

# Yokogawa Electric Corporation

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## **Annual Report 2002**

For the Fiscal Year Ended March 31, 2002

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 1998, 1999, 2000, 2001 and 2002

	Millions of Yen					Thousands of U.S. Dollars
	1998	1999	2000	2001	2002	2002
<b>For the Year:</b>						
Net sales .....	¥305,231	¥280,186	¥313,353	¥352,612	¥310,828	\$2,332,668
Net income .....	7,564	(4,428)	5,820	25,416	(23,112)	(173,448)
<b>At Year-End:</b>						
Total assets .....	439,417	400,559	420,706	410,831	353,899	2,655,902
Total shareholders' equity .....	177,728	171,018	177,596	200,039	169,057	1,268,720
<b>Net Income Per Share, Adjusted</b> .....						
<b>Return on Assets</b> .....						
	¥ 29.6	¥ (17.7)	¥ 23.4	¥ 103.7	¥ (94.6)	\$ (0.710)
	1.7%	-1.1%	1.4%	6.2%	-6.0%	-6.0%

Notes: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥133.25 = US\$1, the rate of exchange prevailing at March 31, 2002

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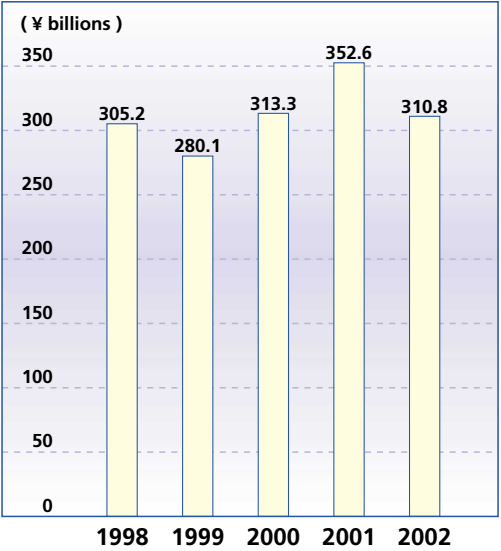
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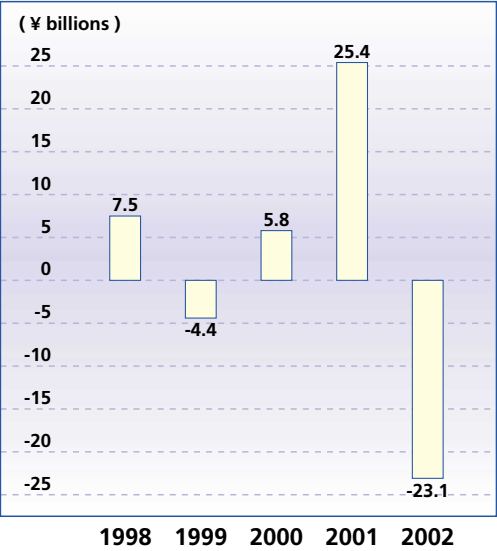
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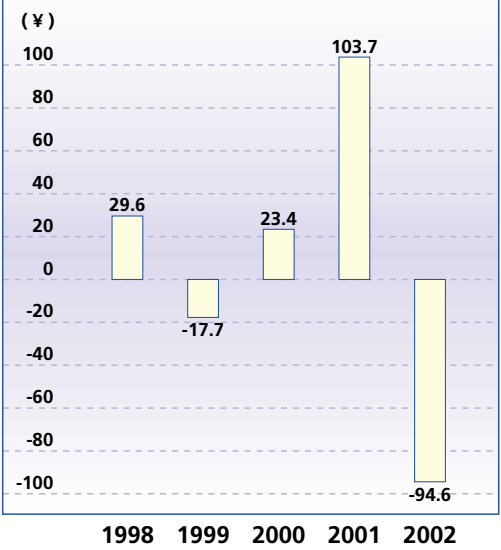
Net Sales



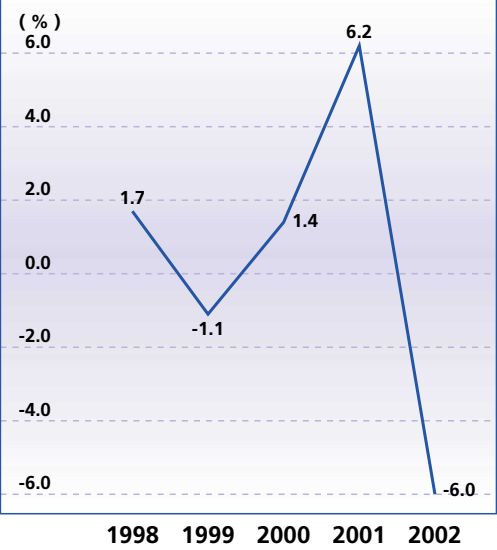
Net Income



Net Income Per Share



Return on Assets





**Isao Uchida**  
President and Chief Executive Officer

The management of the Yokogawa Group is pleased to report to our shareholders the results of the fiscal year ended on March 31, 2002.

Consolidated sales totaled 310.8 billion yen (US\$2,332 million), down 41.7 billion yen (US\$312 million) (11.8 percent) from the previous year. Consolidated operating income totaled 1.7 billion yen (US\$12 million), down a sizable 14.4 billion yen (US\$108 million) from the previous year. The Yokogawa Group ("the Group") recorded a consolidated ordinary loss of 6.1 billion yen (US\$45 million). This was due in part to a 5.8 billion yen (US\$43 million) investment loss on equity method in Ando Electric Co., Ltd. (Ando), an affiliate in which Yokogawa Electric Corporation ("the Company") owns a 33 percent equity stake, and to a 2.2 billion yen (US\$16 million) valuation loss on inventory assets. An extraordinary loss of 15.9 billion yen (US\$119 million), including a 5.8 billion yen (US\$43 million) valuation loss on investment in securities, left the Group with a dismal consolidated net loss of 23.1 billion yen (US\$173 million) for the year.

\*Conversion rate: US\$1 = 133.25 yen (As of March 31, 2002)

## **Toward Goals of Innovations in Business Structure and Group Management**

In keeping with the core goals of VISION-21 and ACTION-21, a new corporate strategy of the Group aiming at healthy and profitable operations announced in January 2000, the Group is currently pursuing a business strategy aimed at bringing about innovations in business structure and group management.

Driven by the strategic emphasis on innovations in business structure, the Group is implementing several programs to reach the quantitative goals it has set for achievement by the fiscal year 2005. One is to improve profitability of the industrial automation (IA) business through further rationalization, and particularly within the maturing market for plant control systems. Efforts also are made to encourage a transformation in business structure by shifting more of the Group's resources into markets and industries that appear poised for growth and prosperity in the years ahead, namely information services, fiber-optic communications and multimedia, and semiconductors.

To bring about innovations in Group management, we have embraced a core philosophy of operational autonomy and teamwork, and have embarked on a quest to maximize the consolidated operating income through the realignment and consolidation of the Group companies and other efforts designed to build on and refine the Group's operating frameworks and mechanisms.

## **Core Strategies for Each Business Segment**

Under the new corporate strategy, the Group has classified its operations into four key business segments: the industrial automation (IA) and control business, the measurement business, the information services business, and other businesses.

Yokogawa is now pursuing an aggressive business strategy in each of these segments.

In the IA and control business, Yokogawa is putting together a more efficient business management framework and solidifying its position as a leading company in the global market by continually striving to deliver a highly reliable product mix and optimal system solutions that are tailored to market needs. We are also expanding our service and maintenance operations business and refining and enlarging Group capabilities to respond to the growing service market. On top of that, the Group strives to strengthen its sales operations in China, Southeast Asia, the Middle East, Russia, and Europe where levels of capital spending have been strong and sustained. In Japan, we are actively tapping into markets that have been a focus of intensive investment, such as food and pharmaceuticals, and aim for improved profitability while moving responsively to satisfy replacement demands.

In the measurement business, Yokogawa is expanding the Group's presence in the semiconductor and communications network equipment markets through the strategic debut of competitive new products. Although the market for semiconductor testers showed signs of picking up in April 2002, conditions in that market remain bleak. The Group expands operations in the tester segment with a product strategy geared to broadband communications equipment, information appliances, and others that are expected to enjoy strong growth in the years ahead. Further, we are reinforcing business in the motion and measurement (M&M) segment in collaboration with the tester business and by devising a competitive lineup of distinctive component products for semiconductor fabrication applications as well as a range of IC handler products. We are



expanding the measurement business for development applications. For example, we are enlarging the Group's line of high-frequency measuring instruments for the development of next-generation information and communications network equipment and information appliances. We are also utilizing the latest technologies to perfect and commercialize measuring instruments for the optical transmission systems that will pave the way for the emerging age of broadband communications. At the same time, we are opening up new channels for the sale of computer peripheral switching power supplies and other components by tapping into the market for information appliances, a future growth segment.

In the information services business, Yokogawa is expanding the business in medical imaging and information systems, a market segment where the Group already commands a strong share, and sets the stage for early penetration into new markets that will embody sophisticated information technologies. In particular, we will capitalize on business alliances with leading global companies to expand the Group presence in the market for information network security monitoring services and the provision of system solutions to companies primarily in the manufacturing trades that are striving for IT-driven business efficiency.

In the other businesses, Yokogawa is expanding operations in the aerospace business, which utilizes an array of measuring technologies, by working more aggressively to accommodate private sector demand. In addition, we will push forward with efforts to expand the Group's consigned production business through the establishment of a distinctive electronics manufacturing service that enlists a broad array of manufacturing technologies and production management know-how.

We have declared several consolidated management targets for achievement by the fiscal year 2005 through steady implementation of the core strategies outlined above for our principal business segments: consolidated sales of 500 billion yen, consolidated operating income of 50 billion yen, consolidated return on assets (ROA) of 5.0 percent, and consolidated return on equity (ROE) of 10.0 percent.

### General Overview

The slowdown in the IT sector significantly weakened demand for semiconductor-related products of the Yokogawa Group. Compared to the brisk performance of the year before, sales in our semiconductor tester and IC handler business fell steeply. The IT slowdown impacted demand for measuring instruments in general and the Group posted sales in sharp decline from the preceding year.

In the IA and control business, the Group vastly expanded its overall presence in the international market. Yokogawa sought to actively generate new replacement demand in the Japanese market. As a result of these efforts, sales in the IA and control business at large held almost even with their level the year before.

These steep reductions in income and earnings were attributable not only to trends in the business cycle, but also to changes in industrial and social structure. Prompted by that assessment, the Company implemented a variety of structural reforms designed to optimize its business cost structure. In particular, we moved forward with the consolidation and realignment of Group manufacturing companies, the consolidation of Group sales organizations and the adoption of a new compensation framework that rewards

management personnel in a manner commensurate with their value-added contributions. As emergency initiatives designed to help the Group as a whole surmount the difficulties of the current business slump, in Japan we have implemented steep reductions in our operating costs.

### Results by Business Segment

Sales in the IA and control business segment were virtually unchanged from the year before. Although business in Japan continued to suffer from the effects of a slowdown in corporate capital spending, sales proved brisk in international markets, particularly in Europe, Russia, the Middle East, China, and Southeast Asia, where levels of capital spending have held relatively firm. The Group has expanded its global presence by concluding a series of preferred-supplier contracts for control systems with major global clients and winning an order for a large project that adopts fieldbus technologies. As for profitability, strong overseas sales contributed to the improvement of total operating income for the Group. In October 2001, the Company released internationally a production system solution, the STARDOM™, which embodies a Yokogawa-proposed, Network-based Control System, a new concept for the IA and control business.

Turning to the measurement business segment, sales of measuring instruments for development applications were also heavily impacted by the IT slowdown. The Group initiated an aggressive new business undertaking by pioneering the development and commercialization of a key module for the achievement of 40-gigabit class optical data transmissions that will be needed to help pave the way for the coming broadband age.

The Group also entered the field for commercial optical transmission systems in collaboration with Ando to perfect measuring instruments for the development of 40-gigabit optical transmission systems that utilize the new module. Even so, the slump in the IT market dealt a heavy blow to sales and earnings for the measurement business overall.

In the information services business segment, Yokogawa moved ahead with new undertakings in the network security business. These ventures were still in the investment stage and thus did not contribute to earnings in the year under review. However, the Company plans to expand its business in the already established market base for medical information systems, and will strive to cultivate new business with an aggressive thrust into the market for manufacturing system solutions.

In the "other businesses" segment, the Company has been working to expand its aerospace business beyond traditional government contracts. In particular, to boost private sector demand, we have begun shipping LCD flat panel displays for use in Airbus airliners.

With regards to business strategy, in January 2002 Yokogawa and the U.S. firm, Johnson Controls Inc., agreed to dissolve their building automation joint venture, Yokogawa Johnson Controls Corporation, on the shared realization that the venture had lost its strategic significance as a result of changes in the business climate. Yokogawa also agreed to sell off its shares in the venture firm.

In December 2001, the Company had the shares of a subsidiary, Kokusai Chart Corporation, registered on the JASDAQ stock exchange. That subsidiary is engaged chiefly in the manufacture and sale of instrument recording chart papers and paper products.

By region, aided by growth in the IA and control business, the Group posted sales of 23.0 billion yen (US\$172 million) in the European market, up 4.5 billion yen (US\$33 million) (24.5 percent) from the year before. Operating income for the region totaled 800 million yen (US\$6.0 million), a vast improvement (of 143.2 percent) on the 300 million yen (US\$2.2 million) total for the preceding year.

In Asia, the Group recorded sales of 33.7 billion yen (US\$252 million), down 1.3 billion yen (US\$9.7 million) (3.8 percent) from the year before. Operating income for this region totaled 1.3 billion yen (US\$9.7 million), down 900 million yen (US\$6.7 million) (42.5 percent) from the previous year.

In North America, the measurement business experienced weaker sales but the IA and control business registered sales growth. In total, sales came to 20.5 billion yen (US\$153 million), for a 1.0 billion yen (US\$7.5 million) increase (5.2 percent) on the year before. Operating income also rose to 400 million yen (US\$3.0 million), an increase of 200 million yen (US\$1.5 million) (70.0 percent).

Sales in the Japanese market reached 263.1 billion yen (US\$1,974 million), down a sizable 51.9 billion yen (US\$389 million) (16.5 percent) from the preceding year. This was attributable chiefly to a steep decline in sales of semiconductor testers and other elements of the measurement business. In Japan, the Company recorded an operating loss of 1.7 billion yen (US\$12 million).

### Outlook for Fiscal Year 2002

Although the semiconductor market has begun to show signs of picking up, it is anticipated that hard times will prevail in the first half of the coming business year, giving way to a recovery in the second half. Yokogawa plans to continue implementing its structural reforms for reduced business costs and

improved profits. In addition, though, to boost sales through the reinforcement of existing enterprises and by tapping into new markets, we are determined to pursue Group-wide efforts for the expansion of sales and profit with promotional strategies driven by a new organizational framework introduced in April 2002.

The IA and control business has been registering improved sales in China, Southeast Asia, the Middle East, and Russia. Furthermore, Yokogawa has earned unprecedented levels of trust and acclaim for its technological prowess and quality from an array of major oil firms and other leading global corporations. These factors have led to plans for increased sales through enhancements of the worldwide capabilities and resources. Yokogawa will actively strive to stimulate new replacement demand in the domestic market, which is still suffering from a slump in capital spending on plants and equipment.

In the measurement business, and particularly the market for semiconductor testers, the Group is determined to promote product development that will help it offer fine-tuned solutions that better satisfy customer needs while coping with market recovery. We are also determined to increase sales in the measuring instrument business by expanding our lineup with the introduction of new high-frequency products. In particular, we have decided to make Ando 100% owned by the Group as of October 2002 through a stock swap. Under the new setup, the Group intends to become one of the big three manufacturers in the world of measuring instruments by centralizing the Group's semiconductor tester business in Yokogawa and the communications measuring instruments business in Ando, and by strengthening and expanding both businesses.

In the information services segment, Yokogawa plans to move forward with the expansion of its medical information systems business, begin offering system solutions to the manufacturing sector at an early date, and accelerate the cultivation of new business ventures in the network security field.

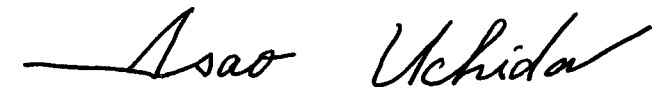
In Yokogawa's "other businesses" segment, we will continue working to grow private sector demand for its aerospace products.

In relation to cash flow, the Company is scheduled to redeem 10.0 billion yen (US\$75 million) in straight bonds (from its second domestic issue) in July 2002 and again (from its third domestic issue) in February 2003. We will continue striving to trim our assets and improve our balance sheet health.

Taking into general consideration such factors as business performance and dividend payout ratios, we are determined to maintain a steady flow of dividends to our shareholders and to achieve endless improvements in the Group's worth. In the interest of implementing the innovations in business structure and Group management championed by our new corporate strategy, funds from retained earnings have been effectively invested in essential new business ventures. The development of new products for growing markets, as well as of frameworks for efficient amalgamated management have been given priority and will further bolster consolidated Group performance. To maintain a healthy balance sheet and improve ROE ratio, profits are continually returned to Yokogawa's shareholders through the purchase and retirement of Company shares, as appropriate.

In the years ahead, the Yokogawa Group is determined to pursue this new business strategy with vigor, focusing on the attainment of our goals

in innovative business structure and Group management, and accordingly satisfying the expectations of our shareholders.



**Isao Uchida**

President and Chief Executive Officer  
Yokogawa Electric Corporation



## Solutions for Improving Business Efficiency for Management of Customers

Since Yokogawa unveiled the world's first distributed control system in 1975, it has built a solid reputation as one of the world's leading companies in the realm of industrial automation. Our superb products are proven throughout a broad range of industries including petroleum refining, petrochemicals, electricity, gas, chemicals, iron and steel, food, and pharmaceuticals as well as water supply/wastewater treatment and district heating/cooling. Our products and services, supported by sophisticated technologies and expertise, are highly valued by users around the globe.

Under the concept of "Enterprise Technology Solutions," Yokogawa has been delivering optimum solutions to users based on cutting-edge technologies. Products for the industrial automation market include integrated production control systems, field instruments such as differential pressure and pressure transmitters, flowmeters, programmable logic controllers, data acquisition and recording equipment, and recorders. The company also offers industrial safety systems, software for advanced control and advanced operator assistance, and even total solutions that encompass not only the manufacturing site but also the manufacturing execution systems and the enterprise resource planning systems which integrate management information systems.

Based on technologies, expertise, and system integration skills fostered over the years, Yokogawa delivers solutions featuring the optimum mix of systems, equipment, and software for each customer. And in services, the company supplies not only the right services at the right time to customers worldwide on a year-round twenty-four hour a day basis, but also offers preventive maintenance and



Yokogawa Response Center

equipment diagnostics, thus ensuring that products give optimum service throughout their lifecycles and minimizing total cost of ownership.

## Products Featuring Cutting-edge Technologies

Yokogawa proposed the network-based control system (NCS), a new concept for manufacturing systems, in fiscal year 2001, releasing STARDOM™ as a group of components under this concept. By combining core components such as autonomous controllers, control and monitoring software, and application portfolios on a network, the user can perform monitoring and control via an ordinary personal

computer. STARDOM will exploit latent demand existing between the market segment requiring high reliability and advanced systems control, and the segment requiring simplified control systems consisting of personal computers and programmable logic controllers.

We also performed a major version upgrade for the CENTUM CS 3000 and CENTUM CS 1000 integrated production control systems, which are our core products. As well, we released a series of products supporting FOUNDATION™ Fieldbus, which will become a key technology in process instrumentation, as well as advanced digital vortex flowmeters.

In fiscal year 2001 Yokogawa was selected as a "preferred" vendor and concluded product supply

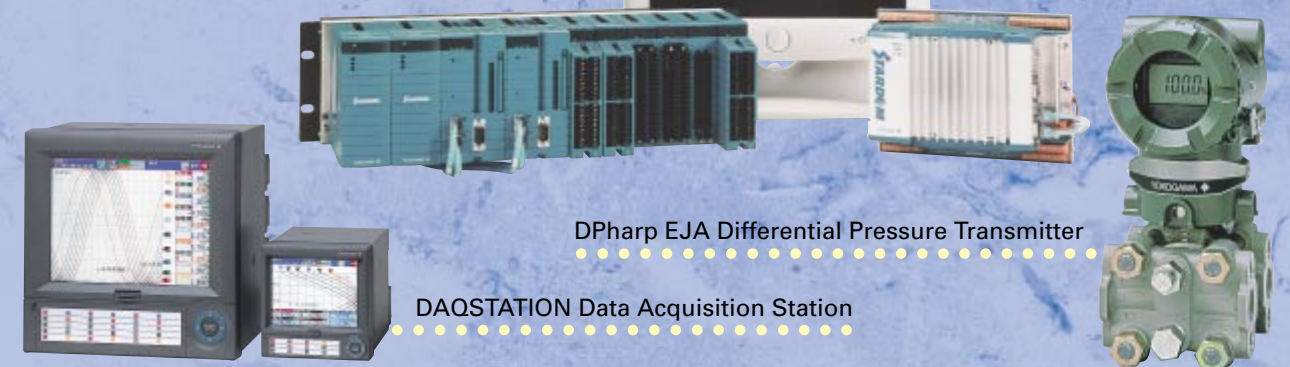
agreements with a number of major companies including ChevronTexaco Corporation (U.S.A.), one of the world's largest petroleum companies, and Air Liquide S.A. (France), a top global provider of industrial and medical gases and related services. Meanwhile, Shell Oil Products selected Yokogawa's Exaquantum plant information and management system as the standard operational data system for the Middle East, South Asia, North Asia, China, Japan and Australia. In this manner, we are extending the depth and breadth of trust and support worldwide. The company remains committed to actively investing in research and development to consistently supply leading-edge technologies to global customers in the industrial automation market.

# Industrial Automation and Control Business



CENTUM CS 3000 R3 Integrated Production Control System

STARDOM Network-based Control System



DPharp EJA Differential Pressure Transmitter

DAQSTATION Data Acquisition Station



## Positive Investment in Development of New Products and Technologies

Due to stagnation of the global semiconductor and communication markets, Yokogawa's sales in related areas declined in fiscal year 2001. Nonetheless, our policy of minimizing manufacturing lead-time and carrying no inventory proved to have positive effects on our efforts to prepare for the time of economic growth. These efforts included the development of new measuring instruments and key modules that address next-generation optical communication technologies, and the development of new LSI testing methods and tools to help customers slash testing costs. We are thus set to respond immediately to a revitalized market.

## Test Solutions to Shorten LSI Development Lead-time

In the field of LSI testing, Yokogawa offers innovative solutions for reducing the time from designing to mass production. LSIs are the core devices of electronic equipment, but the span from designing to mass production typically takes at least six months. As product lifecycles become ever shorter, this lead-time must be reduced in order to raise the competitiveness of products and cut manufacturing costs.

VR Test Planner, released in November 2001, offers a seamless information link between LSI designing and manufacturing departments to improve designing quality and reduce lead-time to mass production. Utilizing the data of virtual tests carried out in the designing phase drastically shortens the LSI development lead-time. This neat solution is typical of Yokogawa, the only company offering both virtual

and real-world testing environments, namely, electronic design automation systems and IC testers.

In other semiconductor fields, sales of software packages for placing various semiconductor manufacturing machines online are buoyant, as this approach enables semiconductor manufacturers to raise productivity. Traditionally, each semiconductor manufacturer has developed such software itself, but Yokogawa's general-purpose software packages minimize total LSI development and production cost.

## New Technology and Product Development in Optical Communications

Based on many years of research on ultrafast device and compound semiconductor technologies, Yokogawa has developed and started marketing key modules for the next-generation 40-gigabits-per-second (Gbps) optical transmission systems. These modules will perform today's mainstream multiplexing and demultiplexing techniques, namely, funneling several different streams of data over a common communication line and reversing this process, such as binding four 10-Gbps streams into one 40-Gbps stream and vice versa. These modules employ extremely complex integrated circuit technologies, and are the first of their kind in Japan to be integrated small enough for mounting practically on a printed board. Even higher integration is in sight, and our research is yielding results towards mass production.

Through an alliance with Ando Electric Co., Ltd. ("Ando"), Yokogawa led the commercialization of instruments employing 4 to 1 multiplexers and 1 to 4 demultiplexers designed for research and development of equipment for 40-Gbps optical communication systems. Thanks to our compact modules, we succeeded in downsizing these instruments, the AP9950 pulse pattern generator and AP9951 error detector, to the smallest size in the market. These models reflect successful, early synergy with Ando. Proprietary ownership of these key modules for 40-Gbps optical communication will raise the speed of product development and reduce costs, thereby differentiating these products from others.

## Deepening of Alliance with Ando

Yokogawa acquired a 33 percent stake in Ando and reached an agreement on a strategic alliance with it for testing and measuring instruments used primarily in communication networks and LSI testers, including IC handlers. To strengthen this alliance, Yokogawa made the major management decision to acquire 100 percent of Ando's shares through a stock swap effective October 1, 2002, through which Ando will become a wholly owned subsidiary of Yokogawa. Their businesses will be unified and reorganized such that Ando's LSI Testers Division will be merged into Yokogawa's Testers Business Division, and Yokogawa's communication products expertise will be merged with that of Ando. The aim is to unify our competitive technologies and speed up business growth, creating

new test solutions that will add value for customers. With this move, Yokogawa is targeting sales of 100 billion yen for LSI testers, and 75 billion yen for communication test instruments, to become one of the world's top three test and measurement suppliers.

## Successive Releases of New Products to Electronic Measurement Market

For the measurement market, we have been developing strategic products for the growing market segments. By incorporating unique features based on in-depth market analyses, Yokogawa aims to develop products that will become global standards.

Sales of watt-meters and watt-hour meters for measuring and analyzing the power consumption of household electrical appliances and inverters, such as the PZ4000 power analyzer, are buoyant in the global markets due to the increasing importance of energy efficiency. For the Japanese mechatronics market including automobiles, household electrical appliances, and office equipment, Yokogawa has been unveiling new products such as digital oscilloscopes that meet specific needs, thereby retaining its leading position in this market.

In the audio-visual equipment market, Yokogawa's measuring instruments such as time interval analyzers for testing optical disks and analyzers for digital broadcasting have become de facto standards.

# Measurement Business

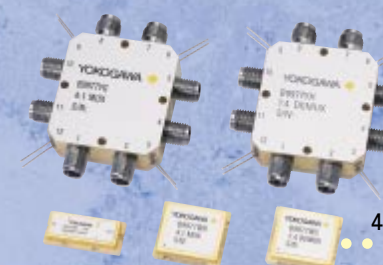


TS6000H VLSI Test System



DL1640 Digital Oscilloscope

AP9950 Pulse Pattern Generator  
AP9951 Error Detector



4 to 1 multiplexer / 1 to 4 demultiplexer





## Challenging the Growing Market

In recent years the Information Service Business which involves adding value to information using IT, has seen a rapid expansion and it is one of our core businesses. We are investing major resources in this growing market in order to quickly build the basis of future development. This business, which already has a large slice of the medical image information systems market in Japan, is now expanding its reach to encompass other growth sectors including system solutions and network administration systems for corporations, and educational content delivery systems. Through strategic alliances with world-leading companies, we will expand the Information Service Business to attain the year 2005 goals.

## Medical Information Systems

Computerization of information in the healthcare industry is expected to rise dramatically. Various governments have approved the computerization of medical information such as clinical charts, x-ray radiographs, and MRI photographs, and so computerization of information in medical practice is rapidly advancing. Yokogawa has developed and supplied medical image information systems for many years, and our independent position that allows us to configure the optimum solution for each user with the best hardware available on the market, not tied to a particular computer manufacturer, is highly regarded by customers. As a result, we have captured a leading share of the large hospitals and university hospitals market.

Hospitals will increasingly employ a total hospital information system encompassing not merely management of computerized clinical charts, image data, and inspection data, but also pharmaceutical inventory management and accounting. Yokogawa led the way in this market by concluding an alliance with a major system integrator in Japan. We have already released two types of electronic clinical chart and medical accounting system in rapid succession: one for medium-scale hospitals with around 300 beds, and one for small hospitals with fewer than 10 beds. We are now aggressively selling these systems to healthcare organizations of which there are tens of thousands in Japan alone.

## System Solutions for Corporations

The information solution business is now taking off, backed by our years of experience in the application of control systems for various manufacturing industries. We propose a manufacturing execution system (MES) to fill the gap in the information flow between manufacturing sites and the management level, thus adding value to the wealth of information from manufacturing sites and linking it to upper-level management information systems. Further, by combining the MES with a series of integrated information system products from Oracle Corporation Japan, with which Yokogawa has formed a strategic partnership agreement, we are able to offer system solutions that optimize the entire operations of a corporation, and help raise the efficiency of the customer's business.



## Network Administration

As networks such as the Internet and intranets proliferate, security is crucial. Falsification of the Internet homepages of government and municipal bodies, leakage of information, and the spread of viruses by unauthorized access have become major public issues.

Yokogawa offers a wealth of network security products including an intrusion detection system (IDS) that detects unauthorized access to a network, and a personal authentication system that restricts access to an intranet or other networks to individuals that have been specified in advance. In addition, the company offers equipment for monitoring communication data quality and network administration tools for administering the statuses of devices on a network. These products assist problem-free network operations and are set to grow sharply.

Yokogawa is also participating in the effort to popularize the next-generation Internet protocol, IPv6. Although IPv6 networks have not yet entered full-scale application, we are actively making timely investments and have released the world's first translator that links IPv6 and IPv4 networks. Concurrently, we are developing new business models to distribute contents and services utilizing the extensive functionality of IPv6.

# Information Service Business



ImageARQS DICOM Image Server



IS700 Network Intrusion Sensor



Web Camera Monitoring System



## Cockpit Instruments Business

Yokogawa's advanced measurement, control, and information technologies are also widely used in various cockpit instruments to assure safe navigation and reduce the workload of pilots, such as flight director systems, altimeters, and engine meters. In particular, our LCD flat-panel display that allows a variety of on-screen information, including flight status and navigational data to be easily switched over, is being incorporated into the latest airplanes. As a result of an intensive sales effort to promote this superb display to passenger aircraft manufacturers, it has been adopted for use in the current Airbus models.

## EMS, a Total Solution for Material Procurement, Manufacturing, and Distribution

Through decades of manufacturing control systems and measuring instruments, Yokogawa has gained extensive know-how, including flexible manufacturing and zero-inventory just-in-time manufacturing. Our expertise in manufacturing more than 10,000 different high-quality products within short lead-times is unsurpassed.

Yokogawa Trading Corporation, one of the Yokogawa Group companies, provides agency services for material procurement and international and domestic distribution to not only other Yokogawa Group companies but also corporations outside the Group. It is entrusted with material procurement and distribution for a top-tier company in the United States, and the volume of transactions is rising steadily year by year. By gathering parts into certain volumes for procurement or transport, total procurement costs can be reduced, promising reduction in manufacturing costs for each customer.

Capitalizing on our unrivaled ability to supply a total solution covering material procurement, manufacturing and distribution, we are selling a wide array of electronics manufacturing services (EMS) to other manufacturing companies. In particular, we are focusing on commissioned manufacturing of high value-added products that require sophisticated manufacturing techniques in which the Yokogawa Group excels. Lam Research Corporation, a top supplier of semiconductor manufacturing equipment, has entrusted Yokogawa with a broad range of services, from customized hardware designing and manufacturing of Lam Research's etching machines oriented for the Japanese market, up to start-up and after-sales maintenance of these machines.

And to expand our business further, we are now promoting an original design manufacturing (ODM) service that offers a comprehensive solution encompassing optimum product designing and material procurement to minimize costs.



# Aerospace and EMS Business



Flat Panel Display for  
Pilot Cockpit

Alliance™ Etch Systems  
(Lam Research Corp.)



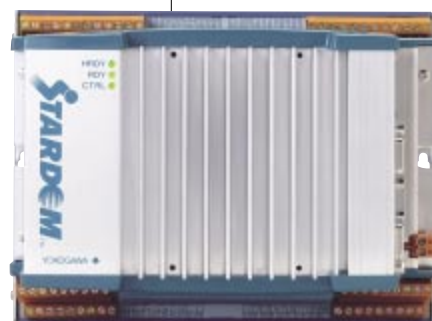


## Environmental Management Rules for the Yokogawa Group

The Yokogawa Group considers protection of the global environment to be one of its key management targets and has issued the following policy statement: "The Group aims to contribute toward achieving a thriving global society through preservation of the global environment in the 21st century and the recycling of resources in society." In April 2001, Environmental Management Rules for the Yokogawa Group were stipulated; these define a set of regulations applying to the operations of all firms of the global Yokogawa Group. Each of these firms sets environmental targets according to its regional characteristics and scope of business, and has been carrying out environmental protection activities accordingly. In fiscal year 2001, Yokogawa Engineering Asia Pte. Ltd., Singapore was added to the ISO 14001-certified sites, which now total twelve Japanese sites and six others in the Group.



Tote Boxes



Field Control Junction

## Diverse Activities for Global Environmental Protection and Self-sustainable Society

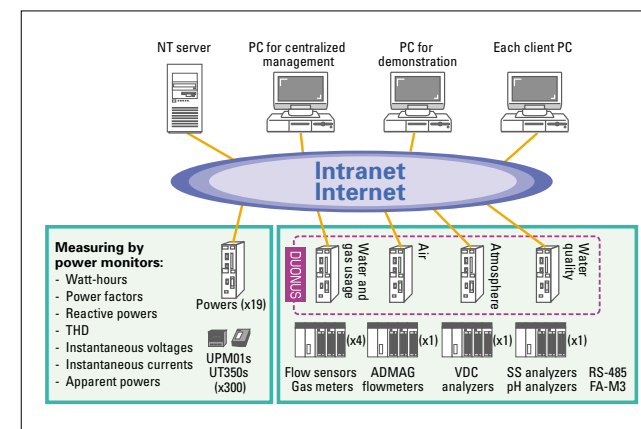
In fiscal year 2001, we expanded a system which had been tested at a model site to other sites, and worked hard to improve the environmental performance and supply environmentally friendly ("green") products by implementing new systems and guidelines. We are thus working to protect the global environment in a multitude of ways.

At the manufacturing sites, energy-efficient manufacturing techniques and facilities are adopted. To reduce waste aiming at zero emissions, the Kofu Plant and Akiruno Plant achieved "zero landfill waste" status, following the Headquarters of Yokogawa Electric Corporation. We shall expand this effort to the entire Group and raise the recycling ratio to achieve the next step of "zero refuse for incineration." Regarding toxic substances, the use of ozone-depleting hydro-chlorofluorocarbons (HCFCs) was completely eliminated at Headquarters and Kofu Plant, and will be phased out in all Japanese sites by the end of fiscal year 2002. As for water quality preservation, a process to render wastewater harmless was introduced to plating factories, in which the huge volume of water used in cleaning processes is circulated through an ion exchange system and reused. Meanwhile, to reduce the amount of styrofoam and packing materials used, film cushions (i.e., robust films stuck to a cardboard frame for cushioning) as well as returnable, reusable tote boxes are increasingly being used.

At the product designing sites, to minimize and ultimately eliminate the environmental burden, "green" designs are used from the product planning phase. Following the Environmentally Friendly Product Design Guideline and Environmental Assessment Standard for Product Design, the Environmentally Friendly Material Selection Criteria were issued in fiscal year 2001 and applied to all product development projects. By using materials that do not contain a toxic substance or are easy to recycle, we are "green-manufacturing" our "green" products.

## Offering Environmental Solutions to Customers

We also offer our expertise gained through the Yokogawa Group's global environmental protection activities to assist customers with their "green" solutions in manufacturing and distribution. Examples are our "Plant Energy/Environment Monitoring System and Service" and "Soil and Subterranean Water Purification Service." These "green" solutions and services also reduce the environmental burden on the community and help build a self-sustainable society.



Plant Energy / Environment Monitoring System

To enable the Yokogawa Group to continue to promote the advance of environmental protection activities, we shall ensure all employees thoroughly understand the Environmental Philosophy, Code of Conduct for Environmental Protection, and Environmental Policy of the Yokogawa Group, thus building awareness among employees. To this end, we will continue to systematically conduct appropriate training. We quantitatively assess the effects of global environment protection activities by applying both the Eco-Point scoring method to calculate the environmental burden indicators and the environmental accounting method to calculate the economic impact of those activities. Based on the quantitative data thus obtained, we continue to refine the environmental management system of the Yokogawa Group.

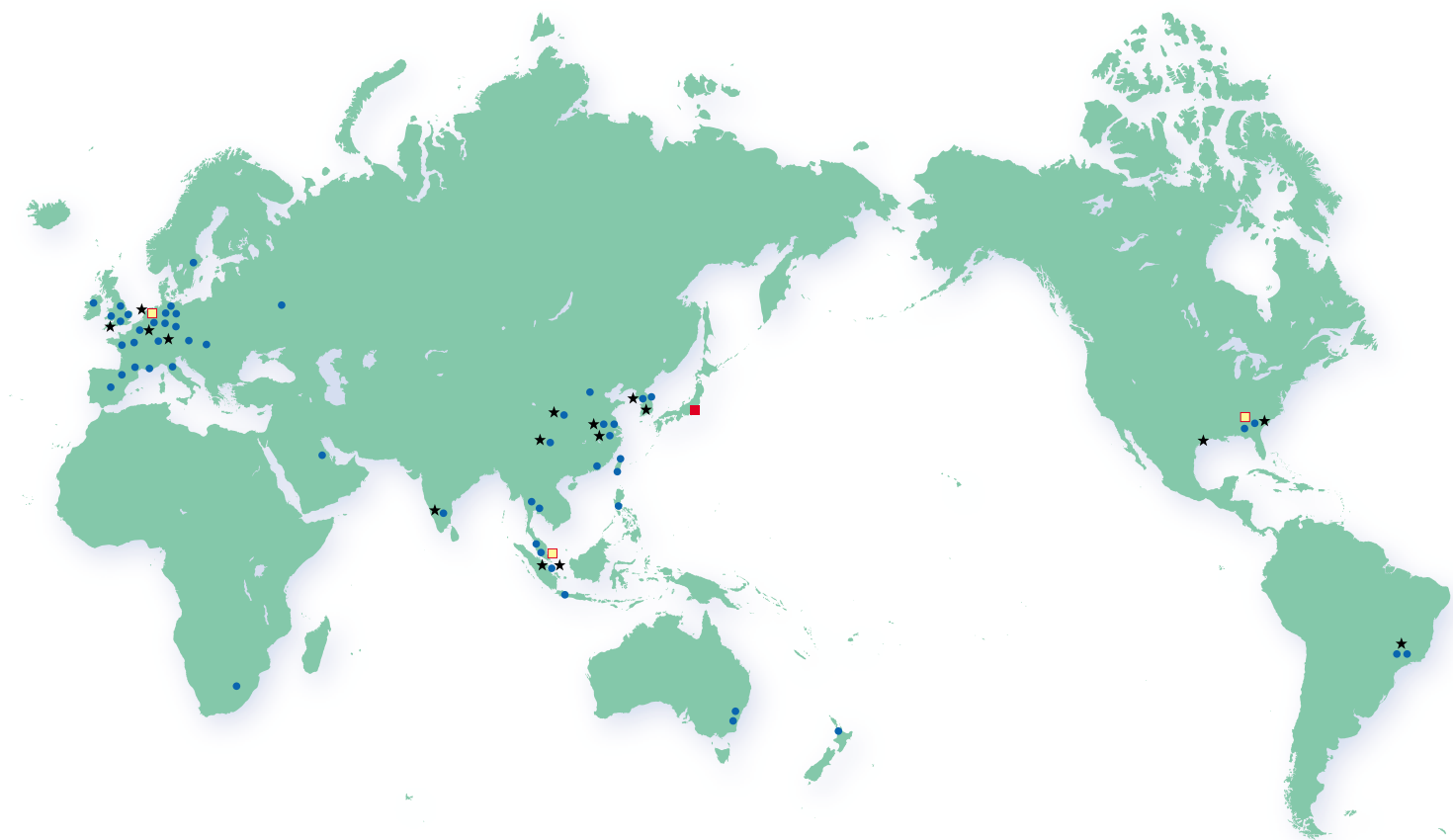


Wastewater Treatment Facility





Yokogawa has 37 sales affiliates in Japan and 70 in 28 countries outside Japan, as well as manufacturing affiliates in 10 countries and 112 service offices world-wide (as of June, 2002), constituting a truly global network. Worldwide sales in fiscal year 2001 amounted to ¥71.9 billion (US\$540 million)—¥23.3 billion (US\$175 million) in Asia, ¥20.9 billion (US\$157 million) in Europe, ¥18.2 billion (US\$137 million) in North America, and ¥9.5 billion (US\$71 million) in other markets. In accordance with the management principle of operational autonomy and teamwork, we will continue to facilitate information and expertise sharing among the Yokogawa Group as a whole. By doing so we aim to maximize the consolidated operating profit in the age of global competition. Concurrently, we will actively seek international alliances with influential global companies, in order to upgrade our operations in various areas.



- Headquarters
- Regional Headquarters
- ★ Production Facilities
- Sales, Engineering and Service Centers



Yokogawa Global Management Conference

North America	Yokogawa U.S.A. Inc.
	Yokogawa Corporation of America
	Measurement Inc.
	Yokogawa Trading U.S.A. Inc.
	Kokusai Chart Corporation of America
South America	SMaL Camera Technologies, Inc.
Europe	Yokogawa America do Sul Ltda.
	Yokogawa Service Ltda.
	Yokogawa Europe B.V.
	Yokogawa Nederland B.V.
	Yokogawa System Center Europe B.V.
	Yokogawa Austria Ges.m.b.H.
	Yokogawa Belgium N.V./S.A.
	Yokogawa Deutschland GmbH
	Rota Yokogawa GmbH & Co. KG
	Yokogawa nbn GmbH
	Yokogawa Iberia S.A.
	Yokogawa France S.A.
	Rota Yokogawa France S.A.R.L.
	Yokogawa Hungaria Ltd.
	Yokogawa Reinsurance Ltd.
	Yokogawa Italia S.r.l.
	Yokogawa Nordic AB
	Yokogawa United Kingdom Ltd.
	Yokogawa Marex Ltd.
Russia	Yokogawa Martron Ltd.
	Yokogawa Capital Unlimited
Africa	
	Limited Yokogawa Electric
Middle East	Yokogawa South Africa (Pty) Ltd.
Asia	Yokogawa Middle East E.C.
	Yokogawa Engineering Asia Pte. Ltd.
	Yokogawa Electric Asia Pte. Ltd.
	Yokogawa Trading Asia Pte. Ltd.
	Measurement Systems Pte. Ltd.
	Plant Electrical Instrumentation Pte. Ltd.
	P.T. Yokogawa Indonesia
	P.T. Yokogawa Manufacturing Batam
	Yokogawa Electric (Malaysia) Sdn. Bhd.
	MIE Industrial Sdn. Bhd.
	Yokogawa Kontrol (Malaysia) Sdn. Bhd.
	Yokogawa Industrial Safety Systems Sdn. Bhd.
Oceania	Yokogawa Philippines Inc.
	Yokogawa (Thailand) Ltd.
	River Process Engineering Ltd.
	Yokogawa Blue Star Ltd.
	Yokogawa Electric Korea Co., Ltd.
	Yokogawa Electronics Manufacturing Korea Co., Ltd.
	HAN YO Telecom Co., Ltd.
	Yokogawa Measuring Instruments Korea Corporation
	Yokogawa Trading Korea Co., Ltd.
	Yokogawa Taiwan Corporation
	Taiwan Yokogawa P&L Corporation
China	Yokogawa Australia Pty. Ltd.
	TechComm Simulation Pty. Ltd.
	Yokogawa New Zealand Ltd.
	Yokogawa-Xiyi Co.,Ltd
	Suzhou Yokogawa Meter Company
	Yokogawa (Shanghai) Instrumentation Co., Ltd.
	Shanghai Yokogawa Petrochemical Instrumentation Co. Ltd.
	Yokogawa Sichuan Instrument Co., Ltd.
	Beijing Metallurgy Yokogawa Automation Engineering Co., Ltd
	Yokogawa Shanghai Trading Co., Ltd.
	Yokogawa Trading Hong Kong Ltd.
	Yokoshin Software Engineering (Wuxi) Co., Ltd.

# Directors, Auditors and Officers

(as of July 1, 2002)

## Board of Directors



**Isao Uchida**  
President and Chief Executive Officer



**Akira Nagashima**  
Director



**Yasuhiro Katsube**  
Director



**Kazunori Yagi**  
Director



**Kazuhiko Kimura**  
Director



**Teruyoshi Minaki**  
Director



**Seiji Takahashi**  
Director

## Corporate Auditors

**Fumio Mizoguchi**  
**Taiki Utsumi**  
**Takahide Sakurai**  
**Toru Hashimoto**

## Officers

**Isao Uchida**  
President and Chief Executive Officer  
Head of Crisis Management Office

### Executive Vice Presidents

**Akira Nagashima**  
Executive Vice President of Industrial Automation Systems Business,  
Chairman of Yokogawa Marex Ltd.

**Yasuhiro Katsube**  
Executive Vice President of Testers Business

**Kazunori Yagi**  
Executive Vice President of Finance and Business Planning and Crisis  
Management Office

### Senior Vice Presidents

**Toshio Kimura**  
Senior Vice President of Products Business

**Hidehiko Bando**  
Senior Vice President of Industrial Solution Business 1

**Yasuhiko Muramatsu**  
Senior Vice President of Motion & Measurement Business

**Teruyoshi Minaki**  
Senior Vice President of International Business, Chairman of Yokogawa  
Europe B.V., Chairman of Yokogawa Blue Star Ltd.

**Manabu Sasada**  
Senior Vice President of Industrial Solution Business 2

**Kazuhiko Kimura**  
Senior Vice President of Sourcing & Manufacturing Business and Crisis  
Management Office, President, Yokogawa Electronics Manufacturing Corp.

**Seiji Takahashi**  
Senior Vice President of Corporate Service and Crisis Management Office

### Vice Presidents

**Masahiro Otsuka**  
Vice President of Aerospace Products Business

**Akihiko An-youji**  
Vice President of Network Solutions Business and President of Yokogawa  
M&C Corp.

**Yuukou Toyonori**  
Vice President of Corporate R&D

**Toshiki Okuzumi**  
Vice President of Components Business

**Iwao Yamane**  
Vice President of Service Business

**Kiyokazu Ishii**  
Vice President of Information Solutions Business

**Toshiro Tomita**  
Vice President, Chief Marketing Officer, Deputy General Manager of  
Corporate R&D

**Kiyoaki Okino**  
Vice President of Internal Audit and Crisis Management Office

**Yuji Fukunaga**  
Vice President of Sales Strategy

**Tadamitsu Yamagata**  
Vice President of Industrial Automation Solution Business

**Seiichiro Kiyobe**  
Vice President of Environmental and Analytical Products Business

**Susumu Matsukura**  
Vice President of T&M Business

**Hiroshi Yamada**  
Vice President of IT Business



# Financial Section

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YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

Financial Review

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2002

General Overview

The global IT slump and the slowdown in capital spending in Japan combined to create an extremely tough business environment during the term under review. In particular, the IT slump heavily impacted demand for semiconductor related products of the Yokogawa Group (“the Group”), resulting in net sales of 310.8 billion yen (US\$2,332 million), down 41.7 billion yen (US\$313 million) from the year before. The cost of sales totaled 209.7 billion yen (US\$1,574 million), for a corresponding decrease of 26.2 billion yen (US\$196 million), while selling, general and administrative expenses came to 99.3 billion yen (US\$745 million), 1.0 billion (US\$7 million) less than the preceding year. As a result, operating profit for the term totaled 1.7 billion yen (US\$13 million), for a steep setback of 14.4 billion yen (US\$108 million) from the previous year. The Group registered an ordinary loss of 6.1 billion yen (US\$45 million) for the year, compared to an ordinary profit of 15.3 billion yen (US\$114 million) the year before. This was attributable primarily to an equity method-based 5.8 billion yen (US\$43 million) in losses from Ando Electric Co., Ltd., an affiliate in which Yokogawa Electric Corporation (“the Company”) owns a 33 percent equity stake, and to a 2.2 billion yen (US\$16 million) loss from inventory asset revaluation. The Group also posted a net loss of 23.1 billion yen (US\$173 million) for the year, contrasting with the 25.4 billion yen (US\$190 million) net profit it recorded the preceding year. This was due chiefly to extraordinary losses of 15.9 billion yen (US\$120 million), including valuation losses on holdings of investment securities.

Results by Business Segment

In the industrial automation and control business segment, the Group registered sales of 160.0 billion yen (US\$1,200 million), essentially unchanged from the level of the year before. This outcome was influenced by strong sales in Europe, Russia, the Middle East, China, Southeast Asia, and other overseas markets characterized by comparatively brisk capital investment, and despite the chronic capital investment slump back home in Japan. However, in the measurement business segment, sales dropped substantially compared to the previous year, to 61.7 billion yen (US\$463 million). This was due to sharply reduced sales in the semiconductor tester and the measuring instruments for product development, both of which were heavily impacted by the global IT slump. Sales in the information service business segment totaled 21.6 billion yen (US\$162 million), down from the year before. However, the Group is working to quickly develop operations in this segment by expanding its medical information systems business and aggressively promoting its system solutions for clients in the manufacturing sector. In its “other businesses” segments, the Group registered sales of 67.5 billion yen (US\$506 million), for an increase on the previous year. Also, in the aerospace business, it has been expanding operations to meet growth in demand from the private sector as well as traditional demand.

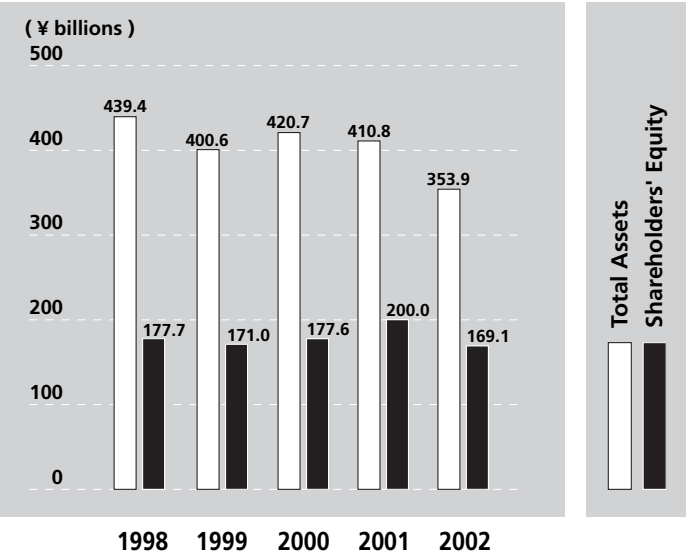
Financial Conditions

As of the end of the year under review, the Group had total assets worth 353.8 billion yen (US\$2,655 million), down 56.9 billion yen (US\$427 million) from the preceding year. Current assets totaled 193.9 billion yen (US\$1,455 million), down by a margin of 38.4 billion yen (US\$288 million) compared to the previous year. Two components of current assets - notes and accounts receivable, and inventories - declined by 19.1 billion yen (US\$143 million) and 7.1 billion yen (US\$53 million), respectively. The share in negotiable securities fell because the Company transferred operating assets from negotiable securities to cash and deposits; the share of assets in cash and deposits accordingly rose. Fixed assets totaled 159.9 billion yen (US\$1,200 million), down 18.4 billion yen (US\$138 million) from the year before. Investment securities dropped 23.8 billion yen (US\$178 million) due to valuation losses. Current and fixed liabilities totaled 181.9 billion yen (US\$1,365 million) at the end of the year under review, a decrease of 26.6 billion yen (US\$200 million). Short-term borrowings were down 3.0 billion yen (US\$22.5 million) from their year-before level because the Company paid off short-term debt based on a commitment line of 10.0 billion yen (US\$75 million). Although it redeemed the first in a series of bond issues, the Company did not issue any new bonds during the year. As a result, the outstanding bond balance, including bonds due for redemption within one year, shrank by a margin of 10.0 billion yen (US\$75 million). Capital at the end of the year totaled 169.0 billion yen (US\$1,270 million), a decline of 30.9 billion yen (US\$232 million) compared to the year before. This was due chiefly to a reduction in the consolidated surplus that accompanied the year’s losses. Additionally, the Company retired 2,643,000 shares of treasury stock. The capital-to-asset ratio dropped from 48.7 percent to 47.8 percent. Based on the total for issued shares as of the end of the year under review, shareholders’ equity per share came to 697.10 yen (US\$5.23), down from the 815.78 yen (US\$6.12) level of a year earlier.

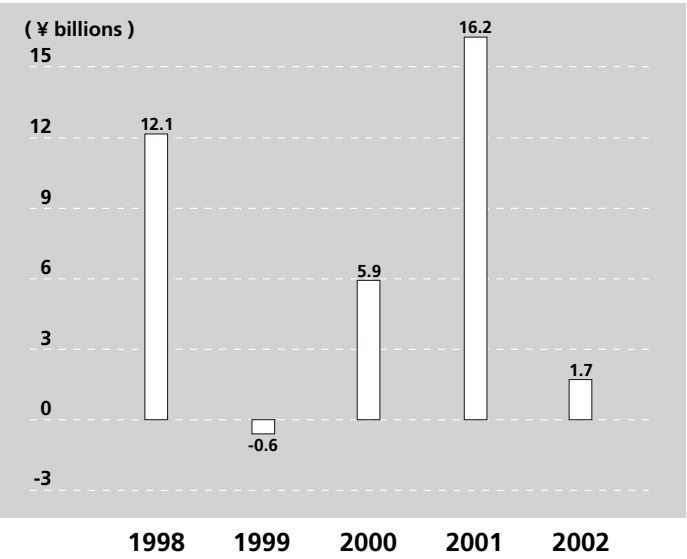
Cash Flow Summary

Cash flow from operating activities totaled a positive 20.4 billion yen (US\$153 million), for an impressive 22.9 billion yen (US\$172 million) gain on the negative 2.4 billion yen (US\$18 million) level of the year before. Vast reduction in outstanding accounts receivable through liquidation was the main reason for this favorable turn-around. Negative cash flow from investing activities was held in check at 4.3 billion yen (US\$32 million). This was due to curbs on capital investment, sales of negotiable securities through the elimination of cross-shareholding arrangements, and the sale of a percentage of the Company’s holdings in Kokusai Chart Corporation, when that subsidiary was publicly listed. Free cash flow from operating and investing activities combined totaled 16.1 billion yen (US\$120 million), an improvement of 6.1 billion yen (US\$46 million) from the year before. Cash flow from financing activities was a negative 22.9 billion yen (US\$172 million). This was due to several factors, including the May 2001 redemption of 10.0 billion yen (US\$75 million) straight bonds first issued by the Company, the repayment of 7.5 billion yen (US\$56 million) in loans, the payment of 3.0 billion yen (US\$22.5 million) in dividends, and the retirement of 2,643,000 shares of Company stock worth 2.4 billion yen (US\$18 million). Incidentally, the Company has established a commitment line of 10.0 billion yen (US\$75 million) for loan repayment. At the end of year under review, the balance in cash and cash equivalents stood at 43.9 billion yen (US\$330 million), down 6.7 billion yen (US\$50 million) from the year before.

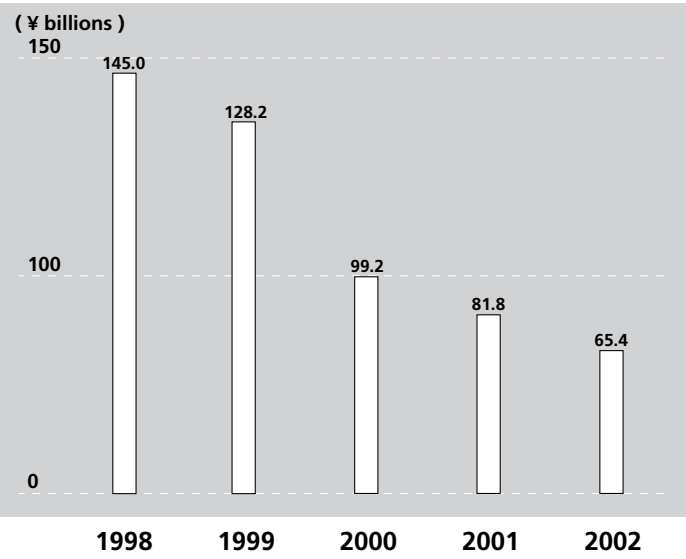
Total Assets / Shareholders’ Equity



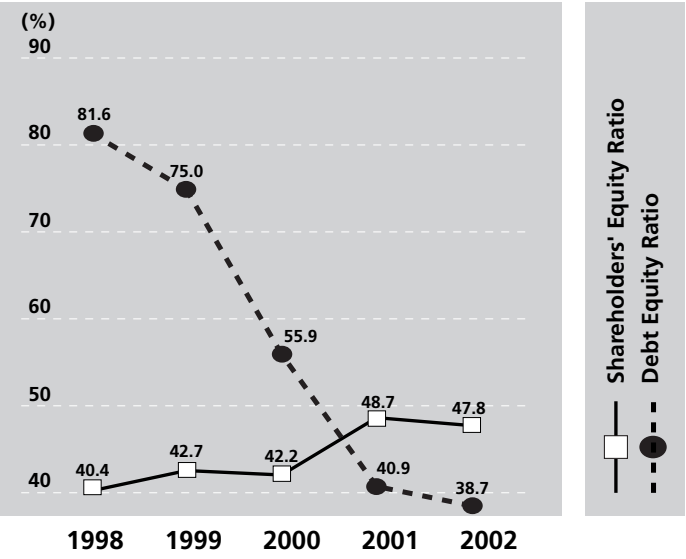
Operating Profit



Interest-bearing Liabilities



Shareholders’ Equity Ratio / Debt Equity Ratio





Consolidated Balance Sheets

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2001 and 2002

	Millions of Yen		Thousands of
	March 31,		U.S. Dollars
	2001	2002	(Note 3) March 31, 2002
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits .....	¥ 26,533	¥ 30,003	\$ 225,164
Marketable securities (Note 8) .....	25,108	14,383	107,940
Notes and accounts receivable			
Trade .....	116,013	96,896	727,172
Other .....	12,573	7,826	58,737
	128,586	104,722	785,909
Less: allowance for doubtful accounts .....	(1,410)	(1,299)	(9,750)
	127,176	103,423	776,159
Inventories .....	43,068	35,938	269,705
Deferred tax assets-current (Note 10) .....	4,764	4,001	30,023
Other current assets .....	5,716	6,195	46,491
Total current assets .....	232,365	193,943	1,455,482
<b>Investments and Advances:</b>			
Investments in securities (Note 8) .....	64,150	40,325	302,628
Long-term loans .....	314	254	1,905
Other .....	12,788	13,780	103,412
Total investments and advances .....	77,252	54,359	407,945
<b>Property, Plant and Equipment, at net book value (Note 4):</b>			
Buildings and structures .....	42,266	40,146	301,284
Machinery and equipment .....	8,826	8,327	62,491
Furniture and fixtures .....	10,083	8,881	66,652
Land .....	14,958	15,041	112,875
Construction in progress .....	266	674	5,058
Total property, plant and equipment .....	76,399	73,069	548,360
Deferred Tax Assets-non current (Note 10) .....	13,022	20,062	150,556
Deferred Charges and Other Assets .....	11,360	12,325	92,499
Goodwill (Note 2) .....	433	142	1,066
	¥410,831	¥353,900	\$2,655,908

	Millions of Yen		Thousands of
	March 31,		U.S. Dollars
	2001	2002	(Note 3) March 31, 2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Short-term bank loans .....	¥ 9,129	¥ 4,346	\$ 32,617
Current portion of long-term debt (Note 6) .....	10,570	24,311	182,446
Notes and accounts payable:			
Trade .....	35,343	28,448	213,492
Other .....	9,468	7,197	54,013
	44,811	35,645	267,505
Accrued expenses .....	10,892	10,311	77,382
Income taxes payable .....	2,281	1,525	11,442
Advances received and other current liabilities .....	18,200	25,158	188,796
Deferred tax liabilities - current (Note 10) .....	1	4	33
Total current liabilities .....	95,884	101,300	760,221
<b>Long-Term Debt (Note 6) .....</b>			
<b>Deferred Tax Liabilities - non current (Note 10) .....</b>	62,165	36,794	276,129
<b>Reserve for Retirement Benefits:</b>	211	2,095	15,721
Employees (Note 11) .....	48,556	38,915	292,043
Directors and corporate auditors .....	1,207	1,110	8,333
<b>Other Non-Current Liabilities .....</b>	614	1,727	12,961
	112,753	80,641	605,187
<b>Minority Interests in Consolidated Subsidiaries .....</b>			
	2,155	2,901	21,775
<b>Commitment and Contingent Liabilities (Note 12)</b>			
<b>Shareholders' Equity:</b>			
Common stock:			
Authorized: 486,378,000 shares and			
483,735,000 shares			
at March 31, 2001 and 2002, respectively			
Issued: 245,684,012 shares and			
243,041,012 shares			
at March 31, 2001 and 2002, respectively .....	32,306	32,306	242,447
Additional paid-in capital .....	35,020	35,020	262,821
Retained earnings .....	133,698	104,814	786,598
Net unrealized gains or losses on other securities .....	5,536	1,115	8,367
Foreign currency translation adjustments .....	(6,371)	(3,991)	(29,955)
Treasury stock .....	(150)	(206)	(1,553)
Total shareholders' equity .....	200,039	169,058	1,268,725
	¥410,831	¥353,900	\$2,655,908

The accompanying notes are an integral part of the statements.

Consolidated Statements of Income and Retained Earnings

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2000, 2001 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	for the year ended			for the year ended
	March 31,	March 31,	March 31,	March 31,
	2000	2001	2002	2002
Net Sales (Note 18)	¥313,353	¥352,612	¥310,828	\$2,332,668
Cost of Sales (Note 13)	212,138	236,009	209,760	1,574,184
Gross profit	101,215	116,603	101,068	758,484
Selling, General and Administrative Expenses (Notes 13 and 14)	95,306	100,387	99,323	745,389
Operating profit (Note 18)	5,909	16,216	1,745	13,095
Other Income and Expenses:				
Interest and dividend income	951	2,163	2,830	21,236
Interest expenses	(2,093)	(1,992)	(1,852)	(13,899)
Net loss on disposal/write-down of inventories	(896)	(2,725)	(3,419)	(25,660)
Net (loss) gain on sale of marketable securities	489	(31)	(24)	(184)
Net (loss) gain on sale/write-down of investments in securities	17,785	38,659	(5,662)	(42,490)
Foreign exchange gain (loss)	(1,762)	1,188	310	2,327
Net loss on sale/disposal of property, plant and equipment	(1,205)	(1,546)	(143)	(1,075)
Equity in (losses) earnings of affiliates	7,850	(9,475)	(11,812)	(88,642)
Gain on reversal of retirement allowance	3,317	—	—	—
Prior year annuity expense of reserve for retirement allowance under the qualified pension plan	(4,308)	—	—	—
Amortization of prior year service cost	(35,699)	—	—	—
Amortization of the transition amount arising from adopting the new pension standard	—	(2,021)	—	—
Other, net	(2,870)	(3,394)	(2,777)	(20,832)
(Loss) income before income taxes and minority interests	(12,532)	37,042	(20,804)	(156,124)
Income Taxes (Note 10)				
Current	2,452	2,633	2,641	19,821
Deferred	(20,703)	9,132	(793)	(5,952)
	(18,251)	11,765	1,848	13,869
Minority Interests in (earnings) losses of Consolidated Subsidiaries	101	139	(460)	(3,458)
Net (loss) income	5,820	25,416	(23,112)	(173,451)
Retained Earnings:				
Balance at beginning of year	103,692	110,445	133,698	1,003,361
Cumulative effect of adopting deferred tax accounting	13,311	—	—	—
Increase due to application of the equity method to investments in additional unconsolidated subsidiaries and affiliates	—	9	—	—
Increase due to exclusion of unconsolidated subsidiaries and affiliates from the scope of application of the equity method	—	38	—	—
Increase due to currency fluctuation	36	—	—	—
Other, increase	—	30	—	—
Decrease due to consolidation of additional subsidiaries	(619)	—	—	—
Decrease due to redemption of treasury stock	(3,806)	—	(2,393)	(17,959)
Decrease due to currency fluctuation	—	(116)	(33)	(248)
Decrease due to merger of subsidiaries	—	(84)	—	—
Decrease due to application of the equity method to investments in additional unconsolidated subsidiaries and affiliates	—	—	(14)	(101)
Decrease due to exclusion of unconsolidated subsidiaries and affiliates from the scope of application of the equity method	(6,022)	—	(24)	(181)
Decrease due to exclusion of an consolidated subsidiaries	—	(49)	(96)	(719)
Other, decrease	—	(34)	(31)	(234)
Appropriations:				
Cash dividends	(1,876)	(1,839)	(3,065)	(23,003)
Directors' bonuses	(91)	(118)	(116)	(867)
Balance at end of year	¥110,445	¥133,698	¥104,814	\$ 786,598
Per Share:	Yen			U.S. Dollars (Note 3)
Net (loss) income (Note 17)	¥ 23.39	¥ 103.66	¥ (94.57)	\$ (0.71)
Cash dividends	¥ 7.5	¥ 12.5	¥ 7.5	\$ 0.06
Weighted average number of shares (in thousands)	248,745	245,185	244,386	

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2000, 2001 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	2000	2001	2002	2002
Cash Flows from Operating Activities:				
Net (loss) income before income taxes and minority interests	¥(12,532)	¥37,042	¥(20,804)	\$(156,124)
Depreciation	13,197	13,191	13,964	104,799
Amortization of consolidated goodwill	169	473	371	2,783
Decrease (increase) in allowance for doubtful accounts	(305)	392	(35)	(264)
Decrease (increase) in reserve for retirement benefits	(25,575)	40,041	(9,675)	(72,612)
Decrease (increase) in accrued bonus	417	1,919	(1,569)	(11,771)
Interest and dividend income	(952)	(2,163)	(2,830)	(21,236)
Interest expenses	2,093	1,992	1,852	13,899
Equity in loss (earnings) of affiliates	(7,850)	9,475	11,812	88,642
Gain on sale of investments in securities	(18,973)	(41,672)	(68)	(508)
Decrease (increase) in trade receivables	21,344	(14,779)	20,062	150,560
Decrease (increase) in inventories	(6,772)	904	8,769	65,806
(Decrease) increase in trade payables	384	449	(8,722)	(65,458)
(Decrease) increase in pension payable	54,653	(54,653)	—	—
Other, net	1,067	7,063	3,345	25,101
Sub total	20,365	(326)	16,472	123,617
Interest and dividend income received	3,283	2,288	4,382	32,883
Interest expenses paid	(2,335)	(2,029)	(2,129)	(15,975)
Income tax paid	(6,671)	(2,379)	1,758	13,195
Net cash provided by (used in) operating activities	14,642	(2,446)	20,483	153,720
Cash Flows from Investing Activities:				
Payments for deposit in time deposits	(1,407)	(2,342)	(1,417)	(10,636)
Proceeds from return on time deposits	4,657	2,262	2,603	19,536
Acquisition of property, plant and equipment	(10,416)	(14,770)	(8,124)	(60,971)
Proceeds from sale of property, plant and equipment	1,598	2,555	1,608	12,069
Acquisition of investments in securities	(1,290)	(26,951)	(2,920)	(21,912)
Proceeds from sale of investments in securities	27,975	53,638	6,994	52,488
Other, net	8,719	(1,982)	(3,119)	(23,406)
Net cash provided by investing activities	29,836	12,410	(4,375)	(32,832)
Cash Flows from Financing Activities:				
Increase in short-term bank loan, net	(7,859)	(16,014)	(6,689)	(50,202)
Proceeds from issuance of long-term debt	3,914	77	79	596
Repayment of long-term debt	(24,129)	(1,351)	(10,891)	(81,735)
Proceeds from underwriting additional shares of minority shareholders	—	—	252	1,892
Payment for purchase of treasury stock	—	—	(2,450)	(18,390)
Cash dividends paid to minority shareholders	—	—	(120)	(903)
Cash dividends paid	(1,863)	(1,839)	(3,065)	(23,003)
Other, net	(3,902)	(75)	(53)	(393)
Net cash used in financing activities	(33,839)	(19,202)	(22,937)	(172,138)
Effect of exchange rate change on Cash and Cash Equivalents	(516)	257	63	477
Net (decrease) increase in Cash and Cash Equivalents	10,123	(8,981)	(6,766)	(50,773)
Cash and Cash Equivalents at the beginning of year	49,462	59,741	50,760	380,935
Increase for change in scope of consolidated subsidiaries	156	—	—	—
Cash and Cash Equivalents at End of Year	¥ 59,741	¥50,760	¥ 43,994	\$ 330,162



Consolidated Statements of Cash Flows

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2000, 2001 and 2002

Reconciliation between Cash and Cash Equivalent at year-end and the account booked on the balance sheet.

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	2000	2001	2002	2002
Cash and time deposits .....	¥31,108	¥26,533	¥30,003	\$225,164
Time deposits whose maturity periods exceed three months .....	(632)	(624)	(291)	(2,185)
Marketable securities with original maturity of three months or less .....	29,265	24,851	14,282	107,183
	¥59,741	¥50,760	¥43,994	\$330,162

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

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2002

1. Basis of Presenting the Consolidated Financial Statements

Accounting Principles

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

The accounts overseas consolidated subsidiaries have maintained on their accounts and records in conformity with generally accepted accounting principles and practices generally accepted in their respective countries. Although certain

differences exist in the accounting principles employed by the overseas subsidiaries, essentially, no adjustments have been made to their accounts in order to conform to accounting principles and practices generally accepted in Japan in the accompanying consolidated financial statements.

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

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

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 98 subsidiaries (majority-owned companies) as at March 31, 2002 (108 for 2001). The consolidated financial statements include the accounts of the Company and its 85 subsidiaries as at March 31, 2002 (92 for 2001).

The consolidated financial statements include the accounts of the 85 majority owned subsidiaries listed on the next page (the Company and these consolidated subsidiaries are together, referred to as the “Companies”):

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2002

Name of Subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal Year End	Additional Information (See Footnote)
<b>Subsidiaries in Japan:</b>			
Kokusai Chart Corporation	67	Mar. 31, 2002	
Yokogawa Engineering Service Corporation	100	Mar. 31, 2002	
Yokogawa Sertec Co., Ltd.	100	Mar. 31, 2002	
Yokogawa Denshikiki Co., Ltd.	76	Mar. 31, 2002	
Yokogawa Graphic Arts Corporation	100	Mar. 31, 2002	
Yokogawa Human Create Corporation	100	Mar. 31, 2002	
Yokogawa System Engineering Corporation	100	Mar. 31, 2002	
Yokogawa Infotec Corporation	100	Mar. 31, 2002	
Yokogawa M&C Corporation	100	Mar. 31, 2002	
Yokogawa Research Institute Corporation	100	Mar. 31, 2002	
Yokogawa Pionics Co., Ltd.	100	Mar. 31, 2002	
Techno System Kyushu Corporation	65	Mar. 31, 2002	
Yokogawa Techno Systems Co., Ltd.	100	Mar. 31, 2002	
Yokogawa Trading Corporation	100	Mar. 31, 2002	
Yokogawa MAT Corporation	100	Mar. 31, 2002	
Yokogawa Electronics Manufacturing Co.	100	Mar. 31, 2002	*1
Nippon System Gijutsu Co.	76	Mar. 31, 2002	
System Plaza Inc.	100	Mar. 31, 2002	
Infotec Service Corporation	100	Mar. 31, 2002	
Yokogawa & Co., Ltd.	50	Mar. 31, 2002	
Yokogawa Field Engineering Corporation	100	Mar. 31, 2002	
YDC Corporation	100	Mar. 31, 2002	
Yokogawa Management Service Corporation	100	Mar. 31, 2002	
Yokogawa Digital Computer Corporation	100	Mar. 31, 2002	*2

Name of Subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal Year End	Additional Information (See Footnote)
<b>Overseas subsidiaries:</b>			
Yokogawa USA, Inc.	100	Feb. 28, 2002	
Yokogawa Corporation of America	100	Feb. 28, 2002	
Yokogawa Electric Asia Pte. Ltd.	100	Feb. 28, 2002	
Yokogawa France S.A.	100	Feb. 28, 2002	
Yokogawa Europe B.V.	100	Feb. 28, 2002	
Rota Yokogawa GmbH & Co. KG	100	Feb. 28, 2002	
Yokogawa Italia S.R.L.	100	Feb. 28, 2002	
Yokogawa Austria GmbH	100	Feb. 28, 2002	
Yokogawa Belgium N.V.-S.A.	100	Feb. 28, 2002	
Yokogawa Deutschland GmbH	100	Feb. 28, 2002	
Yokogawa United Kingdom Ltd.	100	Feb. 28, 2002	
Yokogawa Iberia, S.A.	100	Feb. 28, 2002	
Yokogawa Nederland B.V.	100	Feb. 28, 2002	
Yokogawa NBN GmbH.	100	Feb. 28, 2002	
Yokogawa Australia Pty Ltd.	100	Feb. 28, 2002	
Yokogawa Taiwan Corporation	100	Dec. 31, 2001	
Suzhou Yokogawa Meter Company	59	Dec. 31, 2001	
P.T. Yokogawa Indonesia	100	Feb. 28, 2002	
P.T. Yokogawa Manufacturing Batam	100	Feb. 28, 2002	
Yokogawa Sichuan Instrument Co., Ltd.	60	Dec. 31, 2001	
Yokogawa Service S.A.	99	Feb. 28, 2002	
Yokogawa America do Sul Ltda.	99	Feb. 28, 2002	
Shanghai Yokogawa Petrochemical Instrumentation Co., Ltd.	90	Dec. 31, 2001	

Name of Subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal Year End	Additional Information (See Footnote)
Yokogawa Philippine Inc.	100	Feb. 28, 2002	
Yokoshin Software Engineering (WUXI) Co., LTD.	100	Dec. 31, 2001	
Yokogawa Measuring Instruments Korea Corporation	100	Feb. 28, 2002	
Yokogawa Middle East E.C.	100	Feb. 28, 2002	
Yokogawa (Thailand) Ltd.	91	Feb. 28, 2002	
Rota Yokogawa France S.A.R.L.	100	Feb. 28, 2002	
Yokogawa South Africa Pty. Ltd.	100	Feb. 28, 2002	
Yokogawa Engineering Asia Pte. Ltd.	100	Feb. 28, 2002	
Yokogawa Industrial Safety Systems B.V.	100	Feb. 28, 2002	
Yokogawa Industrial Safety Systems Sdn. Bhd.	100	Feb. 28, 2002	
Yokogawa Capital Unlimited	100	Feb. 28, 2002	
Limited Yokogawa Electric	100	Dec. 31, 2001	
Kokusai Chart Corporation of America	67	Feb. 28, 2002	
Yokogawa Trading Asia Pte. Ltd.	100	Feb. 28, 2002	
Yokogawa Trading Hong Kong Limited	100	Feb. 28, 2002	
Yokogawa Trading U.S.A., Inc.	100	Feb. 28, 2002	
Yokogawa Marex Technology Ltd.	100	Feb. 28, 2002	
Yokogawa Hungaria Kft.	100	Feb. 28, 2002	
Yokogawa Martron Ltd.	100	Feb. 28, 2002	
River Process Engineering Co., Ltd.	91	Feb. 28, 2002	
Myanmar Yokogawa Electric Ltd.	100	Feb. 28, 2002	
TechComm Simulation Pty. Ltd.	100	Feb. 28, 2002	
Yokogawa Electric Korea Co., Ltd.	100	Feb. 28, 2002	
HAN YO Telecom Co., Ltd.	100	Feb. 28, 2002	
Yokogawa Trading Korea Co., Ltd.	100	Feb. 28, 2002	
Yokogawa Marex Technology B.V.	100	Feb. 28, 2002	
Measurementation Inc.	100	Feb. 28, 2002	
Measurementation Systems Pte. Ltd.	100	Feb. 28, 2002	
Yokogawa Reinsurance Ltd.	95	Dec. 31, 2001	
Yokogawa Electric (Malaysia) Sdn. Bhd.	100	Feb. 28, 2002	
Martron Instrument Calibration Ltd.	100	Feb. 28, 2002	
Verwaltungsgesellschaft Rota Yokogawa GmbH	100	Feb. 28, 2002	
Plant Electrical Instrumentation Pte. Ltd.	51	Feb. 28, 2002	
Yokogawa New Zealand Pty. Ltd.	100	Feb. 28, 2002	
Taiwan Yokogawa P&L Corporation	100	Feb. 28, 2002	
Yokogawa Nordic AB	100	Feb. 28, 2002	
Yokogawa Marex Limited	100	Feb. 28, 2002	
Yokogawa Shanghai Trading Co., Ltd.	100	Dec. 31, 2001	

Footnote: \*1 During the year, Yokogawa Electronics Manufacturing Corporation, a subsidiary, changed its name from Yokogawa Ilden Components Corporation, which had merged with six other subsidiaries.

\*2 Newly established and consolidated during the year due to a corporate separation of YDC Corporation, a subsidiary.

Due to completion of liquidation, two subsidiaries are excluded from consolidation scope.

The remaining 13 (16 for 2001) 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.

(2) Elimination and Combination

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

income in the year in which it occurs in the case that such difference is not significant.

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

Financial statements of subsidiaries and affiliates are included in the accompanying consolidated financial statements on the basis of respective fiscal year-end. Significant



Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2002

transactions occurred between respective fiscal year-end and March 31 are reflected in the accompanying consolidated financial statements.

23 consolidated subsidiaries including Yokogawa Engineering Service Corporation changed their fiscal year-end from February 28 to March 31. For such subsidiaries, the Company used their financial statements, which included the results of 13-month period ended March 31, 2002 for consolidation purpose.

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.

**(3) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates**

The Company had 13 (16 for 2001) unconsolidated subsidiaries and 22 (30 for 2001) affiliates at March 31, 2002. The equity method is applied to the investments in 11 (12 for 2001) unconsolidated subsidiaries and 18 (23 for 2001) affiliates 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 11 unconsolidated subsidiaries and 18 affiliates accounted for by the equity method as of and for the year ended March 31, 2002 are as follows:

Name of Subsidiary and Affiliates	Percentage Owned by The Company (directly or indirectly)	Fiscal Year End	Additional Information (See Footnote)
Yokogawa Johnson Controls Corporation	45	Aug. 31, 2001	
Yokogawa Rental & Lease Corporation	47	Mar. 31, 2002	
Yokogawa Analytical Systems Inc.	49	Oct. 31, 2001	
Yokogawa Xiyi Co., Ltd.	81	Dec. 31, 2001	
Aqua Consult & Engineering Co., Ltd.	100	Mar. 31, 2002	
Yokogawa AIM Corporation	60	Mar. 31, 2002	
Morioka Tokki Corporation	52	Mar. 31, 2002	
Yokogawa Elder Corporation	100	Mar. 31, 2002	
Yokogawa Green Farm Corporation	100	Mar. 31, 2002	
Yokogawa Denyo Corporation	50	Mar. 31, 2002	
Omega Simulation Co., Ltd.	50	Mar. 31, 2002	
Yokoshou Engineering Corporation	68	Mar. 31, 2002	
Kanazawa System House Co., Ltd.	35	Mar. 31, 2002	
Sansetsu Corporation	33	Sep. 30, 2001	
Toyota Macs Incorporated	26	Mar. 31, 2002	
Yokogawa Blue Star Ltd.	40	Dec. 31, 2001	
Beijing Metallurgy Yokogawa Automation Engineering Co., Ltd.	30	Dec. 31, 2001	
Yokogawa Kontrol (Malaysia) Sdn. Bhd.	30	Feb. 28, 2002	
Yokogawa Shanghai Instrumentation Co., Ltd.	49	Dec. 31, 2001	
Yokogawa Solutions Corporation	100	Mar. 31, 2002	
Yokogawa Organization Resources Counselors Corporation	49	Dec. 31, 2001	
Marubeni-Yokogawa Medical Engineering Co., Ltd.	40	Mar. 31, 2002	*1
Yokogawa Foundry Corporation	100	Mar. 31, 2002	
Yokogawa Toa Kogyo, Ltd.	20	Oct. 31, 2001	
Internetnode Inc.	50	Mar. 31, 2002	
Ando Electric Co., Ltd.	33	Mar. 31, 2002	*2
Waseda University Learning Square Corporation	50	Mar. 31, 2002	
MIE Industrial Sdn. Bhd.	42	Dec. 31, 2001	
SMaL Camera Technologies, Inc.	39	Dec. 31, 2001	

Note: \*1 Equity method was newly applied due to the increase in materiality level.

\*2 In applying equity method, the Company absorbed the entire amount of accumulated deficit of the affiliate. The amount exceeding the ownership interest of the Company was recorded as “Equity in loss of affiliates” in the income statement and as “Advances received and other current liabilities” in the balance sheet.

Due to the sale of the shares, equity method is no longer applied to Yokogawa Fukuyama Keisou, an unconsolidated subsidiary, and five other affiliates.

Due to the completion of liquidation, equity method is no longer applied to Yokogawa Wavetek Corporation, an unconsolidated subsidiary.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost due to their immaterial impact on the consolidated financial statements.

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

In the year ended March 31, 2001, the Company and its subsidiaries adopted the “Revised Accounting Standard for Foreign Currency Translation”(issued on October 22, 1999 by the Business Accounting Deliberation Council). Under the new standard, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period. The adoption of the method had no material impact on the accompanying consolidated financial statements.

The new standard also amended the method of translating foreign currency financial statements of foreign subsidiaries and affiliates into Japanese yen. Under the new standard, assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year or, alternatively, using the exchange rates prevailing at the balance sheet date. Differences in yen amounts arising from the use of different rates are presented as “foreign currency translation adjustments” in the shareholders' equity. The effects of adopting the new accounting standard on the accompanying consolidated financial statements was immaterial.

**(5) Inventories**

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

**(Accounting change)**

During the year, the Company and certain consolidated subsidiaries changed their method of valuing and costing inventories from the average cost method to the specific identification method.

Due to the increase in importance of product evaluation and cost management caused by the diversification of customer demands, the Company implemented a new production control system. This enabled to calculate cost by the specific identification method to determine more accurate profit or loss. The impact of this change on the income statement was immaterial.

**(6) Financial Instruments**

In the year ended March 31, 2001, the Company and its subsidiaries adopted the “Accounting standard for Financial Instruments”(issued on January 22, 1999, by the Business Accounting Deliberation Council). As a result, income before income taxes and minority interests have decreased by ¥1,398 million.

**(a) Derivatives**

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

**(b) Securities**

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

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

Other securities that fair value is available are valued at fair market value prevailing at the end of the fiscal year. Net unrealized gains or losses on these securities are reported as a separate component of shareholders' equity at a net-of-tax amount.

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

**(c) Hedge Accounting**

All derivatives are stated at fair value. Gains and losses arising from changes in fair value of the derivatives designated as “hedging instruments” are deferred as an asset or liability. Forward exchange contracts and currency swaps, if they meet conditions for hedge accounting, the difference of contract rate and spot rate as at date of the contract is recognized over the period from the contract date to the settlement date. Interest-rate swaps, if they meet a conditions for hedge accounting and their nominal amount, terms on interest and contract period are substantially same as those of hedged items, are not values at fair value but accrued net of the swap interests paid and received.

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

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2002

exposure to the risk of interest rate fluctuation in respect of bonds issues by the Company.

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

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

(7) Property, Plant and Equipment

Depreciation is computed on the declining-balance method based on the estimated useful lives of assets.

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

Range of estimated useful lives:

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

(8) Allowance for Doubtful Accounts

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

(9) Reserve for Retirement Benefits

In the year ended March 31, 2001, the Company adopted the new Japanese “Accounting standard for Retirement Benefits”(issued on June 16, 1998, by the Business Accounting Deliberation Council). As a result, net pension expense increased by ¥6,161 million, and income before income taxes and minority interests decreased by ¥5,974 million.

Reserve for retirement benefits as of March 31, 2002 represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the next year in which they arise. Unrecognized prior service cost is charged to expense on a straight-line basis over the average remaining service life of the employees (mainly over 10 years).

Other consolidated subsidiaries generally provide for the reserve for retirement benefits by 100 percent of such benefits

that the subsidiaries would be required to pay if all eligible employees voluntarily terminated their employment at the balance sheet date.

The Company and its consolidated subsidiaries generally provide for the reserve for retirement benefits to directors and corporate auditors, including executive directors, based on the company's bylaws.

(10) Accounting for Leases

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

(11) Income Taxes

Income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

In the year ended March 31, 2000, the Company and its subsidiaries adopted deferred tax accounting in accordance with the amended regulations for preparation of consolidated financial statements. Income taxes are determined using the asset and liability approach, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements.

(12) Cash and Cash Equivalents

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

(13) Reclassification of Accounts

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

3. United States Dollar Amounts

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating Japanese yen to U.S. dollars on a basis of ¥133.25=US\$1, the approximate effective rate of exchange prevailing at March 31, 2002. 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. Accumulated Depreciation

Accumulated depreciation deducted from cost of property, plant and equipment in the accompanying consolidated balance sheet amounted to ¥114,031 million and ¥117,029 million (\$878,269 thousand) at March 31, 2001 and 2002, 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 are accounted for by the method that is applicable to ordinary operating leases. Significant leased assets under above lease contracts of the Company and its subsidiaries for the year ended March 31, 2001 and 2002, is as follows:

	Millions of Yen			Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2001	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2002	Balance as of March 31, 2002
Machinery and Equipment .....	¥1,595	¥ 807	¥ 788	¥1,545	¥ 863	¥ 682	\$ 5,115
Furniture and Fixtures .....	3,341	1,943	1,398	2,811	1,701	1,110	8,333
Total .....	¥4,936	¥2,750	¥2,186	¥4,356	¥2,564	¥1,792	\$13,448

Future lease payments, interest included on lease contracts as of March 31, 2001 and 2002, are as follows:							
	Millions of Yen		Thousands of U.S. Dollars		Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,		March 31,		March 31,
	2001	2002	2002		2001	2002	2002
Due within one year .....	¥ 887	¥ 721	\$ 5,410	Lease rental expenses for the year ....	¥1,201	¥1,008	\$7,566
Due over one year .....	1,299	1,071	8,038				
	¥2,186	¥1,792	\$13,448				

(2) Operating lease contract

Future lease payments as of March 31, 2001 and 2002, are as follows:			
	Millions of Yen		Thousands of U.S. Dollars
	As of March 31,		As of March 31,
	2001	2002	2002
Due within one year .....	¥ 866	¥ 987	\$ 7,405
Due over one year .....	2,966	2,927	21,969
	¥3,832	¥3,914	\$29,374



Notes to the Consolidated Financial Statements

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6. Long-Term Debt

Long-term debt as at March 31, 2001 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2002	2002
Loans from banks, other financial Institutions, etc. due from 2002 to 2022 with mortgage and collateral .....	¥20,735	¥19,105	\$143,378
2.900 percent. bonds due on May 21, 2001 .....	10,000	—	—
2.150 percent. bonds due on July 24, 2002 .....	10,000	10,000	75,047
2.475 percent. bonds due on February 20, 2003 .....	10,000	10,000	75,047
1.950 percent. bonds due on November 25, 2003 .....	10,000	10,000	75,047
2.000 percent. bonds due on March 26, 2004 .....	10,000	10,000	75,047
Zero-coupon bonds due on September 25, 2002 .....	2,000	2,000	15,009
	72,735	61,105	458,575
Less: Current portion .....	10,570	24,311	182,446
	¥62,165	¥36,794	\$276,129

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

	Millions of Yen	Thousands of U.S. Dollars
Within one year .....	¥ 2,311	\$ 17,343
Over one year less than two year .....	226	1,696
Over two year less than three year .....	1,207	9,062
Over three year less than four year .....	1,206	9,054
Over four year less than five year .....	6,385	47,921
Thereafter.....	7,770	58,302
	¥19,105	\$143,378

Interest rate on long-term loans (excluding current portion) from banks was 1.64%, annual average rate.

In accordance with customary business practices in Japan, the Companies maintain substantial deposit balances with institutions from which the Company has borrowings. Withdrawal of such deposits is not restricted legally or by contract.

7. Collateral and Secured Debt

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2002	2002
<b>Collateral:</b>			
Cash and time deposits .....	¥ 13	¥ 12	\$ 93
Building and structure .....	316	196	1,468
Machinery and equipment .....	10	—	—
Land .....	218	9	67
Investment in securities .....	1	1	7
Total .....	¥558	¥218	\$1,635

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2002	2002
<b>Secured debt:</b>			
Accounts and notes payable ....	¥170	¥ 52	\$ 393
Short-term borrowings .....	129	29	217
Long-term borrowings .....	281	150	1,122
Total .....	¥580	¥231	\$1,732

8. Marketable Securities and Investments in Securities

1) The book value of trading securities as of March 31, 2001 and 2002, and net realized losses on valuation during the year ended March 31, 2001 and 2002, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2002	2002
Book value .....	¥47	¥ —	\$ —
Net realized losses .....	¥ (2)	¥ —	\$ —

2) The book value, market value and unrealized gains or losses for held-to-maturity debt securities with fair value as of March 31, 2001 and 2002, are as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	March 31,						March 31,		
	2001			2002			2002		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)

Market value over book value:

Corporate bonds .....	¥1,976	¥2,000	¥24	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Sub-total .....	1,976	2,000	24	—	—	—	—	—	—

Market value less than book value:

Government and municipal bonds .....	1	1	0	2	2	0	18	18	0
Corporate bonds .....	2,000	1,990	(10)	—	—	—	—	—	—
Other .....	505	493	(12)	—	—	—	—	—	—
Sub-total .....	2,506	2,484	(22)	2	2	0	18	18	0
Total .....	¥4,482	¥4,484	¥ 2	¥ 2	¥ 2	¥ 0	\$18	\$18	\$ 0

3) The cost, book value and unrealized gains or losses for other securities with fair value as of March 31, 2001 and 2002, are as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	March 31,						March 31,		
	2001			2002			2002		
	Cost	Book value	Unrealized gains (losses)	Cost	Book value	Unrealized gains (losses)	Cost	Book value	Unrealized gains (losses)

Book value over cost:

Equity securities .....	¥ 15,981	¥26,054	¥10,073	¥ 3,238	¥ 6,009	¥2,771	\$ 24,298	\$ 45,099	\$20,801
Debt securities									
Corporate bonds .....	3,011	3,354	343	917	1,006	89	6,885	7,550	665
Other .....	1,892	2,179	287	—	—	—	—	—	—
Sub-total .....	20,884	31,587	10,703	4,155	7,015	2,860	31,183	52,649	21,466

Book value less than cost:

Equity securities .....	7,374	6,280	(1,094)	14,403	12,248	(2,155)	108,087	91,914	(16,173)
Other .....	184	123	(61)	250	247	(3)	1,876	1,854	(22)
Sub-total .....	7,558	6,403	(1,155)	14,653	12,495	(2,158)	109,963	93,768	(16,195)
Total .....	¥ 28,442	¥37,990	¥ 9,548	¥18,808	¥19,510	¥ 702	\$141,146	\$146,417	\$ 5,271

Impairment loss of ¥5,169 million (\$38,792 thousand) for other securities with fair value was recorded in the year ended March 31, 2002. Where the fair value is available, other marketable securities are subject to impairment loss when the decline in the fair value compared to the book value is more than 30%. In such case, securities are considered “substantially declined” and are written down unless the decline is deemed temporary.

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2002

4) Other securities sold during the year ended March 31, 2001 and 2002, are as follows:

	Millions of Yen		Thousands of
	March 31,		U.S. Dollars
	2001	2002	March 31, 2002
Proceeds from sale of other securities .....	¥37,075	¥1,020	\$7,658
Gross realized gain on sale of other securities .....	35,863	302	2,270
Gross realized loss on sale of other securities .....	1	127	953

5) Book value of major securities without fair value as of March 31, 2001 and 2002, are as follows:

	Millions of Yen		Thousands of
	March 31,		U.S. Dollars
	2001	2002	March 31, 2002
<b>Other securities</b>			
Unlisted securities (Excluding over-the-counter) .....	¥11,998	¥13,809	\$103,631
Unlisted securities .....	—	256	1,918
Money Management Funds .....	24,249	13,739	103,108
Free Financial Funds .....	—	241	1,808
Medium term Japanese Government Bonds fund	802	403	3,023

6) Schedule for redemption of held-to-maturity debt securities and other securities with maturities

	Millions of Yen				Millions of Yen				Thousands of U.S. Dollars			
	March 31,				March 31,				March 31,			
	2001				2002				2002			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
<b>Debt securities</b>												
Government and municipal bonds ...	¥ —	¥ 0	¥ 0	¥ —	¥ —	¥ 2	¥ —	¥ —	\$ —	\$ 18	\$ —	\$ —
Corporate bonds .....	2,000	—	2,000	—	—	1,000	—	—	—	7,505	—	—
Other .....	—	500	—	—	—	256	—	—	—	1,918	—	—
<b>Other</b> .....	200	1,000	—	—	—	—	—	—	—	—	—	—
Total .....	¥2,200	¥1,500	¥2,000	¥ —	¥ —	¥1,258	¥ —	¥ —	\$ —	\$9,441	\$ —	\$ —

During the year ended March 31, 2002, the Company redeemed ¥3,976 million (\$29,839 thousand) of held-to- maturity debt securi- ties outstanding in prior year's consolidated balance sheet.

9. Market value information of Derivative Transaction

Derivative transactions are used in order to manage exchange risks and risks of market rate fluctuations which occur in the normal course of business. And they are not going to be used for speculative purposes or for highly leveraged transactions.  
The contracted amounts, fair values and valuation gains or losses for derivative transactions related to currencies as of March 31, 2001 and 2002, were as follows:

	Millions of Yen				Millions of Yen				Thousands of U.S. Dollars			
	March 31,				March 31,				March 31,			
	2001				2002				2002			
	Contract amount etc.				Contract amount etc.				Contract amount etc.			
	Total	Over one year	Fair value	Valuation gains(losses)	Total	Over one year	Fair value	Valuation gains(losses)	Total	Over one year	Fair value	Valuation gains(losses)
<b>Forward exchange contract</b>												
Selling contracts												
U.S. dollar .....	¥515	¥ —	¥516	¥ 1	¥417	¥ —	¥414	¥ 3	\$ 3,119	\$ —	\$3,102	\$17
Other .....	—	—	—	—	69	—	73	(4)	521	—	551	(30)
Buying contracts												
U.S. dollar .....	—	—	—	—	141	—	137	(4)	1,060	—	1,031	(29)
Currency option												
Selling contracts												
Yen put-U.S. dollar call .....	6,856	—	(160)	(91)	2,708	—	(21)	4	20,325	—	(161)	32
(Option premium) .....	(69)	(—)			(26)				(193)			
Buying contracts												
U.S. dollar put-Yen call .....	6,269	—	10	(59)	2,538	—	8	(18)	19,047	—	61	(132)
(Option premium) .....	(69)	(—)			(25)				(192)			
Currency swap												
Receipt of Yen and Payment of U.S. dollar .....	1,101	—	(156)	(156)	—	—	—	—	—	—	—	—
Total .....	¥14,741 (138)	¥ — (—)	¥210	¥(305)	¥5,873 (51)	¥ —	¥611	¥(19)	\$44,072 (385)	\$ —	\$4,584	\$(142)

The above amounts exclude outstanding derivative contracts, which are assigned to monetary rights and obligations, in accordance with the Japanese Accounting Standards for derivative financial instruments.  
Fair value was estimated based on the trading value quoted by correspondent financial institutions.  
There was no disclosure made related to interest-related derivative contracts because all outstanding contract were assigned to monetary rights and obligations as of March 31, 2001 and 2002, in accordance with the Japanese Accounting Standards for derivative financial instruments.



Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2002

10. Income Taxes

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2002	2002
<b>Deferred Tax Assets</b>			
Excess amount of tax deductible for retirement allowance .....	¥19,067	¥13,199	\$99,053
Tax loss carry forward .....	3,497	12,711	95,396
Write down of investments in securities .....	4,719	8,329	62,509
Unrealized gain eliminated in consolidation .....	1,492	—	—
Excess amount of tax deductible for accrued bonus .....	2,115	1,942	14,573
Loss on write-down of inventories .....	—	1,437	10,785
Other items .....	6,306	6,123	45,950
Sub total -deferred tax assets .....	37,196	43,741	328,266
Valuation allowance .....	(10,610)	(16,809)	(126,152)
Total deferred tax assets .....	26,586	26,932	202,114
<b>Deferred Tax Liabilities</b>			
Special tax-purpose reserve .....	(2,442)	(2,330)	(17,489)
Unrealized gain of other securities .....	(4,497)	—	—
Foreign subsidiaries .....	—	(1,217)	(9,130)
Other items .....	(2,073)	(1,422)	(10,670)
Total deferred tax liabilities .....	(9,012)	(4,969)	(37,289)
Net deferred tax assets .....	¥ 17,574	¥21,963	\$164,825

As loss before income taxes was recorded, no reconciliation of statutory tax rate and effective tax rate is provided.

11. Reserve for Retirement Benefits

The Company and its domestic subsidiaries have defined benefit retirement plans, that is contributory pension plan (cover a portion of governmental pension), qualified pension plan and a lump-sum retirement payment plan. Sometimes additional payments are made when employees retire. Some of overseas subsidiaries also have defined benefit retirement plans. The number of the companies which adopted a lump-sum retirement payment plan was 34, which adopted contributory pension plan (cover a portion of governmental pension) was 4 and which adopted qualified pension plan was 16. The reserve for retirement benefits as of March 31, 2001 and 2002, is analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31,		As of March 31,
	2001	2002	2002
Projected benefit obligations .....	¥(142,742)	¥(148,547)	\$(1,114,799)
Plan assets .....	89,087	99,899	749,707
Unfunded projected benefit obligations .....	(53,655)	(48,648)	(365,092)
Unrecognized plan assets .....	—	(53)	(395)
Unrecognized actuarial differences .....	5,099	11,724	87,984
Unrecognized prior service cost .....	—	(1,832)	(13,746)
Accrued pension cost .....	(48,556)	(38,809)	(291,249)
Prepaid pension cost .....	—	106	794
The reserve for retirement benefits .....	¥ (48,556)	¥ (38,915)	\$ (292,043)

Notes: \*1 The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law. In the year ended March 31, 2002, pursuant to the amendment of the Japanese Welfare Pension Insurance Law on March 2000, prior service cost was incurred due to the amendment of code, which raised the starting age of receiving benefits.  
\*2 Some of consolidated subsidiaries provide for retirement allowance by using expediency methods. For some small and medium sized companies, simplified methods are allowed to apply; for employees, the amount would be required to pay if all eligible employees voluntarily terminated their employment at the balance sheet date, in certain cases such amount would be discounted for the period of remaining service years, and for pensioners, the amount of actuarial obligation calculated for the funding purpose.

\*3 Consolidated subsidiaries which joined in joint pension funds and could not calculate the value of their own plan assets by reasonable method, expensed their contribution amount to the funds as pension expenses. The aggregate amounts of the plan assets of the funds are ¥2,761 million, ¥2,416 million (\$18,138 thousand) at March 31, 2001 and 2002, respectively.

Net pension expense related to the retirement benefits for the year ended March 31, 2001 and 2002, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31,		For the year ended March 31,
	2001	2002	2002
Service cost .....	¥8,817	¥8,700	\$65,287
Interest cost .....	3,949	4,159	31,215
Expected return on plan assets .....	(2,452)	(3,011)	(22,596)
Amortization of actuarial differences .....	—	536	4,024
Amortization of prior service cost .....	—	(194)	(1,458)
Amortization of transition amount .....	2,021	—	—
Net pension expense .....	¥ 12,335	¥10,190	\$76,472

Notes: \*1 Other than net pension expense above, the Company paid additional retirement benefits of ¥183 million in the year ended March 31, 2001 and charged to “Selling, General and Administrative Expenses.” In the year ended March 31, 2002, the Company paid ¥804 million (\$6,034 thousand) and recorded as expense in “Other, net”.  
\*2 Employees' contribution for contributory pension plan (cover a portion of governmental pension) was deducted.  
\*3 Pension expense of consolidated subsidiaries which applied expediency method are included in “Service Cost.”

Assumptions used in calculation of the above information were as follows:

	As of March 31, 2002
Discount rate .....	3.0%
Expected rate of return on plan assets .....	3.5%
Method of attributing the projected benefits to periods of services .....	mainly point basis
Amortization of unrecognized prior service cost .....	10 years
Amortization of unrecognized actuarial differences .....	10 years

12. Commitment and Contingent Liabilities

The Company was contingently liable for guarantees of loans borrowed by the employees of the Company and its related companies, its unconsolidated subsidiaries and affiliates in the amount of ¥2,519 million (\$18,904 thousand) at March 31,

2002. In addition, the Company was contingently liable for guarantees of purchase obligations related to finance lease in amount of ¥6 million (\$46 thousand) at March 31, 2002.

13. Research and development cost

Research and development cost incurred during the year ended March 2001 and 2002 included in “Cost of Sales” and “Selling, General and Administrative Expenses”, aggregated to

¥19,180 million and ¥19,237 million (\$144,367 thousand), respectively.

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
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14. Selling, General and Administrative Expenses

The major elements of selling, general and administrative expenses for each of the three years in the period ended March 31, 2002, are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	2001	2002	2002
Salaries .....	¥41,494	¥43,209	¥43,892	\$329,394
Bonuses to employees .....	8,908	9,261	8,160	61,237
Provision of accrued bonus .....	3,257	4,127	3,117	23,390
Provision for doubtful accounts .....	—	—	185	1,388
Provision of retirements benefits:				
Directors and corporate auditors .....	230	246	264	1,981
Employees .....	281	5,905	5,846	43,873
Executive officers .....	83	69	—	—

15. Related Party Transaction

- <The year ended March 31, 2001>
- Company name: GE Yokogawa Medical Systems, Ltd.
  - Status: Affiliate
  - Equity ownership percentage by YOKOGAWA ELECTRIC CORPORATION: 25.0%

Descriptions of transactions	Transactions made during the year ended March 31, 2001	
	Amounts	Notes
Sale of the investments in the company .....	¥11,000	(1)

Notes: (1) The sale was incurred related to cancellation of stocks by GE Yokogawa Medical Systems, Ltd.  
As a result, the Company had lost voting rights to GE Yokogawa Medical Systems, Ltd.

- <The year ended March 31, 2002>
- The disclosure for related party transactions are omitted as there have been no significant transactions with related parties.

16. Subsequent Events

- (1) Termination of the joint venture contract with Johnson Controls, Inc.  
Based on a termination agreement of the joint venture contract with Johnson Controls, Inc. on April 3, 2002, the Company sold all of its holding shares of Yokogawa Johnson Controls Co. with a book value of ¥1,315 million (\$9,869 thousand) for gross proceeds of ¥8,000 million (\$60,038 thousand).

(2) Acceptance of newly issued stocks of Ando Electric Co., Ltd.  
On May 14, 2002, at the Board of Directors' meeting of Ando Electric Co., Ltd., an affiliate accounted for by the equity method, a resolution was adopted to issue new
- shares and allocate entire shares to the Company. On the same day, at the Board of Directors' meeting of the Company, the Company decided to accept those shares. The details of the newly issued stocks are as follows:

① Number of new shares issued: common stock 8,000,000 shares

② Issuance price: ¥570 (\$4) per share

③ Total amount of newly shares issued: ¥4,560 million (\$34,221 thousand)

④ Settlement date: May 30, 2002

⑤ Holding shares and holding ratio of the Company  
Before acceptance: 10,155,000 shares (33.00%)  
After acceptance: 18,155,000 shares (46.83%)

- (3) Stock exchange agreement with Ando Electric Co., Ltd., to become a wholly owned subsidiary of the Company  
On May 14, 2002, the Company and Ando Electric Co., Ltd. entered into a stock exchange agreement, which makes Ando Electric Co. Ltd. a wholly owned subsidiary of the Company for the purpose of strengthening solidarity of electronic measuring instrument business of both companies, subsequent to the approval of the Board of Directors' meeting of both companies. The agreement was approved at the annual shareholders' meeting of both companies held on June 27, 2002.

1) Overview of the stock exchange agreement

① Object  
The Company will exchange its stocks with Ando Electric Co., Ltd. in a method pursuant to the Japanese Commercial Code, Article 352 and 363.

② Date of stock exchange  
October 1, 2002

③ Number of shares to be issued for stock exchange and the exchange ratio  
The Company will issue 10,926,979 shares of its common stock to the registered shareholders of Ando Electric Co., Ltd. as of the day before the stock exchange, except for the Company. The Company will exchange 0.53 shares of its common stock for one share of Ando Electric Co., Ltd. common stock.  
The exchange ratio was discussed and agreed between both companies, considering the ratio calculated by third party financial institutions. The Company and Ando Electric Co., Ltd. engaged Nomura Holdings, Inc. and Shinsei Bank Ltd., respectively, to calculate the ratio, using market price method and discounted cash flow method.

④ Increase in capital and additional paid-in capital
- The Company will allocate the entire amount of increase in capital to additional paid-in capital account. The amount of increase shall be the net asset of Ando Electric Co., Ltd. as of the stock exchange date multiplied by the ration of the shares transferred to the Company divided by the total outstanding shares issued by Ando Electric Co., Ltd.
- 2) Overview of Ando Electric Co., Ltd.

Representative Masao Motohashi, President

Shareholders' equity ¥7,597 million (\$57,013 thousand)

Address 5-29-3 Kamata, Ohta-Ku Tokyo

① Description of business  
Manufacturing and distribution of communication measuring instruments, semiconductor measuring instruments and electric measuring instruments.

② Net sales and net loss for the year ended March 31, 2002

Net sales ¥25,252 million (\$189,508 thousand)

Net income ¥16,806 million (\$126,124 thousand)

③ Assets, liabilities, and accumulated deficit as of March 31, 2002

Total assets ¥35,493 million (\$266,364 thousand)

Total liabilities ¥35,978 million (\$270,004 thousand)

Total accumulated deficit ¥485 million (\$3,640 thousand)
- (4) Subsequent to March 31, 2002, the Company's Board of Directors, with the subsequent approval by shareholders on June 27, 2002, declared a cash dividend of ¥911 million (\$6,838 thousand), equal to ¥3.75 (\$0.028) per share, which was applicable to earnings of the year ended March 31, 2002 and payable to shareholders on the register on March 31, 2002.

17. Net income per share

- Net income per share is based upon the weighted average number of shares of common stock outstanding during each year. No diluted effect on net income per share for fiscal 2000, 2001 and 2002 is disclosed since the Company has issued neither bonds with subscription warrant nor convertible bonds.
- Cash dividend per share shown for each year in the accompanying Consolidated Statement of Income represent dividends declared as applicable to the respective years, rather than those paid in the respective years.



Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES  
For the years ended March 31, 2002

18. Segment Information

(1) Industry segment information

The Company and its subsidiaries had two industry segments for the year ended 2001, “Measurement, Control and Information Equipment Business” and “Other Business”, based on similarity of products and markets. For the year ended 2002, Products related to aircrafts, ships and marine, which were included in “Other Business” in prior year, are classified as “Measurement, Control and Information Equipment Business”, considering the changes in technical feature and organization structure for management of a subsidiary company that manufactures and sells of these products.

As a result, net sales, operating income and total assets of the “Measurement, Control and Information Equipment Business” constituted more than 90% of the consolidated

totals for the year ended March 31, 2002. Thus, the disclosure of industry segment information has been omitted.

The “Measurement, Control and Information Equipment Business” 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, engine and control instruments of aircraft, navigation, weather observation, gyrocompasses, etc.

The Other Business consists principally of real estate operation, temporary personnel service, and factoring related operation, etc.

(2) Geographic Segment Information

Segment information classified by geographic area (inside and outside Japan) for each of the two years ended March 31, 2001 and 2002, is summarized as follows:

	2001					
	Millions of Yen					
	Sales to Outside Customers	Inter- Segment Sales	Total Sales	Operating Expenses	Operating Profit	Assets
Japan .....	¥290,841	¥24,277	¥315,118	¥302,948	¥12,170	¥303,158
Asia .....	19,012	16,041	35,053	32,777	2,276	24,407
Europe .....	17,229	1,274	18,503	18,164	339	14,623
North America .....	18,688	863	19,551	19,258	293	9,841
Other .....	6,842	254	7,096	6,806	290	4,528
Total .....	352,612	42,709	395,321	379,953	15,368	356,557
Elimination or Unallocated .....	—	(42,709)	(42,709)	(43,557)	848	54,274
Consolidated Total .....	¥352,612	¥ —	¥352,612	¥336,396	¥16,216	¥410,831

	2002							
	Millions of Yen						Thousands of U.S. Dollars	
	Sales to Outside Customers	Inter- Segment Sales	Total Sales	Operating Expenses	Operating Profit (loss)	Assets	Operating Profit (loss)	Assets
Japan .....	¥238,881	¥24,306	¥263,187	¥264,959	¥(1,772)	¥230,692	\$(13,299)	\$1,731,270
Asia .....	23,334	10,391	33,725	32,416	1,309	23,802	9,822	178,628
Europe .....	20,919	2,107	23,026	22,202	824	16,058	6,184	120,513
North America .....	18,219	2,342	20,561	20,063	498	9,312	3,740	69,887
Other .....	9,475	168	9,643	9,231	412	6,296	3,088	47,244
Total .....	310,828	39,314	350,142	348,871	1,271	286,160	9,535	2,147,542
Elimination or Unallocated .....	—	(39,314)	(39,314)	(39,788)	474	67,740	3,560	508,366
Consolidated Total .....	¥310,828	¥ —	¥310,828	¥309,083	¥ 1,745	¥353,900	\$ 13,095	\$2,655,908

Notes: \*1 Geographical distances are considered in classification of country or area.  
\*2 Major countries or areas included in each segment except for Japan are as follows;  
Asia               Singapore, China, Korea etc.  
Europe           The Netherlands, France, England, Germany etc.  
North America   USA  
Other             Brazil, Australia etc.  
\*3 Unallocated assets included in “Elimination or Unallocated” mainly consist of surplus funds (cash and marketable securities), long-investments (investment in securities, etc.), and assets which belong to administrative department of the Company.securities, etc.), and assets which belong to administrative department of the Company.

(3) Export sales and sales by overseas subsidiaries

	2001				
	Millions of Yen				
	Asia	Europe	North America	Other	Total
Overseas sales .....	¥47,150	¥20,885	¥21,880	¥8,826	¥ 98,741
Consolidated Sales .....	—	—	—	—	¥352,612
Ratio .....	13.4%	5.9%	6.2%	2.5%	28.0%

	2002				
	Millions of Yen				
	Asia	Europe	North America	Other	Total
Overseas sales .....	¥40,906	¥23,587	¥19,077	¥12,771	¥ 96,341
Consolidated Sales .....	—	—	—	—	¥310,828
Ratio .....	13.2%	7.6%	6.1%	4.1%	31.0%

	2002				
	Thousands of U.S. Dollars				
	Asia	Europe	North America	Other	Total
Overseas sales .....	\$ 306,982	\$177,014	\$143,167	\$95,843	\$ 723,006
Consolidated Sales .....	—	—	—	—	\$2,332,668
Ratio .....	13.2%	7.6%	6.1%	4.1%	31.0%

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

### **The Board of Directors of Yokogawa Electric Corporation**

We have audited the accompanying consolidated balance sheets of Yokogawa Electric Corporation and its consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income and retained earnings, and cash flows for each of the three years in the period ended March 31, 2002, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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 of March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2 to the consolidated financial statements, effective from the year ended March 31, 2001, Yokogawa Electric Corporation and its consolidated subsidiaries have adopted new Japanese accounting standards for accounting for retirement benefits, accounting for financial instruments and accounting for foreign currency translation.

The amount expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

*Chuo Soyama Audit Corporation*

Tokyo, Japan

June 27, 2002



## Yokogawa Electric Corporation

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