shareholders’ meeting and disposed of during that year. Dividends are paid to shareholders on the shareholders’ register at the end of each financial year. As is customary practice in Japan, the payment of bonuses to directors and statutory auditors is made out of retained earnings instead of being charged to income of the year, which constitutes a part of appropriations cited above.

The Japanese Commercial Code also provides that interim cash dividends may be distributed upon approval by the Board of Directors. The Company has paid such interim dividends to its shareholders on the shareholders' register as at September 30 of each year.

(h) Accounting for Leases
Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(i) Net Income and Dividends per Share
Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each period appropriately adjusted for subsequent stock splits of common stock. Cash dividends per share shown in the accompanying non-consolidated statements of income represent dividends declared as applicable to the respective year (unadjusted).

Since there is no dilutive effect of convertible bonds on net income per share such information is not required to be disclosed.

(j) Consumption Tax
The consumption tax withheld by the Company on sales of products is not included in the amount of net sales in the accompanying non-consolidated statements of income. The consumption tax borne by the Company on purchases of goods and services, is not included in the amounts of costs and expenses in the accompanying non-consolidated statements of income.

3. United States Dollar Amounts

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the non-consolidated financial statements and notes thereto represent the arithmetical results of translating Japanese yen to U.S. dollars on a basis of ¥132.10=US$1, the approximate effective rate of exchange prevailing at March 31, 1998. The inclusion of such U.S. dollar amounts is solely for the convenience of the reader and is not intended to imply that Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

4. Short-Term Investments in Marketable Securities and Investments in Securities

Short-term investments in marketable securities (current assets) and investments in securities (non-current assets) at March 31, 1997 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
Short-term investments in marketable securities:			
Listed corporate shares	¥ 6,981	¥ 454	$ 3,437
Corporate and government bonds	13,436	8,080	61,166
Other securities	37,541	17,204	130,234
	¥57,958	¥25,738	$194,837
Investments in securities:			
Listed corporate shares	¥19,322	¥20,426	$154,626
Unlisted shares	3,284	1,888	14,292
	¥22,606	¥22,314	$168,918

During the year ended March 31, 1998, securities (corporate shares) held as short-term investments in an amount of ¥318 million were reclassified into investments in securities.

Securities held as investments in securities in an amount of ¥174 million were reclassified into short-term investments.

Market value information of listed corporate shares held by the Company at March 31, 1997 and 1998 is summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars
	1997			1998			1998
Listed corporate shares:	Book Value per Balance Sheet	Market Value	Unrealized Gain (Loss)	Book Value per Balance Sheet	Market Value	Unrealized Gain (Loss)	Unrealized Gain (Loss)
Short-term investments in marketable securities:							
(Current assets)	¥ 6,981	¥ 7,006	¥ 25	¥ 454	¥ 1,108	¥ 654	$ 4,951
Investments in securities:							
(Non-current assets)	¥19,322	¥43,622	¥24,300	¥20,426	¥30,351	¥9,925	$75,132

5. Financial Derivative Transactions

(1) Transactions, Company's Policy and Purpose of Derivative Transactions

The Company uses derivative financial instruments, which comprise principally interest swap transactions, foreign forward exchange contract, currencies option contract and currencies swap transactions to reduce its exposure to market risks from fluctuations in foreign currency exchange.

The Company does not hold or issue derivative financial instruments for trading purposes.

(2) Risk of transactions

The derivative transactions have market risk associated with the market price volatility and credit risk related to the possibility of a counterparty's default.

The Company uses the derivative transactions as a hedge against a reduction in the value of assets held by the Company and does not anticipate that the Company occur significant losses from the derivative arrangements due to the event of non-performance by the counterparties.

(3) Risk management

All derivative contracts are approved by the chief financial officer. The recording on the book and the payment and receipt of money are carried out by the staff other than those in charge of the derivative transactions.

(4) Financial derivatives information on a non-consolidated basis as of March 31, 1997 and 1998 is as follows:

Currency Related Transactions

	Millions of Yen					
	Contractual value ornotional Principal Amounts					
	1997		1998			
	Total	Over one year	Total	Over one year	Market Value	Unrealized Gain(loss)
Option transaction						
Call option						
U.S. Dollar put						
Yen call	¥3,763	–	¥2,365	–	–	–
(Option premium)	(¥36)	–	(¥31)	–	–	(¥31)

Interest Rate Related Transactions

	Millions of Yen					
	Contractual value ornotional Principal Amounts					
	1997		1998			
	Total	Over one year	Total	Over one year	Market Value	Unrealized Gain(loss)
Interest rate swaps transaction						
Receipts Floatings						
Payment Fixed	¥2,188	¥2,188	–	–	–	
Receipts Floatings						
Payments Floating	5,224	5,224	5,000	5,000	(37)	(37)
Total	¥7,412	¥7,412	¥5,000	¥5,000	(¥37)	(¥37)

6. Inventories

Inventories at March 31, 1997 and 1998 consist of:

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
Finished products	¥ 1,356	¥ 2,199	$ 16,646
Semi-finished products	3,592	2,894	21,908
Work-in-process	4,832	6,123	46,351
Materials	176	136	1,030
Supplies	79	93	704
	¥10,035	¥11,445	$ 86,639

7. Investments in and Advances to Subsidiaries and Affiliates

Investments in and advances to subsidiaries and affiliates at March 31, 1997 and 1998 were as follows:

	Millions of Yen					Thousands of U.S. Dollars
	1997	1998				1998
	Total	Ownership percentage (%)	Investments in capital stock	Advances	Total	Total
Subsidiaries:						
Yokogawa Digital Computer Corporation	¥ 3,004	68	¥ 3,005	¥ –	¥ 3,005	$ 22,748
Yokogawa Electric Asia Pte. Ltd.	2,255	100	2,255	–	2,255	17,071
Yokogawa Denshikiki Co., Ltd.	337	73	337	–	337	2,551
Yokogawa Weathac Corporation	311	92	311	–	311	2,354
Yokogawa Electronics Co., Ltd.	100	100	100	–	100	757
Yokogawa Precision Corporation	1,718	92	1,718	–	1,718	13,005
Yokogawa MEC Corporation	10	100	10	–	10	76
Yokogawa IMT Corporation	1,400	100	1,400	–	1,400	10,598
Yokogawa Europe B.V.	2,541	100	4,639	–	4,639	35,117
Yokogawa Engineering Service Corporation	1,005	100	1,005	–	1,005	7,608
Yokogawa USA, Inc.	6,146	100	6,037	–	6,037	45,700
Yokogawa Flowtech Co., Ltd.	100	100	100	–	100	757
Yokogawa Controle Bailey S.A.	3,113	100	3,113	–	3,113	23,566
Yokogawa Financial Service Corporation	20	100	20	–	20	151
Other	5,143		8,025	454	8,479	64,186
	27,203		32,075	454	32,529	246,245
Affiliates:						
Yokogawa Johnson Controls Corporation	800	45	720	–	720	5,450
GE Yokogawa Medical Systems, Ltd.	1,470	25	1,470	–	1,470	11,128
Hewlett-Packard Japan, Ltd.	1,397	25	1,397	–	1,397	10,575
Yokogawa Analytical Systems Inc.	700	49	700	–	700	5,299
Yokogawa Blue Star Ltd. (*1)	554	40	454	75	529	4,005
Other	1,970		1,854	–	1,854	14,035
	6,891		6,595	75	6,670	50,492
Total	¥34,094		¥38,670	¥529	¥39,199	$296,737

(*1) The shares of common stock of Yokogawa Blue Star Ltd. are listed on the Bombay Stock Exchange. The aggregate market value of the shares shown above held by the Company at March 31, 1997 and 1998 amounted to ¥766 million and ¥1,197 million ($9.1 million), respectively.

8. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding are generally represented by 365-day notes issued by the Company to banks and bear interest at annual rates ranging from 0.8367% to 1.700% at March 31, 1997 and at annual rates ranging from 0.9921% to 7.300% at March 31, 1998.

Additional information with respect to short-term loans outstanding for the years ended March 31, 1997 and 1998 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
Maximum month-end balance	¥3,250	¥3,263	$24,701
Average month-end balance	¥3,208	¥2,695	$20,401

Substantially all of the notes are issued to banks which have agreements with the Company to the effect that, with respect to all present or future loans with the relevant bank, the Company shall provide collateral (including sums on deposit with such bank) or guarantors for such loans, immediately upon the bank's request, and that any collateral furnished pursuant to such agreement or otherwise will be applicable to all indebtedness to the bank.

Long-term debt at March 31, 1997 and 1998 consists of:

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
1.6% convertible bonds due 1999	¥29,949	¥29,949	$226,715
2.9% straight bonds due 2001	10,000	10,000	75,700
2.15% straight bonds due 2002	–	10,000	75,700
2.475% straight bonds due 2003	–	10,000	75,700
Loans principally from banks and Pension Welfare Agency applied towards employee housing at rates ranging from 2.9% to 7.3% for the years ended March 31, 1997 and 1998	2,251	4,105	31,075
Other	367	377	2,854
	42,567	64,431	487,744
Less: current portion	(62)	(30,001)	(227,108)
	¥42,505	¥34,430	$260,636

None of the Company's assets were pledged as collateral for any of the short-term and long-term debt at March 31, 1997 and 1998.

Information with respect to the Company's straight bonds and convertible bonds at March 31, 1998 is as follows:

(1) Description of the issue

	Issued on	Initial principal amount	Due date
2.9% straight bonds	May 21, 1996	¥10,000 million	May 21, 2001
2.15% straight bonds	July 24, 1997	¥10,000 million	July 24, 2002
2.475% straight bonds	Feb 20, 1998	¥10,000 million	Feb 20, 2003
1.6% convertible bonds	Oct 2, 1989	¥30,000 million	Mar 31, 1999

(2) Terms of exercise of conversion of the convertible bonds

	Current conversion price	Number of shares issuable upon full exercise of conversion of the convertible bonds (thousands)
1.6% convertible bonds	¥2,012	14,885

9. Reserve for Retirement Benefits and Pension Plan

Employees (excluding directors and statutory auditors) with more than one year of service are generally entitled to receive a lump-sum payment upon their retirement, amount of which is determined by reference to the basic rate of pay, length of service and conditions under which the termination occurred. The liabilities for these employees' retirement benefits are shown as "Reserve for retirement benefits to employees" in the accompanying non-consolidated balance sheets, which is not funded.

The Company also adopted a non-contributory funded pension plan which covers 50% of the retirement benefits payable to employees retiring at the mandatory retirement age of 60, 10% of the retirement benefits payable to employees retiring at the age of younger than 55 and 100% of the retirement benefits payable to employees at the age of 55.

It is the policy of the Company to provide for "reserve for retirement benefits" in an amount equivalent to the present value of gross benefits payable to all employees of the Company upon their retirement at the balance sheet date, less total balance of accumulated fund assets of the pension plan mentioned above. At March 31, 1998, the balance of the fund assets was ¥18,620 million ($140.6 million). The past service cost relative to the funded pension plan is amortized over a 20-year period.

As is a customary practice in Japan, the Company provides for lump-sum payment to retiring directors and statutory auditors, the amount of which is determined by reference to the Company's internal rules. The amounts of such retirement payments are subject to approval by the shareholders at the time of an individual director's or statutory auditor's resignation or retirement.

10. Income Taxes

Income taxes in Japan applicable to the Company for the three years ended March 31, 1998 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated as follows:

	Rates on taxable income		
	1996	1997	1998
Corporate income tax	37.5%	37.5%	37.5%
Enterprise tax	12.6	12.6	12.6
Resident income taxes	7.5	7.5	7.5
	57.6%	57.6%	57.6%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	51.2%	51.2%	51.2%

As discussed in Note 2.(f) above, the enterprise tax included in "selling, general and administrative expenses" in the basic financial statements disclosed in Japan, has been reclassified into "income taxes" in the accompanying non-consolidated financial statements.

Income tax rates shown in the accompanying non-consolidated statements of income differ from the above-mentioned statutory tax rates. The principal reasons for such differences are that entertainment expenses as defined by the Japanese income tax laws are not allowed tax deductions and dividend income from domestic corporations is not taxable. In addition, the difference arises because no tax effects have been recognized on certain timing differences between financial accounting and tax reporting primarily in relation to accrued enterprise tax not deductible until paid, and special reserves have been provided and reversed through retained earnings, which is added to or deducted from taxable income. See Note 13 for deferred capital gain.

11. Legal Reserve and Appropriation of Retained Earnings

The Japanese Commercial Code provides that an amount equal to at least 10% of cash distribution out of retained earnings each year should be appropriated to legal reserve until such reserve equals 25% of common stock account. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit by a resolution of the shareholders' meeting, but is not available for dividend payments.

The Company's Board of Directors, with subsequent approval by shareholders, has made annual appropriations of retained earnings for various purposes, the accumulated balance of which is presented as "voluntary reserves" in the accompanying financial statements. Any disposition of such voluntary reserves shall be at the discretion of the Board of Directors and shareholders.

12. Special Tax-Purpose Reserves

Special tax-purpose reserves, which are allowed as deductions in one year and are reversed into taxable income in subsequent years, are provided by the Company pursuant to the provisions of the Special Taxation Measures Law of Japan. Essentially, special reserves result in deferral of income tax payments and do not represent income or loss to be recognized for financial reporting purposes.

The Company carries "special tax-purpose reserves" in the shareholders' equity section and provides for or reverses the reserves through appropriations of retained earnings in amounts required by the tax laws.

13. Related Party Transactions

The Company's sales to and purchases from subsidiaries and affiliates for each of the three years in the period ended March 31, 1998 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	1996	1997	**1998**	**1998**
Sales	¥35,445	¥36,919	**¥39,259**	**$297,192**
Purchases	¥64,362	¥75,133	**¥83,057**	**$628,743**

Revenues from subsidiaries and affiliates for each of the three years in the period ended March 31, 1998, which are included in "Other Income and Expenses" in the non-consolidated statements of income were principally as follows:

	Millions of Yen			Thousands of U.S. Dollars
	1996	1997	**1998**	**1998**
Interest and dividend income	¥ 794	¥ 784	**¥ 942**	**$ 7,131**
Rental fees	1,033	1,208	**1,194**	**9,039**
	¥1,827	¥1,992	**¥2,136**	**$16,170**

14. Research and Development Cost

The cost for research and development activities of the Company included in "cost of sales" and "selling, general and administrative expenses" in the accompanying non-consolidated statements of income for each of the three years in the period ended March 31, 1998 were as follows:

Millions of Yen			Thousands of U.S. Dollars
1996	1997	**1998**	**1998**
¥16,324	¥16,808	**¥17,778**	**$134,580**

15. Contingent Liabilities

The Company guarantees loans for housing made by employees in the amount of ¥3,183 million ($24.1 million) at March 31, 1998.

As at March 31, 1998, the Company also has contingently liabilities for guarantees of loans of its subsidiaries as follows;

	Millions of Yen	Thousands of U.S. Dollars
Loans made by:		
Yokogawa America do Sul S.A.	¥570	$4,315
Yokogawa Industrial Automation (America)INC.	1,773	13,421
Ltd. Yokogawa Electric	59	447
Total	¥2,402	$18,183

16. Lease Transactions

(i)The Company has various lease agreements whereby the Company acts as a lessee. The Company's finance lease contracts which are not deemed to transfer the ownership of the leased assets. Certain key information on such lease contracts of the Company for the years ended March 31, 1997 and 1998 were as follows:

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which included the portion of interest thereon, were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1998	1998
Machinery & equipment	¥ 63	¥ 82	$ 621
Vehicles	204	228	1,726
Furniture and fixtures	555	788	5,965
	822	1,098	8,312
Less: Accumulated depreciation	(379)	(450)	(3,407)
Net book value	¥ 443	¥ 648	$ 4,905
Depreciation	¥ 197	¥ 192	$ 1,453

Depreciation is based on the straight-line method over the lease term of the lease assets.

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
The scheduled maturities of future lease rental payments, which included the portion of interest thereon, on such lease contracts as of March 31, 1997 and 1998 were as follows:			
Due within one year	¥167	¥225	$1,703
Due over one year	276	423	3,202
	¥443	¥648	$4,905
Lease rental expenses for the year	¥197	¥192	$1,453
(ii) The scheduled maturities of future lease rental payments of operating lease as of March 31, 1998 were as follows:			
Due within one year	¥ 32	¥ 30	$ 227
Due over one year	45	15	114
	¥ 77	¥ 45	$ 341

17. Subsequent Events

The appropriations of retained earnings in respect of the year ended March 31, 1998 proposed by the Board of Directors and approved by shareholders at the general shareholders' meeting held on June 26, 1998 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance of retained earnings at March 31, 1998	¥78,883	$597,146
Reversal of special tax-purpose reserves	427	3,232
	79,310	600,378
Appropriations:		
Year-end cash dividend (¥3.75 per share)	939	7,108
Transfer to legal reserve	101	765
Officers' bonuses	71	537
	1,111	8,410
Balance of retained earnings to be carried forward	¥78,199	$591,968

To: The Board of Directors of Yokogawa Electric Corporation

We have audited the non-consolidated balance sheets of Yokogawa Electric Corporation as at March 31, 1997 and 1998 and the related non-consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with the 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 principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of Yokogawa Electric Corporation at March 31, 1997 and 1998 and the non-consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

Chuo Audit Corporation

Tokyo, Japan
June 26, 1998

Chuo Audit Corporation
Independent Certified Public Accountants

Corporate Information

Directors and Auditors

As of July 1, 1998

Chairman Emeritus
Shozo Yokogawa

President
Eiji Mikawa

Executive Vice Presidents
Isao Uchida
Fumio Mizoguchi

Senior Vice Presidents
Joichi Ueba
Norio Nakamura
Taiki Utsumi
Nobuo Takei
Shigenori Otsubo

Vice Presidents
Akira Nagashima
Yutaka Wakasa
Akitoshi Himeda
Toshio Kimura
Toshihiko Akaishizawa
Hiromasa Ikematsu
Hitoshi Inomata
Hidehiko Bando
Yasuhiko Muramatsu
Noriaki Hirose
Toshinobu Funabashi
Mamoru Sanagi
Yasuhiro Katsube
Haruhiko Nakatani

Corporate Auditors
Mineo Kato
Iwao Hirota
Takahide Sakurai
Toru Hashimoto

Corporate Data

As of March 31, 1998

Headquarters and Main Factory
2-9-32, Nakacho, Musashino-shi
Tokyo 180-8750, Japan
Tel: 81-422-52-5526
Fax: 81-422-52-5927
Telex: 02822 327 YEW MTJ
(Corporate Treasury Department)

Founded
September 1, 1915

Paid-in Capital
¥32,306,071,542

Numbers of Employees
6,204

Numbers of Shares of Common Stock Issued
250,653,012

Numbers of Shareholders
13,586

Domestic Facilities
3 factories and 21 offices

Overseas Facilities
61 affiliates in 25 countries including 17 factories

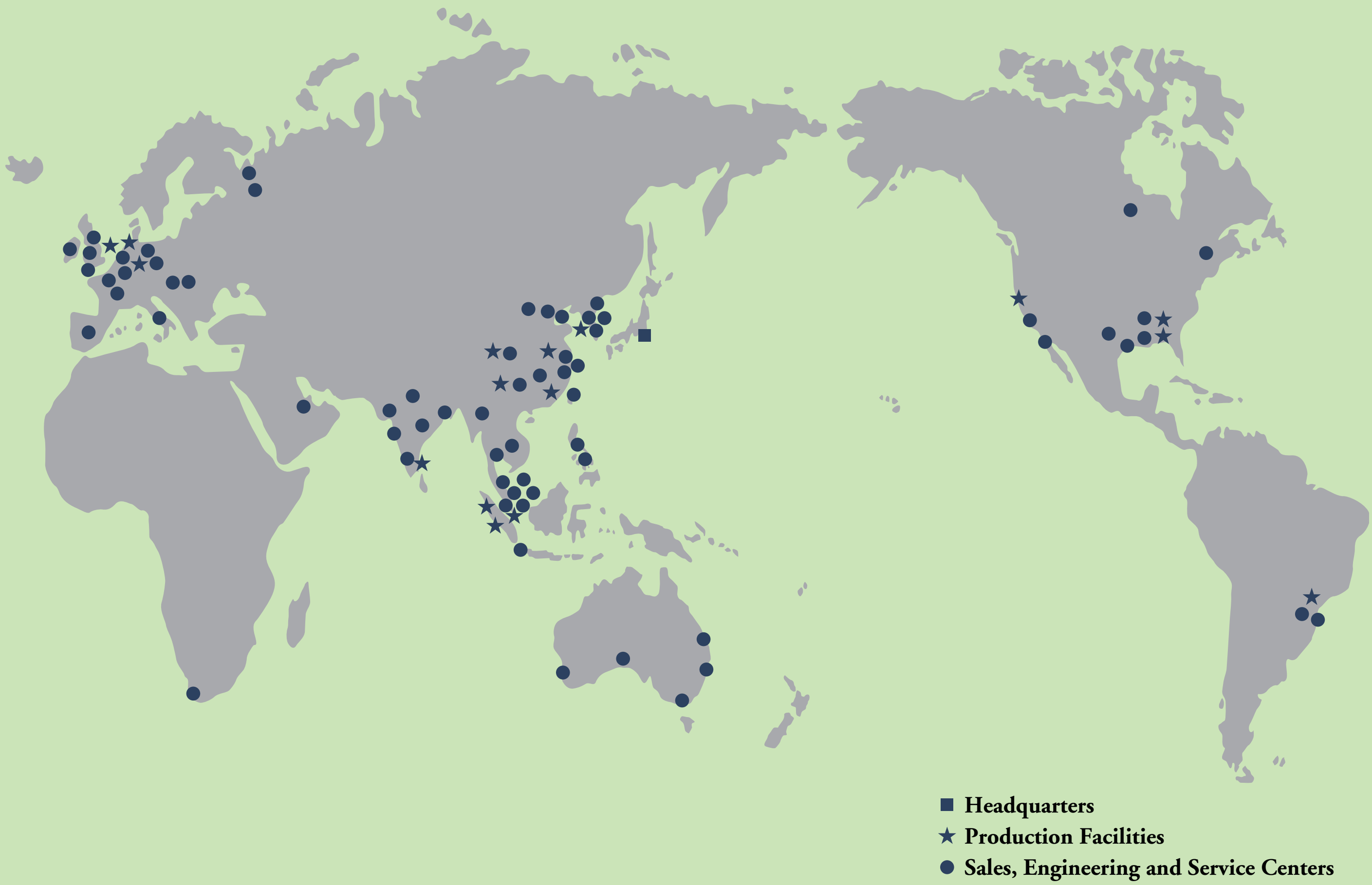
Stock Exchange Listings
Japan: Tokyo, Osaka, Nagoya, Fukuoka and Niigata
Overseas: Amsterdam

Transfer Agent and Registrar
The Yasuda Trust and Banking Company, Limited
1-2-1, Yaesu, Chuo-ku
Tokyo 103-8670, Japan

Annual Meeting
The annual general meeting of shareholders of the Company is normally held in June each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders as necessary, giving at least two week's prior notice to shareholders.

Auditors
Chuo Audit Corporation

Overseas Network



North America	Yokogawa USA Inc. Yokogawa Industrial Automation America, Inc. Yokogawa Corporation of America Measurementation Inc. Kokusai Chart Corporation of America Yokogawa Trading USA Inc. Yokogawa Industrial Safety Systems Inc.
South America	Yokogawa America do Sul S.A. Iker S/A Industria e Comercio

Europe	Yokogawa Europe B.V. Yokogawa International Finance B.V. Yokogawa Nederland B.V. Yokogawa Industrial Safety Systems B.V. Yokogawa Trading Europe B.V. Yokogawa Italia S.r.l. Yokogawa Controle Bailey S.A. Yokogawa Austria Ges.m.b.H. Yokogawa Belgium N.V./S.A. Yokogawa Deutschland GmbH Rota Yokogawa GmbH & Co.KG Rota France S.A.R.L. Yokogawa nbn GmbH Yokogawa United Kingdom, Ltd. Yokogawa Industrial Safety Systems Ltd. Yokogawa Espana S.A. Yokogawa Reinsurance Ltd. Marex Technology Limited
Africa	Yokogawa South Africa (Pty.) Ltd.
Russia	Ltd. Yokogawa Electric
Middle East	Yokogawa Middle East E.C.
Asia	Yokogawa Electric Asia Pte. Ltd. Yokogawa Engineering Asia Pte. Ltd. Yokogawa Trading Asia Pte. Ltd. Measurementation Systems Pte. Ltd. Yokogawa Electric (Malaysia) Sdn. Bhd. Yokogawa Kontrol (Malaysia) Sdn. Bhd. Yokogawa Industrial Safety Systems Sdn. Bhd. Yokogawa (Thailand) Ltd. River Process Engineering Company Ltd. P.T. Yokogawa Engineering Indonesia P. T. Yokogawa Manufacturing Batam P. T. Yokogawa Power Supply Batam Yokogawa Philippines, Inc. CENGLOS Philippines, Inc. Myanmar Yokogawa Electric Ltd. Yokogawa Electric Korea Co., Ltd. Yokogawa Measuring Instruments Korea Corporation Yokogawa Trading Korea Co., Ltd. Sanub & Yokogawa Rental Corporation Yokogawa Taiwan Corporation Yokogawa Blue Star Ltd. Yokogawa Australia Pty. Ltd.
China	Yokogawa Xiyi Corporation Suzhou Yokogawa Meter Company Yokogawa Shanghai Instrumentation Co., Ltd. Shanghai Yokogawa Petrochemical Instrumentation Co., Ltd. Yokogawa Sichuan Instrument Co., Ltd. Beijing Yokogawa Automation Engineering Co., Ltd. Beijing Metallurgy Yokogawa Automation Engineering Co., Ltd. Yokoshin Software Engineering (Wuxi) Co., Ltd. Yokogawa Trading Hong Kong Ltd.

YOKOGAWA

Yokogawa Electric Corporation

Printed in Japan