

Yokogawa Electric Corporation

Annual Report 2003

For the Fiscal Year Ended March 31, 2003

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES
For the years ended March 31, 1999, 2000, 2001, 2002 and 2003

	Millions of Yen					Thousands of U.S. Dollars
	1999	2000	2001	2002	2003	2003
For the Year:						
Net sales	¥280,186	¥313,353	¥352,612	¥310,828	¥328,766	\$2,735,158
Net income	(4,428)	5,820	25,416	(23,112)	(26,232)	(218,263)
At Year-End:						
Total assets	400,559	420,706	410,831	353,899	364,730	3,034,359
Total shareholders' equity	171,018	177,596	200,039	169,057	131,784	1,096,373
Net Income Per Share, Adjusted						
Return on Assets						
	¥ (17.7)	¥ 23.4	¥ 103.7	¥ (94.6)	¥ (108.4)	\$ (0.902)
	-1.1%	1.4%	6.2%	-6.0%	-7.3%	-7.3%

Notes: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥120.20 = US\$1, the rate of exchange prevailing at March 31, 2003

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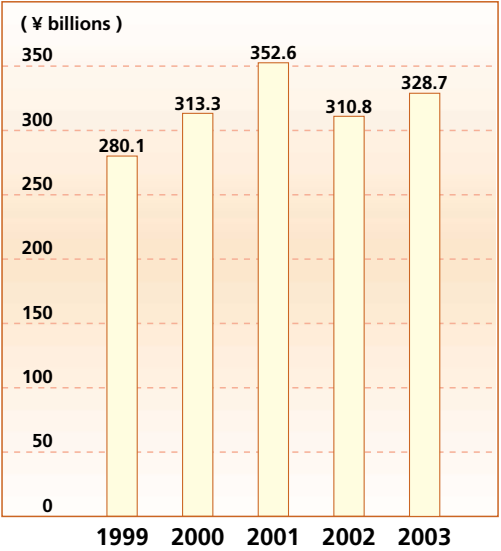
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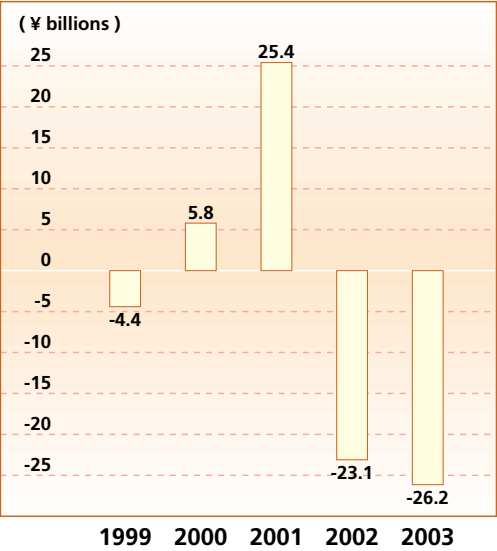
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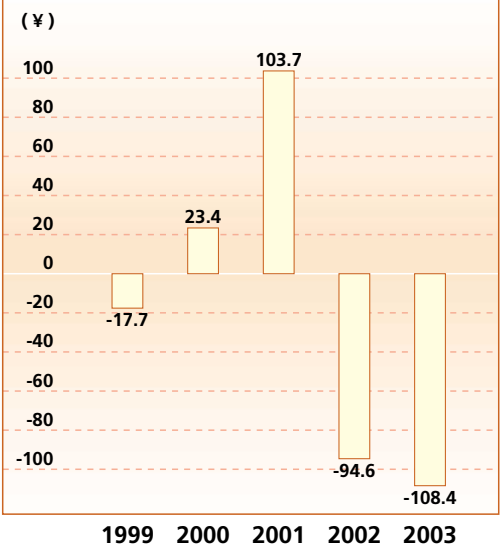
Net Sales



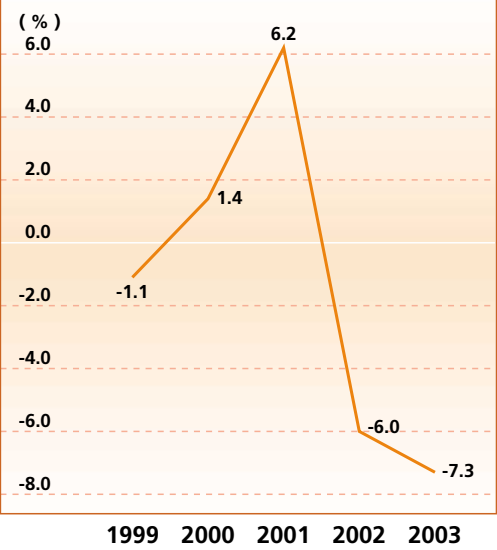
Net Income



Net Income Per Share



Return on Assets



Upholding the motto of "quality first" and the core value of extending satisfaction to customers, Yokogawa has been making a strong contribution in numerous industries since its foundation in 1915.

In today's difficult economic environment, many customers are endeavoring to transform their business structures and create innovative management systems. With a commitment to providing optimum solutions born out of the latest technologies, Yokogawa has been presenting strategic solutions to its customers who face these challenges. Our technology and expertise in industrial automation and control, test and measurement, information systems, and aviation and industrial support services enable us to present the highly appropriate solutions that our customers appreciate.

At Yokogawa, we are continually asking ourselves what kind of issues the customer is facing and what technologies are required to solve these issues. In our efforts to supply the highest quality products and solutions, we are investing steadily in research and development and taking leadership in developing advanced technologies. We believe that this management policy focused on customers has won us their trust.



To further strengthen its partnership with customers, Yokogawa is steadily proceeding with a reorganization of its business structure and enhancing the Yokogawa Group's management system, as was announced in 2000 with the VISION-21 and ACTION-21 mid-term strategy. We continue with existing businesses while making selective investments in the information systems, optical networking, multimedia, semiconductor, life science and biochemical fields that are changing our business structure. To more effectively promote innovation in the Group's operations, we are realigning and unifying businesses and steadily enhancing the management infrastructure.

Yokogawa is committed to being a healthy and profitable operation so that we, as a trusted partner, can provide our customers optimum solutions that are based on the latest technologies. We plan to be meeting their requirements and expectations for many years to come.

A handwritten signature in black ink, reading "Isao Uchida".

Isao Uchida
President and Chief Executive Officer

Core Management Policies

In keeping with the core goals of the VISION-21 and ACTION-21 corporate strategy, which was announced in January 2000 and aims to achieve a healthy and profitable operation, the Group is currently pursuing innovations to its business structure and management.

Driven by this strategic emphasis on innovations in business structure, the Group is implementing several programs to reach the quantitative goals it has set for achievement by fiscal year 2005. One is to improve profitability through efficiency gains in the industrial automation and control business, and particularly within the area of plant control systems. Efforts also are being 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 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.

Management Targets

We have declared several consolidated management targets for achievement by fiscal year 2005 through steady implementation of the core strategies outlined by VISION-21 and ACTION-21 for our principal business domains: consolidated net sales of 500 billion yen, consolidated operating income of 50 billion yen, a consolidated ROA of 5 percent, and a consolidated ROE of 10 percent.

Medium- and Long-term Business Strategies by Business Domain

The Group has classified its operations into key business domains: the industrial automation and control business, the test and measurement business, the information systems business, and the aviation and industry support business. Yokogawa is now pursuing an aggressive business strategy in each of these domains, the core strategies for which are outlined below.

Industrial Automation and Control Business

The Group is striving to win more contracts in international markets where levels of capital spending have been strong and sustained. In Japan, the Group is actively tapping into markets that have been the focus of relatively steady investment, such as food and pharmaceuticals, and is aiming for improved profitability while promptly meeting demand to update and replace existing business facilities. Yokogawa is solidifying its industrial automation and control business by continually striving to deliver a highly reliable product mix and optimal system solutions that are tailored to market needs. It is also expanding its service and maintenance organization in order to better respond to increased demand in specific market segments.

Test and Measurement Business

Yokogawa is expanding the Group's business presence in the semiconductor and communications network equipment market segments through the strategic debut of competitive new products. In the market segment for semiconductor testers, the Group is expanding operations with a product strategy geared to the provision of devices and memories for use in broadband communications equipment, information appliances, and related areas. The Group is expanding operations in the measuring instruments business by enlarging its line of high-frequency measuring instruments for the development of next-generation information and communications network equipment and information appliances, and by utilizing the latest technologies to perfect and commercialize measuring instruments and related equipment for the optical transmission systems that will pave the way for the emerging age of broadband communications.

Information Systems Business

Yokogawa is expanding its business in medical imaging and information systems, a market segment where the Group already commands a strong share. Furthermore, it is providing competitive solutions primarily to those manufacturing industries that are striving to enhance business efficiency through the implementation of IT solutions.

Aviation and Industry Support Business

Yokogawa is expanding operations in the aircraft-related measuring instruments business by working more aggressively to accommodate private sector demand. In addition, it is pushing forward with efforts to expand the Group's proprietary electronics manufacturing service (EMS) business, which enlists a broad array of manufacturing technologies and production management know-how.

Challenges for the Company

In keeping with the core goals of VISION-21 and ACTION-21, namely, healthy and profitable operations, the Group has been pursuing a business strategy aimed at increasing sales turnover and improving net profit on a consolidated basis. The challenges the Company now faces are outlined below.

Improved profitability in the industrial automation and control business

Build a global business foundation for stable and strong profit through taking steps to boost business efficiency and profitability.

Accelerated expansion of the test and measurement business

Implement sweeping changes in management structure and establish a healthier framework for stronger Group earnings by shifting more resources into semiconductors, fiber-optic communications, and other promising growth markets and businesses.

Maximization of consolidated operating income

Sustain the quest to maximize consolidated operating income through the realignment and consolidation of Group companies and other efforts designed to build on and refine the Group's operating frameworks and mechanisms.

Structural reforms

Adopt a compensation framework that rewards personnel in a manner commensurate with their value-added contributions, implement the downsizing of back-office operations personnel engaged in all businesses which is followed by a large-scale downsizing of the Group's office work force, and move forward with the consolidation and realignment of the Group's global manufacturing frameworks, thereby setting the stage for healthy and profitable operations.

Basic Philosophies on Corporate Governance

The Company is well aware that the basic mission of corporate management lies in the maximization of benefits to stockholders. By positioning corporate governance as a mechanism to fulfill this mission, it has implemented various activities aiming at structural reforms and revitalization that focus on the Board of Directors and the Board of Corporate Auditors. In keeping with the mandate of the shareholders, it considers one of the main functions of the Board of Directors to be the monitoring of corporate strategies and their implementation, and it regards the Board of Corporate Auditors as a mechanism for monitoring the Board of Directors. One of the basic policies is to strengthen corporate governance by enhancing transparency, objectivity, and validity of management through the reinforcement of these two functions.

Based on this policy, the Company elected one outside director at its 2003 shareholders meeting with the objective of receiving advice from someone who has a different perspective. As a result, it has eight directors in total, including the one outside director. It also has four corporate auditors in total, including two outside auditors.

Regarding the subject of compliance, the Company has formulated a document entitled "Standards of Business Conduct for the Yokogawa Group" that applies to all Group units worldwide. This has been done in the interest of cultivating a culture that encourages each and every employee to act in accord with a strong sense of corporate ethics. In addition, the Company's Audit and Compliance Headquarters has reviewed this code of conduct and ensured its legal compliance for the entire Group.

Business Results

General Overview

In the industrial automation and control business, which focuses on the provision of control systems for industrial use, sales revenues increased during the fiscal year thanks to overall brisk performance reflecting a series of large orders from leading companies in the international market. At the same time, Japanese sales revenue in this business segment remained weak, largely due to the continued slowdown in corporate capital investment.

In the test and measurement business as a whole, sales revenues increased due to steady performance of the semiconductor tester business, while the measuring instruments business was sluggish. The slowdown in capital investment in Japan caused net sales in the information systems business and the aviation and industry support business to fall below their levels for the same period of the year before.

These factors contributed to a set of bleak business results for the current fiscal year. Although consolidated net sales rose 17.9 billion yen to 328.7 billion yen for a gain of 5.8 percent, consolidated operating income fell 100 million yen to 1.5 billion yen, a 10.5 percent decline. Fluctuating exchange rates and other factors resulted in a consolidated ordinary loss of 1.2 billion yen, a 4.8 billion yen decline from the same period of the previous year. Consolidated net loss increased by 3.1 billion yen to 26.2 billion yen largely due to valuation losses on investment securities and business restructuring losses.

During the fiscal year under review, the Company solidified its organization in order to boost sales and maximize profits on a consolidated basis. Changes include the realignment of subsidiaries and affiliates and the large-scale shift of personnel from back-office operations to direct business operations such as sales, services, and manufacturing. Moreover, Ando Electric Co., Ltd. (Ando), an affiliated company to which the equity method of accounting had been applied, became a wholly-owned subsidiary through a stock swap in October 2002. In line with this change, the Company implemented a drastic business restructuring by consolidating Ando's semiconductor tester business into its operations and by transferring its communications measuring instruments business to Ando, thereby strengthening and expanding the businesses of both organizations.

In addition, with the goal of securing the largest market share in China, the Company established Yokogawa Electric China Co., Ltd. as a wholly-owned subsidiary and is now building a new factory in Suzhou, China.

In summary, the company is carrying out global restructuring activities on a massive scale while realigning its manufacturing sites in Japan.

Results by Business Segment

Results by individual business segment are outlined below.

Industrial Automation and Control Business

The slump in capital spending had a damping effect on the net sales of the industrial automation and control business in Japan. However, net sales outside Japan remained firm.

Test and Measurement Business

The brisk semiconductor tester business contributed to an increase in sales revenues of the test and measurement business as a whole, although sales revenues of the measuring instruments business were undermined by such factors as drops in product prices.

Information Systems Business

Net sales in this segment demonstrated gains thanks to an active drive by the Company to expand its presence in the medical information systems business and the systems solutions business for the manufacturing industry. The Company merged three information systems subsidiaries to form Yokogawa Information Systems Corporation, a measure aiming at business expansion and improved profitability.

Aviation and Industry Support Business

The Company poured additional resources into this segment to satisfy the growth in private sector demand for aircraft-related products and magnetoencephalographs (MEGs).

Outlook of Operations for Fiscal Year 2003

Yokogawa's industrial automation and control systems business is widely respected by an array of major international corporate clients thanks to collective strengths that include its technological prowess, engineering capabilities, quality, and services. Naturally, the Company plans to capitalize on these strengths and continue working to expand its sales force and win more contracts in the international marketplace. In the meantime, Yokogawa will also actively strive to boost its sales in the Japanese market through efforts to spur replacement demand.

The semiconductor tester business has maximized synergetic effects by combining the Company's logic tester technologies with the memory tester technologies transferred from Ando. The Company plans to accelerate this business in the system-on-a-chip (SoC), visual, and communications LSI markets and attain highly superior market positions through its efforts, including the build-out of a new customer base in the memory tester market and the reinforcement of its liquid crystal driver tester business in Asian markets. In the measurement business segment, the Company's strategy is to expand and refine product lineups and boost sales accordingly for all Group units.

In the information systems segment, Yokogawa plans to move forward with the expansion of its medical information systems business, and to accelerate the expansion of its business in the delivery of system solutions to the manufacturing industry.

Among its undertakings in the aviation and industry support business, the Company will continue working to spur growth in private sector demand for its aerospace instrument and MEG markets.

With respect to cash flow, the Company plans to redeem 10 billion yen from its fourth issue of Japanese straight bonds in November 2003 and 10 billion yen from its fifth issue of Japanese straight bonds in March 2004. The Company will continue to shrink its assets further and enhance its financial structure.

In the year ahead, the Company will also continue to concentrate its energies and resources on a Group-wide promotional drive aimed at boosting sales revenue through the reinforcement of existing business operations and efforts to tap into new markets.

Yokogawa Solutions: Helping Customers Build More Efficient Organizations

Throughout the world there are plants of all types running around-the-clock for which Yokogawa has an optimum solution. Yokogawa flow meters, sensors, control computers and software for monitoring and controlling production processes are used in almost every industry, including petroleum refining, electricity, gas, chemicals, iron and steel, food, and pharmaceuticals, as well as fields such as water supply/wastewater treatment and district heating/cooling. Yokogawa's high-quality products and services are prized by users around the globe.

Under its Enterprise Technology Solutions business concept, Yokogawa is delivering optimum solutions with state-of-the-art technologies that are helping its customers achieve more efficient organizations.

Yokogawa's industrial automation products range from integrated production control systems to field instruments such as differential pressure transmitters and flowmeters, programmable logic controllers, and equipment for acquiring and recording data. Yokogawa provides a comprehensive range of solutions including safety shutdown management systems and software for advanced control and operator assistance, manufacturing execution systems that manage not

only manufacturing lines but also corporate-wide production information, and enterprise resource planning systems that utilize corporate-wide management information.

With the technologies, expertise and system integration skills that have been fostered over the years and with a proven track record in numerous industries, Yokogawa is well positioned to bring together systems, equipment and software and to create an optimum solution for each customer's requirements. Yokogawa is there around the clock and throughout the year with the services and support that its customers need. And to minimize the total



Yokogawa Response Center

cost of ownership, the company provides an ideal solution with preventive maintenance and equipment diagnostic services over the entire life cycle of each product.

Products with Cutting-edge Technologies

In fiscal year 2002, Yokogawa released the CENTUM CS 3000 R3.03, a functionally enhanced version of the company's flagship CENTUM CS 3000 R3 series of integrated production

control systems. Based on a design concept that emphasizes the continual adoption of new functions while assuring functional continuity, the CENTUM CS 3000 R3 series will continue to incorporate cutting-edge technologies and be constantly upgraded to meet the ever-changing needs of the marketplace. Yokogawa aims to attain a pivotal position in the global market through ongoing product development activities that ensure a stable supply of technically superior, high quality products which meet or exceed user expectations.

Yokogawa is also enhancing its family of higher-order information systems software packages to make the most of DCS functionality. In fiscal year 2002, Yokogawa developed MaterialStream, a software package for managing, monitoring and controlling the flow of materials and products based on information provided by DCSs from the manufacturing workplace. In addition, the company enhanced the functionality of its Exaquantum plant information system, a plant information management software package used in process control.

Expanding in Markets Outside Japan

In fiscal year 2002, Yokogawa won a succession of major industrial automation projects. These projects include monitoring and control systems for large-scale ethylene plants in Saudi Arabia and China which will be using the latest next-generation instrumentation systems based on the FOUNDATION Fieldbus technology. These successes attest to the exceptional level of Yokogawa's Fieldbus technology.

In Europe, Yokogawa has also won an order for a remote monitoring and control system for use in a large-scale gas field. Of unprecedented scale, the system is responsible for remotely monitoring and controlling numerous types of gas treatment facilities scattered across a wide area.

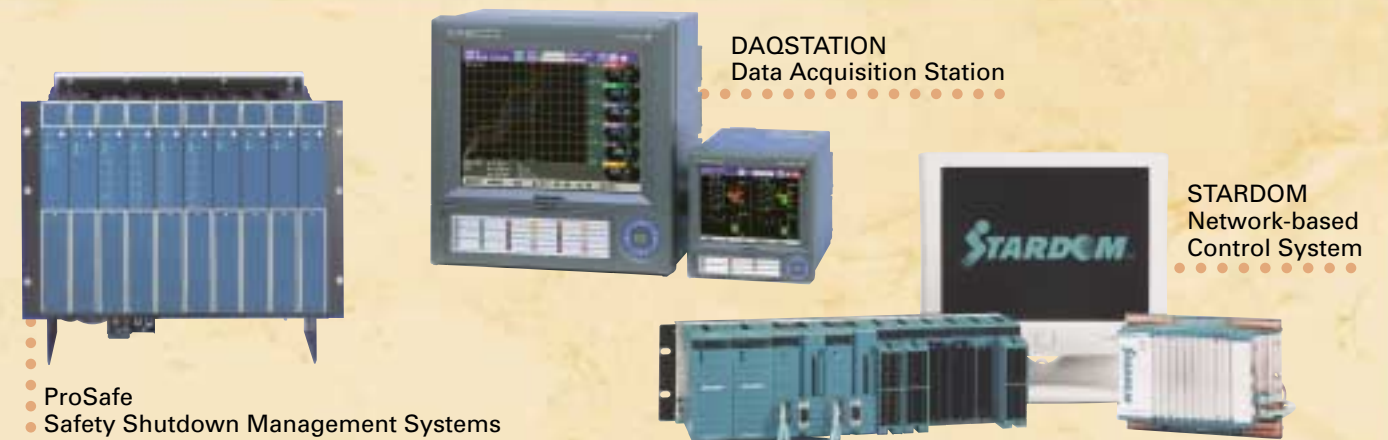
Yokogawa is a trusted name in the global market and its base of support is broad and deep. The company will continue to invest heavily in research and development in order to provide state-of-the-art industrial automation technologies to its global customers.

Industrial Automation and Control Business



CENTUM CS 3000 R3
Integrated Production Control System

ADMAG AXF
Magnetic Flowmeter



DAQSTATION
Data Acquisition Station

STARDOM
Network-based
Control System

ProSafe
Safety Shutdown Management Systems

Yokogawa's test and measurement business falls into two main categories: electronic measuring instruments and automatic test equipment (ATE). The former covers a wide range of products, from general-purpose measuring instruments for the development and quality control of electric and electronic products such as digital oscilloscopes and waveform generators, to measuring instruments designed for the latest communications applications such as optical, wireless and IP communication. The ATE business deals with LSI testers for the function testing of various LSI devices, as well as such peripheral equipment as IC handlers.

Exploitation of New Business Areas through Acquisition of Ando Electric

The relationship between Yokogawa and Ando deepened as they entered into a business partnership in February 2001, followed by the acquisition of Ando by Yokogawa in October 2002 as a wholly-owned subsidiary. The two companies

have been cultivating the market by developing new products that combine their technologies.

In the field of electronic measuring instruments, there has been good technology synergy between Ando, which specializes in high frequency technologies, particularly in the spectrum of optical signal frequencies, and Yokogawa, which is strong in compound semiconductor and circuit design technologies. This synergy has been particularly useful in the development of key modules and optical measuring instruments for next-generation optical transmission systems. These efforts are beginning to yield fruit in the form of pioneering technology breakthroughs.

In the ATE field, with the inclusion of Ando's high-frequency logic testers and memory testers, the Yokogawa Group is now able to provide a total testing solution that covers the entire range of LSI testers, from analog to mixed-signal, logic and memory testers.

ATE with Superior Cost Performance

In the ATE field, Yokogawa has been progressively reducing the cost of LSI testing while offering a wide choice of solutions, to overcome the trade-off between high-speed multi-functionality and lower cost. Yokogawa's efforts are not

limited to merely lowering tester prices. The company is committed to reducing the total cost of ownership for customers.

In fiscal year 2002, Yokogawa developed an even faster SoC tester through collaboration with Ando. In addition, Yokogawa released new models that are successors to its LCD driver tester, which has an overwhelming market share. These strategic approaches have given Yokogawa a firm competitive edge in this field.

Successive Launches of New Products in the Electronic Measurement Market

In the field of electronic measuring instruments, Yokogawa has been developing and releasing products targeted at growth markets. By developing products with distinct features based on elaborate market analysis, Yokogawa is building a dominant market share in individual segments.

Among other products, measuring instruments for the mechatronics markets such as automobiles, electric home appliances and office equipment, must be capable of not only simultaneously measuring a large number of points but also recording relatively slow-changing signals over a long period. To meet this demand, Yokogawa has developed digital oscilloscopes that allow multipoint measurement with long-record-length memory, and these have been very popular among users.

In the field of audio-visual equipment, Yokogawa products such as time interval analyzers for optical disks and measuring instruments for digital broadcasting are recognized as de facto standards.

Development of New Optical Communications Technologies and Products

The optical communications field, among other fields in the electronic measuring instruments business, requires the most advanced technologies. Based on many years of research on ultrafast devices and compound semiconductor technologies, Yokogawa has been developing key modules for the next-generation 40-gigabits-per-second optical transmission systems. In fiscal year 2002, Yokogawa developed world-leading key function modules and began shipping samples. These modules include optical modulator drivers for driving modulators that convert electric signals to optical signals in the transmitter/receiver of an optical transmission system, and photo detectors that convert optical signals to electric signals. With the addition of these new modules, Yokogawa now has all the main function modules necessary for configuring an optical transmission system, and will continue to develop the modules for even faster optical transmission systems.

In collaboration with Ando, Yokogawa will use these modules with measuring instruments to produce high-performance compact products. With the advantage of being able to supply by itself all the modules at the heart of optical transmission systems, Yokogawa will release high-performance cost-effective products and remain the market leader in this field.

Test and Measurement Business



AP9950 Pulse Pattern Generator
AP9951 Error Detector

AL6050
Memory Test System



DL1740
Digital Oscilloscope



TS6000H+
VLSI Test System



Yokogawa's information systems business roughly falls into three categories: information systems solutions for manufacturing industries, network administration and security products, and medical information systems.

Information Systems Solutions for Manufacturers

Yokogawa's information solution business is focused on the numerous manufacturing industries in which the company has years of experience in the supply of control systems. In addition to manufacturing execution systems that bridge the information gap between the workplace and management, Yokogawa offers solutions such as enterprise resource planning (ERP) and supply chain management (SCM) systems that can raise a manufacturer's management efficiency.

In order to provide even more comprehensive solutions to its customers, in fiscal year 2002 Yokogawa consolidated three of its subsidiaries that handle information solutions for industrial applications.

Business Operations in Growing Network-related Markets

Today, the Internet and corporate intranets are essential business tools. However, administering and maintaining the security of these complex networks is a major challenge. By leveraging its competitive measurement technologies, Yokogawa has long been involved in the research and development of information security.

Recently, cyber attacks on and unauthorized access to corporate intranets and web sites have caused considerable damage that includes leaked corporate data and disruptions in online services. Yokogawa has been providing a wide choice of network security products that include intrusion detection systems for the detection of unauthorized network access, firewalls that shut out viruses, and personal authentication systems that restrict access to an intranet or other networks.

For network administration, the company offers equipment for monitoring the quality of communication data and network administration tools for surveying devices that are connected to networks. The market for these products that help keep networks running problem-free is expected to grow dramatically.

Yokogawa is also helping to promote IPv6, the next-generation Internet protocol. Although IPv6 networks have not yet entered full-scale use, Yokogawa is investing heavily in this technology and has released the world's first translator that links IPv6 and IPv4 networks. Concurrently, the company is developing new business models for the distribution of contents and services that utilize the extensive functionality of IPv6.

Medical Information Systems

The medical information systems market is promising, as the computerization of information is expected to spread dramatically. Yokogawa was among the first to offer systems that digitize and store medical images such as x-ray radiographs, CT images and MRI photographs, and so has captured a leading share of the business from large general hospitals and university hospitals in Japan.

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.

The market for electronic clinical charts, in particular, is expected to grow rapidly because the Japanese government is actively promoting computerization. Yokogawa has gained a leading position in this field through the formation of an alliance with a major system integrator in Japan. In addition to its business targeting large-scale medical facilities, Yokogawa has introduced an electronic clinical chart and medical accounting system and is aggressively selling this to small- and medium-scale hospitals. These facilities number in the thousands and make up the largest part of the Japanese hospital market.



Information Systems Business



ImageAROS
DICOM Image Server



IS100
Network Intrusion Sensor



TTB3000
IPv6/IPv4 Translator



Web Camera
Monitoring System



Aircraft Instrumentation

Yokogawa's advanced measurement, control and information technologies have also been widely applied to various aircraft instruments. Products include flight director systems, altimeters and engine meters that ensure safe navigation and reduce pilot workload. Our LCD flat-panel display is exceptionally popular because it allows pilots to quickly and easily switch between screens that display flight status, navigation and other types of data. This product has been chosen for the latest Airbus model.

Applied Measurement

Yokogawa is also opening up new markets in diverse fields of applied measurement. The company used a state-of-the-art superconducting quantum interference device to develop a magnetoencephalographic (MEG) system that senses the magnetic fields that are generated when the brain is active. It is capable of detecting fields as weak as one nano-g (one-billionth the strength of the earth's gravitational field). The system was released in 2000 and is used in the most advanced fields of medicine and medical care.

Yokogawa has also developed a proprietary confocal scanner that makes it possible to obtain tomographical

images or stereoscopic 3-D images without having to segment cells. This makes it possible to keep a specimen alive and to directly observe a physiological reaction, in real time, where a specific gene produces protein molecules within live cells.

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

Through decades of experience in the manufacture of control systems and measuring instruments, Yokogawa has gained extensive know-how of small-lot, high-variety manufacturing; manufacturing with ultra-short lead times; and zero-inventory just-in-time manufacturing. Our expertise in manufacturing more than 10,000 different high-quality products with short lead times is unsurpassed.

Through Yokogawa Trading Corporation, a member of the Yokogawa Group, Yokogawa provides agency services for material procurement and international and domestic distribution to companies both inside and outside the Group.

Capitalizing on this unrivaled ability to supply a total solution covering material procurement, manufacturing and distribution, Yokogawa also sells a wide array of electronics manufacturing services (EMS) to other manufacturing firms. We are especially committed to commissioned manufacturing of high value-added products that require the sophisticated manufacturing techniques in which the Yokogawa Group excels.

Aviation and Industry Support Business

Ando Electric's restructuring

In October 2002, Yokogawa Electric Corporation acquired Ando Electric Co., Ltd. by means of a stock swap and Ando became a wholly-owned Yokogawa subsidiary. Ando's semiconductor tester business was transferred to Yokogawa and Yokogawa's communications measuring instrument business was transferred to Ando. It is expected that these measures will strengthen and expand each company's business.

Other strategic measures include the shut-down by Ando of three factories and the transfer of manufacturing operations to Yokogawa Electronics Manufacturing, and the transfer of Ando's maintenance and service functions to Yokogawa Engineering Service. Through these initiatives Ando has made major personnel cuts and overhauled its cost structure.

As a result, Ando has emerged as a new organization with high-level engineering, marketing and sales expertise dedicated to advanced communications measuring instruments. In the future, Ando will develop new products tailored to broadband and wireless applications that will serve as the basis for a society where networks are ubiquitous. Specifically, the company will contribute by developing new measuring instruments and transmission equipment designed for interurban and wide-area core and access networks, to be launched in growing markets.



mini-OTDR AQ7250

Entry into Chinese market

China's market for measuring instruments and industrial automation is expected to become larger than Japan's. To position itself for growth in this market, Yokogawa established Yokogawa Electric China Co., Ltd. in October 2002. Based in Suzhou City, China, this wholly owned subsidiary of Yokogawa will function as a regional headquarters and carry out sales, marketing, engineering and production functions. This strategic move will help Yokogawa capture a dominant share of China's measuring instruments and industrial automation market. In conjunction with the nine existing Yokogawa Group companies in China, the new company will take the lead in developing the market, aiming to become the market leader in China by 2010.



Premise of Yokogawa Electric China Co., Ltd. (Under construction)

Restructuring of production systems

Yokogawa's production strategy is as follows:

- To prevail in the fiercely competitive global market by enhancing production capabilities in low-cost countries such as China, from which the company will provide high-quality, cost-competitive products to customers worldwide
- To ensure the presence near our Japanese customers of the systems required for developing, producing and supplying products that meet customer needs

These are the prerequisites for defeating leading competitors outside Japan and for surviving as a manufacturer in the Japanese market. Yokogawa is working to raise competitiveness and enhance the ability of its Japan production systems to add value through such initiatives as leveling the operating ratio of its plants and reducing inter-plant logistics costs. Yokogawa has therefore made the key decision to select four of its 19 plants to function as high value-added production bases and to shut down the other facilities by March 2004. Preparations are already underway. The four production bases in Japan will focus on cutting-edge production engineering and on improving both quality and cost.

Concurrently, a production facility that will ultimately have 30,000 m² in floor space is being built in an industrial complex in Suzhou City, China. This plant will be optimized for global production and will be internationally competitive. In the first phase of this project, a 20,000 m² factory is being built and this will start operations in October of this year.

In line with these strategic initiatives, Yokogawa is radically restructuring its global production in such locations as Singapore, Korea, China and Japan, and expects to complete this process by the end of March 2004.



Flat Panel Display for Aircraft Cockpit

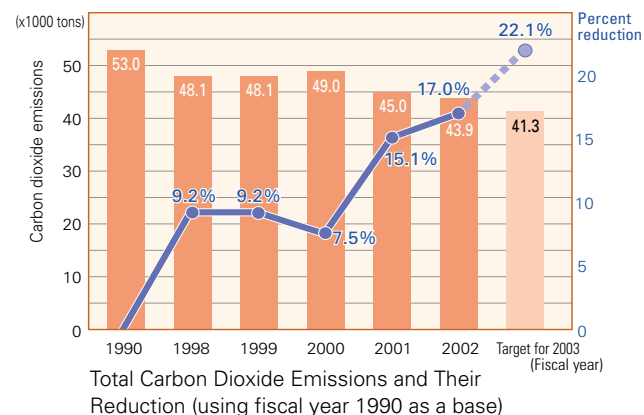
PQ1160C (MEGvision) Brain Mapping System



CSU 21 Confocal Scanner

1. Carbon Dioxide Emissions

The Yokogawa Group is continuously raising the energy efficiency of its activities as part of its resource recycling-based operations. Our exhaustive energy controls have resulted in a 17% reduction in total carbon dioxide emissions (total emissions of 43,900 tons at 19 sites), which exceeds the 10.9% target originally set for fiscal year 2002. The graph below shows the trend in total carbon dioxide emissions since 1990. We will continue with these important efforts to comply with the Kyoto Protocol by striving to reach a 22% reduction target for fiscal year 2003.



2. Key Results in Fiscal Year 2002

Each of the Group companies and sites is steadily contributing to our energy conservation efforts. At our manufacturing facilities, we have been promoting the New Yokogawa Production System, which aims to eliminate all unnecessary processes and optimize energy efficiency. The Kofu Plant, for instance, has been very successful in reducing energy consumption by implementing Yokogawa's Line Improvement Rules.

In 2002, two notable achievements were:

- (1) Reduction of energy consumption through the introduction of the Econo-Pilot system
- (2) Kofu Plant receives award from the Director General of the Kanto Bureau of Economy, Trade and Industry recognizing the plant for its achievements in reducing energy consumption

(1) Energy Savings Through Econo-Pilot

The Econo-Pilot system reduces the amount of energy consumption by optimizing the operation of water pumps used by air conditioning systems and other types of facilities. This system is based on a principle that pump pressure is a square of the water flow rate. A reduction in the flow rate and pump pressure results in a corresponding decrease in electrical power consumption. To illustrate, by halving the flow rate, the pumping pressure can be reduced to one quarter and the power consumption to one eighth. This mechanism was developed by three enterprises—Yokogawa Electric Corporation; Asahi Kogyosha Co., Ltd.; and The First Energy Service Co., Ltd.—and was commercialized by Yokogawa after the development and demonstration phases, through joint research with the New Energy and Industrial Technology Development Organization. Econo-Pilot is easy to install (involving only the installation of a small controller) and can be remotely monitored and adjusted via a Web browser. Even data processing through the Web is possible. The system typically cuts power consumption by 60% to 90%, making it invaluable for sites such as production facilities, hospitals and hotels where water pump power consumption is high. It is a popular and effective means of conserving energy and reducing cost, and it was awarded the 2002 Energy Conservation Award by the Energy Conservation Center.



Energy Conservation Award ceremony

a. Corporate Headquarters

In November 2002, the Econo-Pilot was installed in three air-conditioning systems in one of the buildings at headquarters. This has significantly reduced the power consumption for these systems' secondary pumps and is on track to achieving an annual reduction of 155 MWh, which translates into 57.4 tons of carbon dioxide emissions.

b. Kofu Plant

Econo-Pilot was installed in four secondary pumps that supply water to approximately 20 air-conditioning systems. Since beginning operation in April 2002, it has raised pump operating efficiency while slashing power consumption by 30 MWh per year, or 11.5 tons of carbon dioxide emissions.



(2) Kofu Plant Receives Excellence in Energy Management Award

At the Kofu Plant, the following five measures have greatly raised energy efficiency during the last three years:

- a. Reduction in number of air compressors and installation of an air monitoring system
- b. Integration of high-voltage transformers through monitoring and analysis of annual power consumption
- c. Optimization of the air-conditioning system operation schedule for the Technical Center's Standards Calibration Laboratory.
- d. Use of inverter-driven lighting equipment
- e. Installation of a new light-through solar power system

In recognition of these outstanding improvements, the Director General awarded the Excellence in Energy Management award to the plant on February 4, 2003.

Item e) above was introduced in the Yokogawa Group Environmental Report 2002. Items a) and b) played a major role in winning the award, and their concrete results are described below.

a. Curtailment of compressors and installation of an air monitoring system

The Kofu Plant used to have two compressors for each of its three air conditioning systems, as well as a number of small local compressors. To save even more energy, we decided to reduce the number of compressors. Specifically, we divided the factories into sections, installed a flowmeter in each of them, and measured the amount of compressed air used. We also installed air supply valves so that the air supply could be switched off, as needed, within a specific factory. Moreover, we used paperless recorders to collect data on air consumption and pressure, and this data could be monitored and/or downloaded via an intranet. By checking the operating status of each compressor, we determined that only four compressors were necessary and this reduction in the number of processors from six to four cut annual power consumption by 600,000 KWh.

b. Integration of high-voltage transformers

A power monitoring system consisting of Yokogawa products started operation at the Kofu Plant in May 1999. By utilizing the power consumption data that we were able to gather with this system, we simulated the load loss of 24 transformers at a high-voltage substation, checked the load trends, and then identified eight transformers whose capacities were not fully utilized. We stopped using these transformers and carefully used the remaining 16 transformers to reduce the load loss, achieving an annual power saving of 33 MWh.

Other effective measures include item d), by which the lighting equipment used at the Kofu Plant was changed to inverter-driven lighting. This produced brighter illumination and required less lighting equipment. In addition, with the power monitoring system described above, we located air leaks from the compressors and fixed these, thus conserving even more power.



Certificate and plaque for Director-General's Award from the Kanto Bureau of Economy, Trade and Industry

Yokogawa has 39 affiliates in Japan and 63 companies in 27 countries outside Japan including 16 production facilities in 10 countries, as well as 117 service offices world wide (as of June, 2003), constituting a truly global network. Sales outside of Japan in fiscal year 2002 amounted to ¥116.4 billion (US\$968 million) - ¥54.6 billion (US\$454 million) in Asia, ¥26.6 billion (US\$ 221 million) in Europe, ¥18.9 billion (US\$ 157 million) in North America, and ¥16.2 billion (US\$135 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.



North America	Yokogawa U.S.A. Inc.
	Yokogawa Corporation of America
	Yokogawa Trading U.S.A. Inc.
	Kokusai Chart Corporation of America
	SMaL Camera Technologies, Inc.
South America	Yokogawa America do Sul Ltda.
	Yokogawa Service S.A.
Europe	Yokogawa Europe B.V.
	Yokogawa Nederland B.V.
	Yokogawa System Center Europe B.V.
	Yokogawa GesmbH, Central East Europe
	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.S.
	Rota Yokogawa France S.A.R.L.
	Yokogawa Hungaria Kft.
	Yokogawa Reinsurance Ltd.
	Yokogawa Italia S.R.L.
	Yokogawa Nordic AB
	Yokogawa United Kingdom Limited
	Yokogawa Marex Limited
	Yokogawa Martron Ltd.
	Yokogawa Capital Unlimited
Russia	Ltd. Yokogawa Electric
Africa	Yokogawa South Africa (Pty) Ltd.
Middle East	Yokogawa Middle East E.C.

Asia	Yokogawa Engineering Asia Pte. Ltd.
	Yokogawa Electric 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.
	Yokogawa Philippines Inc.
	Yokogawa (Thailand) Ltd.
	River Process Engineering Company Ltd.
	Yokogawa Blue Star Ltd.
Oceania	Yokogawa Australia Pty. Ltd.
	TechComm Simulation Pty. Ltd.
	Yokogawa New Zealand Ltd.
China	Yokogawa Electric China Co., Ltd.
	Yokogawa Xiyi Co., Ltd
	Suzhou Yokogawa Meter Company
	Yokogawa (Shanghai) Instrumentation Co., Ltd.
	Shanghai Yokogawa Petrochemical Instrumentation Co. Ltd.
	Yokogawa Sichuan Instrument Co., Ltd.
	Beijing Metallurgy Yokogawa Automation Engineering Co., Ltd
	Yokogawa Shanghai Trading Co., Ltd.
	Yokogawa Trading Hong Kong Ltd.
	Yokoshin Software Engineering (Wuxi) Co., Ltd.

Board of Directors



Isao Uchida
President and
Chief Executive Officer



Akira Nagashima
Director



Yasuhiro Katsube
Director



Kazunori Yagi
Director



Seiji Takahashi
Director



Kazuhiko Kimura
Director



Teruyoshi Minaki
Director



Masahisa Naito
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 and Senior Vice Presidents

Akira Nagashima

Executive Vice President of Corporate
Research & Development Headquarters

Yasuhiro Katsube

Executive Vice President of Automatic
Testing Equipment (ATE) Business
Headquarters

Kazunori Yagi

Executive Vice President of Corporate
Planning Headquarters

Seiji Takahashi

Executive Vice President of Management
Administration Headquarters

Kazuhiko Kimura

Senior Vice President of Sourcing &
Manufacturing Business Headquarters,
Chairman of Yokogawa Electronics
Manufacturing Corporation,
Chairman of Yokogawa Electric China
Co., Ltd.

Teruyoshi Minaki

Senior Vice President of International
Business Headquarters,
Chairman of Yokogawa Europe B.V.,
Chairman of Yokogawa Blue Star Ltd.
Chairman of Yokogawa Marex Ltd.

Toshio Kimura

Senior Vice President of Control Products
Business Headquarters

Hidehiko Bando

Senior Vice President of Aerospace Products
Business Headquarters

Manabu Sasada

Senior Vice President of Industrial Solutions
Business Headquarters

Masao Motohashi

Senior Vice President of Communication &
Measurement Business Headquarters

Vice Presidents

Masahiro Otsuka

Vice President of Aerospace Business Div.,
Aerospace Products Business Headquarters

Akihiko An-youji

Vice President of Business Div. II, ATE
Business Headquarters

Yuukou Toyonori

Vice President of New Products
Development Dept., ATE Business
Headquarters

Toshiki Okuzumi

Vice President of T&M Business Div.,
Communication & Measurement Business
Headquarters

Kiyokazu Ishii

Vice President of IA Systems Business
Div., International Business Headquarters

Toshiro Tomita

Vice President of Corporate Marketing
Dept., Corporate Planning Headquarters

Kiyoaki Okino

Vice President of Audit and Compliance
Headquarters, and Crisis Management
Office (Legal and Crisis & Risk
Management)

Tadamitsu Yamagata

Vice President of Information Systems
Business Headquarters

Seiichi Kiyobe

Vice President of Environmental and
Analytical Products Business Div.,
Control Products Business Headquarters

Takafumi Koyanagi

Vice President of Sales Planning Div.,
Industrial Solutions Business Headquarters

Kimimasa Hiromi

Vice President of Field Instruments
Business Div.,
Control Products Business Headquarters

Hiroyuki Tanaka

Vice President of Sourcing & Manufacturing
Business Div., Sourcing & Manufacturing
Business Headquarters

Hideo Arai

Vice President of Engineering Business Div.,
International Business Headquarters

Takashi Fujii

Vice President of Business Div. I, ATE
Business Headquarters



Financial Section

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

Financial Review

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the year ended March 31, 2003

General Overview

In the industrial automation and control business, which focuses on the provision of control systems for industrial use, sales revenues increased during the fiscal year thanks to an overall brisk performance reflecting a series of large orders from leading companies in the international market. Japanese sales revenue in this business segment remained weak, largely due to the continued slowdown in corporate capital investment.

In the test and measurement business, sales revenues increased overall due to the steady performance of the semiconductor tester business, while the measuring instruments business was sluggish. The slowdown in capital investment in Japan caused net sales in the information systems, aviation and industry support business to fall below the levels achieved in the previous year.

These factors contributed to a set of bleak business results for the current fiscal year. Although consolidated net sales rose 17.9 billion yen (US\$149 million) to 328.7 billion yen (US\$2,735 million) for a gain of 5.8 percent, consolidated operating income fell 183 million yen (US\$1.5 million) to 1.5 billion yen (US\$12 million), a 10.5 percent decline. Fluctuating exchange rates and other factors resulted in a consolidated ordinary loss of 1.2 billion yen (US\$10 million), a 4.8 billion yen (US\$40 million) year-on-year decline. Consolidated net loss increased by 3.1 billion yen (US\$26 million) to 26.2 billion yen (US\$218 million), a 3.1 billion yen (US\$26 million) increase that can largely be explained by valuation losses on investment securities and business restructuring losses.

Results by Business Segment

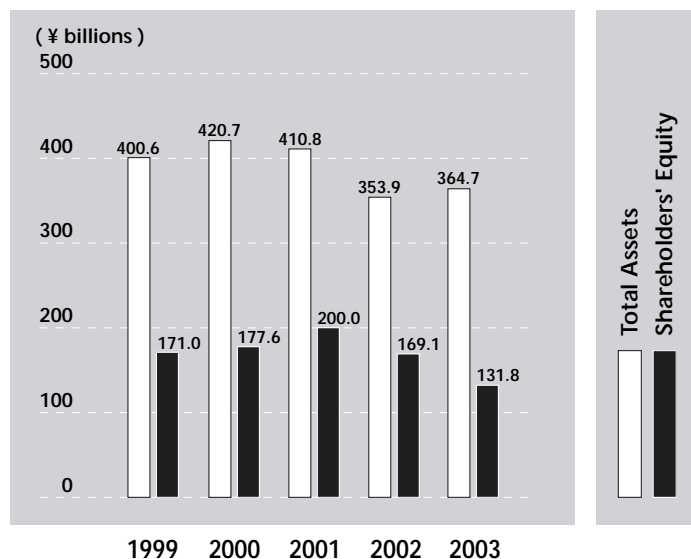
The slump in capital spending had a damping effect on the net sales of the industrial automation and control business in Japan. However, net sales outside Japan remained firm. The Group registered sales of 166.5 billion yen (US\$1,385 million), an increase of 4% over the previous year.

The brisk semiconductor tester business and the full consolidation of Ando Electric Co., Ltd. (Ando) contributed to an increase in sales revenues for the test and measurement business as a whole, although sales revenues for the measurement instruments business were undermined by such factors as drops in product prices. The Group registered sales of 78.5 billion yen (US\$653 million), an increase of 20.7 billion yen (US\$172 million).

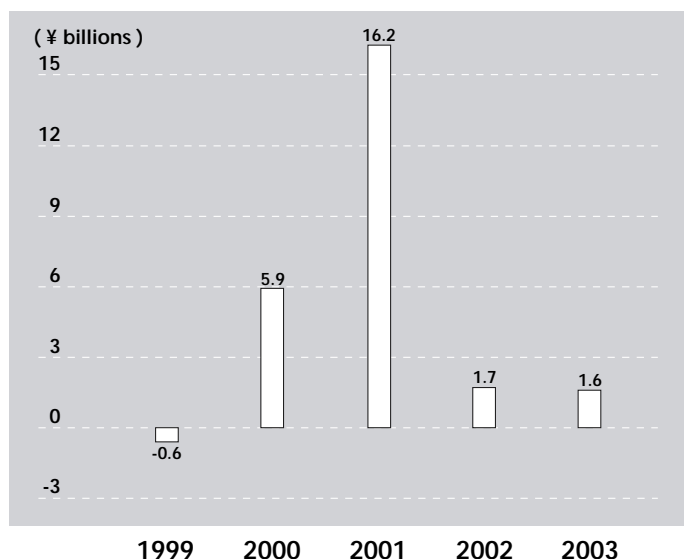
Net sales in the information systems business demonstrated gains thanks to an active drive by the Company to expand its presence in the medical information systems business and in the systems solutions business, which targets the manufacturing sector. The Company merged three information systems subsidiaries to form Yokogawa Information Systems Corporation, a measure designed to expand business and improve profitability. The Group's information systems business registered sales of 24.5 billion yen (US\$204 million), an increase of 1 billion yen (US\$ 8 million) over the previous year.

In the aviation and industry support business, the Group registered sales of 59.3 billion yen (US\$ 493 million), which was down 10.2 billion yen (US\$85 million) from the previous year.

Total Assets / Shareholders' Equity



Operating Profit



Financial Conditions

As of the end of the year under review, the Group had total assets worth 364.7 billion yen (US\$3,034 million), an increase of 10.8 billion yen (US\$90 million) from the preceding year.

Current assets totaled 212.6 billion yen (US\$ 1,769 million), an increase of 18.6 billion yen (US\$ 155 million) compared to the previous year. Two components of current assets - notes and accounts receivable, and inventories - increased by 5.8 billion yen (US\$ 48 million) and 7.2 billion yen (US\$60 million) respectively due to last year's full consolidation of Ando by the equity method.

For operational reasons, the Company transferred operating assets from marketable securities to cash and deposits.

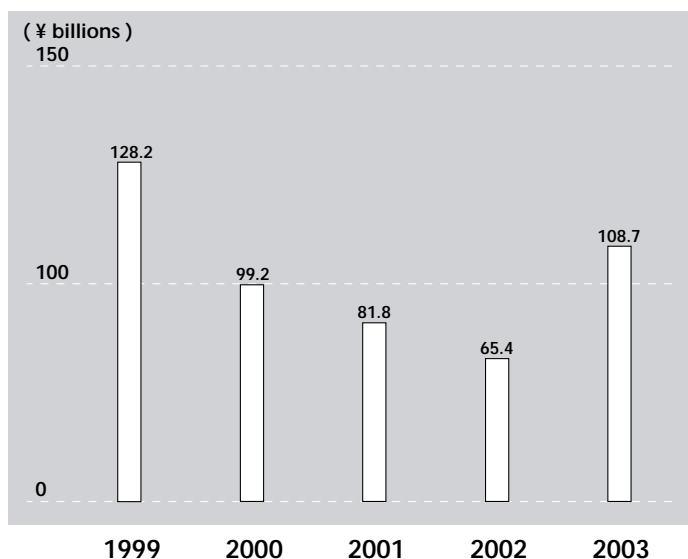
Investments in securities decreased by 6.7 billion yen (US\$56 million) because of the reevaluation of the shares of financial institutions.

With the full consolidation of Ando, land holdings increased by 2.2 billion yen (US\$18 million). A reevaluation necessitated by the carrying forward of net operating loss resulted in a 4.8 billion yen (US\$40 million) decrease in deferred tax assets - non current.

Current and fixed liabilities totaled 230 billion yen (US\$1,913 million) at the end of the year under review, an increase of 48.1 billion yen (US\$400 million) that can be attributed to the full consolidation of Ando. The Company issued 35 billion yen (US\$291 million) of commercial paper and increased its long term loans from bank and financial institutions by 10.6 billion yen (US\$88 million) to take over the interest-bearing liability of Ando.

Shareholders' equity at the end of the year totaled 131.7 billion yen (US\$1,096 million), a decline of 37.2 billion yen (US\$310 million) compared to the year before. This was due to a reduction in the consolidated retained earnings resulting from the year's losses. The number of shares of common stock increased by 10,926,979 because of the stock swap agreement with Ando.

Interest-bearing Liabilities



Cash Flow Summary

On a consolidated basis, the balance in cash and cash equivalents totaled 47.8 billion yen (US\$398 million) for the fiscal year, up 1.9 billion yen (US\$ 16 million) from the level recorded a year earlier. In addition, free cash flow from operating and investing activities decreased 1.2 billion yen (US\$10 million) over the past year, which compares to an increase of 16.1 billion yen (US\$134 million) a year earlier.

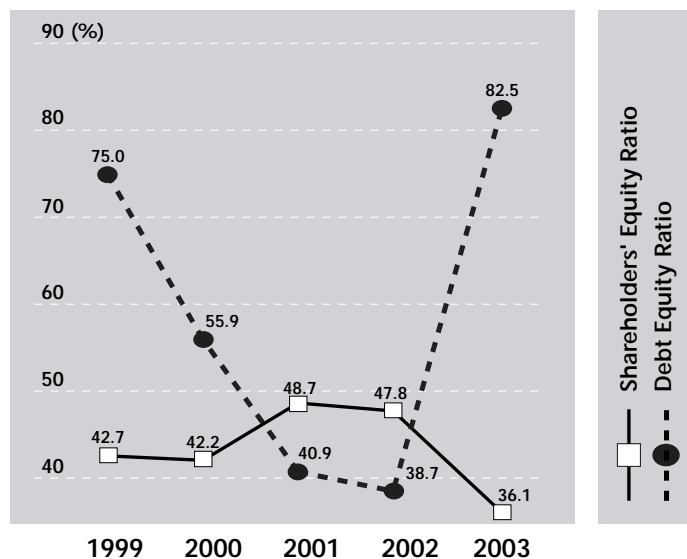
In spite of the consolidated net losses, cash flow from operating activities increased by 1.8 billion yen (US\$15 million), but this figure is down considerably from the 20.4 billion yen (US\$ 170 million) increase that was registered last year. The increase this year is the result of efforts that have reduced trade receivables by 6.5 billion yen (US\$ 54 million) and inventories by 3.1 billion yen (US\$26 million).

Cash flow from investing activities decreased by 3.0 billion yen (US\$25 million), which compares to the 4.3 billion yen (US\$36 million) decrease experienced during the same period the year before. Fixed assets acquired during the fiscal year amounted to 12.4 billion yen (US\$103 million), including intangible fixed assets such as software. The Company sold the shares of its affiliate, Yokogawa Johnson Controls Corporation, for 8.0 billion yen (US\$ 67 million) in April 2002. The Company also liquidated some cross-shareholding by selling the shares that it held in financial institutions.

Cash flow from financing activities increased by 3.6 billion yen (US\$30 million). This compares to a decrease of 22.9 billion yen (US\$190 million) the previous year. The Company raised funds by issuing 35 billion yen (US\$291 million) in new commercial paper and taking out fixed, long-term loans from financial institutions, enabling it to repay the outstanding loan obligations of various subsidiaries and affiliates and to buy back its own stock.

Though the Company was preparing to redeem the second and third issues of its 10 billion yen (US\$83 million) Japanese straight bonds issued in July 2002 and February 2003, it elected to launch a sixth 10 billion yen issue in July 2002 and a seventh 10 billion yen issue in December 2002 to raise the funds needed to redeem the foregoing bonds.

Shareholders' Equity Ratio / Debt Equity Ratio



Consolidated Balance Sheets

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the years ended March 31, 2002 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	2002	2003	2003
ASSETS			
Current Assets:			
Cash and time deposits (Note 7)	¥ 30,003	¥ 48,242	\$ 401,349
Marketable securities (Note 8)	14,383	101	839
Notes and accounts receivable			
Trade	96,896	102,766	854,960
Other	7,826	6,443	53,601
	104,722	109,209	908,561
Less: allowance for doubtful accounts	(1,299)	(1,324)	(11,012)
	103,423	107,885	897,549
Inventories	35,938	43,236	359,701
Deferred tax assets - current (Note 10)	4,001	4,780	39,770
Other current assets	6,195	8,386	69,764
Total current assets	193,943	212,630	1,768,972
Investments and Advances:			
Investments in securities (Note 7 and 8)	40,325	33,617	279,679
Long-term loans	254	1,159	9,639
Other	13,780	14,379	119,625
Total investments and advances	54,359	49,155	408,943
Property, Plant and Equipment, at net book value (Note 4):			
Buildings and structures (Note 7)	40,146	39,047	324,850
Machinery and equipment	8,327	6,975	58,027
Furniture and fixtures	8,881	9,760	81,194
Land (Note 7)	15,041	17,263	143,623
Construction in progress	674	1,677	13,954
Total property, plant and equipment	73,069	74,722	621,648
Deferred Tax Assets - non-current (Note 10)	20,062	15,190	126,373
Deferred Charges and Other Assets	12,325	13,034	108,430
Goodwill	142	-	-
	¥353,900	¥364,731	\$3,034,366

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	2002	2003	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Commercial paper	¥ –	¥ 35,000	\$ 291,181
Short-term bank loans (Note 7)	4,346	3,529	29,355
Current portion of long-term debt (Note 6)	24,311	22,710	188,932
Notes and accounts payable (Note 7):			
Trade	28,448	32,193	267,832
Other	7,197	7,769	64,632
	35,645	39,962	332,464
Accrued expenses	10,311	11,776	97,974
Income taxes payable	1,525	1,981	16,482
Advances received and other current liabilities	25,158	22,670	188,601
Deferred tax liabilities - current (Note 10)	4	28	235
Total current liabilities	101,300	137,656	1,145,224
Long-Term Debt (Note 6 and 7)	36,794	47,437	394,647
Deferred Tax Liabilities - non-current (Note 10)	2,095	2,514	20,916
Reserve for Retirement Benefits:			
Employees (Note 11)	38,915	40,249	334,849
Directors and corporate auditors	1,110	994	8,273
Other Non-Current Liabilities	1,727	1,203	10,012
	80,641	92,397	768,697
Minority Interests in Consolidated Subsidiaries	2,901	2,893	24,069
Commitment and Contingent Liabilities (Note 12)			
Shareholders' Equity:			
Common stock:			
Authorized: 483,735,000 shares			
Issued: 243,041,012 shares and			
253,967,991 shares			
at March 31, 2002 and 2003, respectively	32,306	32,306	268,769
Capital surplus	35,020	35,255	293,305
Retained earnings	104,814	76,777	638,747
Net unrealized gains on other securities	1,115	978	8,133
Foreign currency translation adjustments	(3,991)	(5,562)	(46,281)
Treasury stock, at cost	(206)	(7,969)	(66,297)
Total shareholders' equity	169,058	131,785	1,096,376
	¥353,900	¥364,731	\$3,034,366

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the years ended March 31, 2001, 2002 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	for the year ended March 31,			for the year ended March 31,
	2001	2002	2003	2003
Net Sales (Note 18)	¥352,612	¥310,828	¥328,767	\$2,735,166
Cost of Sales (Note 13)	236,009	209,760	218,989	1,821,875
Gross profit	116,603	101,068	109,778	913,291
Selling, General and Administrative Expenses (Notes 13 and 14)	100,387	99,323	108,216	900,299
Operating profit (Note 18)	16,216	1,745	1,562	12,992
Other Income and Expenses:				
Interest and dividend income	2,163	2,830	1,736	14,439
Gain on the settlement of substitutional portion of subsidiary's governmental pension fund	—	—	3,614	30,067
Interest expenses	(1,992)	(1,852)	(1,693)	(14,085)
Net loss on disposal/write-down of inventories	(2,725)	(3,419)	(1,397)	(11,624)
Net loss on sale of marketable securities	(31)	(24)	—	—
Net (loss) gain on sale/write-down of investments in securities	38,659	(5,662)	(1,568)	(13,043)
Foreign exchange (loss) gain	1,188	310	(1,927)	(16,030)
Net loss on sale/disposal of property, plant and equipment	(1,546)	(143)	(1,743)	(14,497)
Equity in earnings (losses) of affiliates	(9,475)	(11,812)	657	5,469
Amortization of the transition amount arising from adopting the new pension standard	(2,021)	—	—	—
Loss on restructuring (Note 15)	—	—	(17,877)	(148,726)
Other, net	(3,394)	(2,777)	(981)	(8,166)
Net (loss) income before income taxes and minority interests	37,042	(20,804)	(19,617)	(163,204)
Income Taxes (Note 10)				
Current	2,633	2,641	2,108	17,542
Deferred	9,132	(793)	4,139	34,433
	11,765	1,848	6,247	51,975
Minority Interests in (earnings) losses of Consolidated Subsidiaries	139	(460)	(368)	(3,061)
Net (loss) income	25,416	(23,112)	(26,232)	(218,240)
		Yen		U.S. Dollars (Note 3)
		For the year ended March 31,		For the year ended March 31,
	2001	2002	2003	2003
Per Share (Note 17):				
Net (loss) income	¥ 103.66	¥ (94.57)	¥ (108.39)	\$ (0.90)
Cash dividends	¥ 12.5	¥ 7.5	¥ 7.5	\$ 0.06
Weighted average number of shares (in thousands)	245,185	244,386	242,247	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the years ended March 31, 2001, 2002 and 2003

	Number of shares of common stock	Millions of Yen						Total
		Common stock	Capital surplus	Retained earnings	Net unrealized gains on other securities	Foreign currency translation adjustments	Treasury stock, at cost	
Balance at March 31, 2000	245,136,393	¥32,306	¥35,020	¥110,445	¥ —	¥ —	¥(175)	¥177,596
Net income				25,416				25,416
Increase due to application of the equity method to investments in additional unconsolidated subsidiaries and affiliates				9				9
Increase due to exclusion of unconsolidated subsidiaries and affiliates from the scope of application of the equity method				38				38
Other, increase				30				30
Decrease due to currency fluctuation				(116)				(116)
Decrease due to merger of subsidiaries				(84)				(84)
Decrease due to exclusion of consolidated subsidiaries				(49)				(49)
Other, decrease				(34)				(34)
Appropriations:								
Cash dividends				(1,839)				(1,839)
Directors' bonuses				(118)				(118)
Decrease in treasury stock	46,695						25	25
Adjustment for the year					5,536	(6,371)		(835)
Balance at March 31, 2001	245,183,088	32,306	35,020	133,698	5,536	(6,371)	(150)	200,039
Net loss				(23,112)				(23,112)
Decrease due to redemption of treasury stock				(2,393)				(2,393)
Decrease due to currency fluctuation				(33)				(33)
Decrease due to application of the equity method to investments in additional unconsolidated subsidiaries and affiliates				(14)				(14)
Decrease due to exclusion of unconsolidated subsidiaries and affiliates from the scope of application of the equity method				(24)				(24)
Decrease due to exclusion of consolidated subsidiaries				(96)				(96)
Other, decrease	(2,643,000)			(31)				(31)
Appropriations:								
Cash dividends				(3,065)				(3,065)
Directors' bonuses				(116)				(116)
Increase in treasury stock	(50,322)						(56)	(56)
Adjustment for the year					(4,421)	2,380		(2,041)
Balance at March 31, 2002	242,489,766	32,306	35,020	104,814	1,115	(3,991)	(206)	169,058
Increase due to exclusion of consolidated subsidiaries				46				46
Other, increase	10,926,979		235	100				335
Net loss				(26,232)				(26,232)
Other, decrease				(124)				(124)
Appropriations:								
Cash dividends				(1,794)				(1,794)
Directors' bonuses				(33)				(33)
Increase in treasury stock	(10,410,248)						(7,763)	(7,763)
Adjustment for the year					(137)	(1,571)		(1,708)
Balance at March 31, 2003	243,006,497	32,306	35,255	76,777	978	(5,562)	(7,969)	131,785

	Number of shares of common stock	Thousands of U.S. Dollars (Note 3)						Total
		Common stock	Capital surplus	Retained earnings	Net unrealized gains on other securities	Foreign currency translation adjustments	Treasury stock, at cost	
Balance at March 31, 2002	242,489,766	\$268,769	\$291,356	\$871,998	\$9,275	\$(33,208)	\$(1,721)	\$1,406,469
Increase due to exclusion of consolidated subsidiaries				384				384
Other, increase	10,926,979		1,949	834				2,783
Net loss				(218,240)				(218,240)
Other, decrease				(1,029)				(1,029)
Appropriations:								
Cash dividends				(14,922)				(14,922)
Directors' bonuses				(278)				(278)
Increase in treasury stock	(10,410,248)						(64,576)	(64,576)
Adjustment for the year					(1,142)	(13,073)		(14,215)
Balance at March 31, 2003	243,006,497	268,769	293,305	638,747	8,133	(46,281)	(66,297)	1,096,376

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the years ended March 31, 2001, 2002 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	2001	2002	2003	2003
Cash Flows from Operating Activities:				
Net (loss) income before income taxes and minority interests	¥37,042	¥(20,804)	¥(19,617)	\$(163,204)
Depreciation and amortization	13,191	13,964	14,299	118,956
Amortization of goodwill	473	371	171	1,422
Decrease (increase) in allowance for doubtful accounts	392	(35)	231	1,921
(Increase) decrease in reserve for retirement benefits	40,041	(9,675)	(7,214)	(60,017)
(Increase) decrease in accrued bonus	1,919	(1,569)	(17)	(137)
Interest and dividend income	(2,163)	(2,830)	(1,736)	(14,439)
Interest expenses	1,992	1,852	1,693	14,085
Equity in (earnings) losses of affiliates	9,475	11,812	(657)	(5,469)
Write-down of investments in securities	2,289	5,858	8,322	69,236
Net gain on sale of investments in securities	(41,672)	(68)	(6,884)	(57,273)
Loss on sale/disposal of property, plant and equipment	269	698	2,155	17,929
Decrease (increase) in trade receivables	(14,779)	20,062	6,553	54,513
Decrease in inventories	904	8,769	3,115	25,915
Decrease (increase) in trade payables	449	(8,722)	294	2,449
Decrease in pension payable	(54,653)	-	-	-
Other, net	4,505	(3,211)	2,953	24,570
Sub total	(326)	16,472	3,661	30,457
Interest and dividend income received	2,288	4,382	1,592	13,244
Interest expenses paid	(2,029)	(2,129)	(1,777)	(14,785)
Income taxes paid	(2,379)	1,758	(1,646)	(13,695)
Net cash provided by (used in) operating activities	(2,446)	20,483	1,830	15,221
Cash Flows from Investing Activities:				
Payments for deposit in time deposits	(2,342)	(1,417)	(355)	(2,953)
Proceeds from return on time deposits	2,262	2,603	431	3,582
Acquisition of property, plant and equipment	(14,770)	(8,124)	(8,181)	(68,063)
Proceeds from sale of property, plant and equipment	2,555	1,608	1,000	8,321
Acquisition of investments in securities	(26,951)	(2,920)	(2,579)	(21,452)
Proceeds from sale of investments in securities	53,638	6,994	9,926	82,576
Other, net	(1,982)	(3,119)	(3,295)	(27,410)
Net cash (used in) provided by investing activities	12,410	(4,375)	(3,053)	(25,399)
Cash Flows from Financing Activities:				
Increase in short-term bank loans, net	(16,014)	(6,689)	(24,694)	(205,441)
Proceeds from issuance of commercial paper	-	-	35,000	291,181
Proceeds from issuance of long-term debt	77	79	29,866	248,467
Repayment of long-term debt	(1,351)	(10,891)	(26,600)	(221,296)
Proceeds from underwriting additional shares of minority shareholders	-	252	-	-
Payment for purchase of treasury stock	-	(2,450)	(7,752)	(64,495)
Cash dividends paid to minority shareholders	-	(120)	(277)	(2,302)
Cash dividends paid	(1,839)	(3,065)	(1,794)	(14,922)
Other, net	(75)	(53)	(106)	(884)
Net cash provided by (used in) financing activities	(19,202)	(22,937)	3,643	30,308
Effect of exchange rate change on Cash and Cash Equivalents	257	63	(438)	(3,643)
Net increase (decrease) in Cash and Cash Equivalents	(8,981)	(6,766)	1,982	16,487
Cash and Cash Equivalents at the beginning of year	59,741	50,760	43,994	366,008
Increase for change in scope of consolidated subsidiaries	-	-	1,834	15,257
Cash and Cash Equivalents at end of year	¥ 50,760	¥ 43,994	¥ 47,810	\$ 397,752

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,
	2001	2002	2003	2003
Cash and time deposits	¥26,533	¥30,003	¥48,242	\$401,349
Time deposits whose maturity periods exceed three months	(624)	(291)	(432)	(3,597)
Marketable securities with original maturity of three months or less	24,851	14,282	-	-
	¥50,760	¥43,994	¥47,810	\$397,752

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the year ended March 31, 2003

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 104 subsidiaries (majority-owned companies) as at March 31, 2003 (98 for fiscal year 2002). The consolidated financial statements include the accounts of the Company and its 88 subsidiaries as at March 31, 2003 (85 for fiscal year 2002).

The consolidated financial statements include the accounts of the 88 majority owned subsidiaries listed below (the Company and these consolidated subsidiaries are together, referred to as the "Companies"):

Name of Subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal Year End	Additional Information (See Footnote)
Subsidiaries in Japan:			
Kokusai Chart Corporation	67	Mar. 31, 2003	
Yokogawa Engineering Service Corporation	100	Mar. 31, 2003	
Yokogawa Sertec Co., Ltd.	100	Mar. 31, 2003	
Yokogawa Denshikiki Co., Ltd.	79	Mar. 31, 2003	
Yokogawa Graphic Arts Corporation	100	Mar. 31, 2003	
Yokogawa Human Create Corporation	100	Mar. 31, 2003	
Yokogawa System Engineering Corporation	100	Mar. 31, 2003	
Yokogawa Infotec Corporation	100	Mar. 31, 2003	
Yokogawa M&C Corporation	100	Mar. 31, 2003	
Yokogawa Research Institute Corporation	100	Mar. 31, 2003	
Yokogawa Pionics Co., Ltd.	100	Mar. 31, 2003	
Techno System Kyushu Corporation	65	Mar. 31, 2003	
Yokogawa Techno Systems Co., Ltd.	100	Mar. 31, 2003	
Yokogawa Trading Corporation	100	Mar. 31, 2003	
Yokogawa MAT Corporation	100	Mar. 31, 2003	
Yokogawa Electronics Manufacturing Co.	100	Mar. 31, 2003	
Nippon System Gijutsu Co.	76	Mar. 31, 2003	
System Plaza Inc.	100	Mar. 31, 2003	
Ando Electric Co., Ltd.	100	Mar. 31, 2003	*1
Ando Electric Technologies Co., Ltd.	100	Mar. 31, 2003	*1
Ando Electric Engineering Service Co., Ltd.	100	Mar. 31, 2003	*1
Yokogawa & Co., Ltd.	50	Mar. 31, 2003	
Yokogawa Field Engineering Corporation	100	Mar. 31, 2003	
YDC Corporation	97	Mar. 31, 2003	
Yokogawa Management Service Corporation	100	Mar. 31, 2003	
Yokogawa Digital Computer Corporation	100	Mar. 31, 2003	

Name of Subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal Year End	Additional Information (See Footnote)
Overseas subsidiaries:			
Yokogawa USA, Inc.	100	Feb. 28, 2003	
Yokogawa Corporation of America	100	Feb. 28, 2003	
Yokogawa Electric Asia Pte. Ltd.	100	Feb. 28, 2003	
Yokogawa France S.A.	100	Feb. 28, 2003	
Yokogawa Europe B.V.	100	Feb. 28, 2003	
Rota Yokogawa GmbH & Co. KG	100	Feb. 28, 2003	
Yokogawa Italia S.R.L.	100	Feb. 28, 2003	
Yokogawa Austria GmbH	100	Feb. 28, 2003	
Yokogawa Belgium N.V.-S.A.	100	Feb. 28, 2003	
Yokogawa Deutschland GmbH	100	Feb. 28, 2003	
Yokogawa United Kingdom Ltd.	100	Feb. 28, 2003	
Yokogawa Iberia, S.A.	100	Feb. 28, 2003	
Yokogawa Nederland B.V.	100	Feb. 28, 2003	
Yokogawa NBN GmbH.	100	Feb. 28, 2003	
Yokogawa Australia Pty Ltd.	100	Feb. 28, 2003	
Yokogawa Taiwan Corporation	100	Dec. 31, 2002	
Suzhou Yokogawa Meter Company	59	Dec. 31, 2002	
P.T. Yokogawa Indonesia	100	Feb. 28, 2003	
P.T. Yokogawa Manufacturing Batam	100	Feb. 28, 2003	
Yokogawa Sichuan Instrument Co., Ltd.	60	Dec. 31, 2002	
Yokogawa Service S.A.	99	Feb. 28, 2003	

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the year ended March 31, 2003

Name of Subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal Year End	Additional Information (See Footnote)
Yokogawa America do Sul Ltda.	99	Feb. 28, 2003	
Shanghai Yokogawa Petrochemical Instrumentation Co., Ltd.	90	Dec. 31, 2002	
Yokogawa Philippine Inc.	100	Feb. 28, 2003	
Yokoshin Software Engineering (WUXI) Co., LTD.	100	Dec. 31, 2002	
Yokogawa Measuring Instruments Korea Corporation	100	Feb. 28, 2003	
Yokogawa Middle East E.C.	100	Feb. 28, 2003	
Yokogawa (Thailand) Ltd.	91	Feb. 28, 2003	
Rota Yokogawa France S.A.R.L.	100	Feb. 28, 2003	
Yokogawa South Africa Pty. Ltd.	100	Feb. 28, 2003	
Yokogawa Engineering Asia Pte. Ltd.	100	Feb. 28, 2003	
Yokogawa Industrial Safety Systems B.V.	100	Feb. 28, 2003	
Yokogawa Industrial Safety Systems Sdn. Bhd.	100	Feb. 28, 2003	
Yokogawa Capital Unlimited	100	Feb. 28, 2003	
Limited Yokogawa Electric	100	Dec. 31, 2002	
Kokusai Chart Corporation of America	67	Feb. 28, 2003	
Yokogawa Trading Asia Pte. Ltd.	100	Feb. 28, 2003	
Yokogawa Trading Hong Kong Limited	100	Feb. 28, 2003	
Yokogawa Trading U.S.A., Inc.	100	Feb. 28, 2003	
Ando Corporation	100	Mar. 31, 2003	*1
Yokogawa Hungaria Kft.	100	Feb. 28, 2003	
Yokogawa Martron Ltd.	100	Feb. 28, 2003	
River Process Engineering Co., Ltd.	91	Feb. 28, 2003	
Myanmar Yokogawa Electric Ltd.	100	Feb. 28, 2003	
TechComm Simulation Pty. Ltd.	100	Feb. 28, 2003	
Yokogawa Electric Korea Co., Ltd.	100	Feb. 28, 2003	
Yokogawa Xiyi Co., Ltd.	81	Dec. 31, 2002	*2
Yokogawa Trading Korea Co., Ltd.	100	Feb. 28, 2003	
Yokogawa System Center Europe B.V.	100	Feb. 28, 2003	
Yokogawa Electronics Manufacturing Korea Co., Ltd.	100	Feb. 28, 2003	*3
Yokogawa Electric China Co., Ltd.	100	Dec. 31, 2002	*4
Measurement Systems Pte. Ltd.	100	Feb. 28, 2003	
Yokogawa Reinsurance Ltd.	95	Dec. 31, 2002	
Yokogawa Electric (Malaysia) Sdn. Bhd.	100	Feb. 28, 2003	
Martron Instrument Calibration Ltd.	100	Feb. 28, 2003	
Verwaltungsgesellschaft Rota Yokogawa GmbH	100	Feb. 28, 2003	
Plant Electrical Instrumentation Pte. Ltd.	51	Feb. 28, 2003	
Yokogawa New Zealand Pty. Ltd.	100	Feb. 28, 2003	
Taiwan Yokogawa P&L Corporation	100	Feb. 28, 2003	
Yokogawa Nordic AB	100	Feb. 28, 2003	
Yokogawa Marex Limited	100	Feb. 28, 2003	
Yokogawa Shanghai Trading Co., Ltd.	100	Dec. 31, 2002	

Footnote *1 Due to acquisition of additional shares and exchange of shares, Ando Electric Co., Ltd., an affiliate accounted for by the equity method for the year ended 2002, became a consolidated subsidiary for the year ended 2003. Ando Electric Technologies Co., Ltd., Ando Electric Engineering Service Co., Ltd. and Ando Corporation, the subsidiaries of Ando Electric Co., Ltd., newly became consolidated subsidiaries for fiscal year 2003.

*2 Due to the increase in materiality as a result of acquisition of additional shares, Yokogawa Xiyi Co., Ltd., an unconsolidated subsidiary accounted for by the equity method for the year ended 2002, became a consolidated subsidiary for fiscal year 2003.

*3 Newly consolidated due to split-up of Yokogawa Electronics Manufacturing Korea Co., Ltd., a consolidated subsidiary for fiscal year 2003.

*4 Due to establishment, Yokogawa Electric China Co., Ltd. became a consolidated subsidiary for fiscal year 2003.

*5 Due to completion of liquidation, Yokogawa Marex Technology Limited was excluded from the scope of consolidation for fiscal year 2003.

*6 Infotec Service Corporation, Measurement Inc., and HAN YO Telecom Co. Ltd., were excluded from the scope of consolidation for fiscal year 2003, due to merger with Yokogawa Infotec Corporation, Yokogawa Corporation of America, and Yokogawa Electric Manufacturing Korea Co., respectively. The remaining 16 (13 for fiscal year 2002) unconsolidated subsidiaries, including Morioka Tokki Corporation, Yokogawa A-I-M Corporation, and Kyushu Ando Electric Co., Ltd, were excluded from the scope of consolidation for the year ended 2003 as combined assets, net sales and net income in the aggregate were not significant compared to those of the consolidated financial statements.

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

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 16 (13 for fiscal year 2002) unconsolidated subsidiaries and 18 (22 for fiscal year 2002) affiliates at March 31, 2003. The equity method is applied to the investments in 8 (11 for fiscal year 2002) unconsolidated subsidiaries and 14 (18 for fiscal year 2002) 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 8 unconsolidated subsidiaries and 14 affiliates accounted for by the equity method as of and for the year ended March 31, 2003 are as follows:

Name of Subsidiary and Affiliates	Percentage Owned by The Company (directly or indirectly)	Fiscal Year End	Additional Information (See Footnote)
Yokogawa Rental & Lease Corporation	47	Mar. 31, 2003	
Yokogawa Analytical Systems Inc.	49	Oct. 31, 2002	
Yokogawa A-I-M Corporation	60	Mar. 31, 2003	
Morioka Tokki Corporation	53	Mar. 31, 2003	
Yokogawa Green Farm Corporation	100	Mar. 31, 2003	
Yokogawa Denyo Corporation	50	Mar. 31, 2003	
Omega Simulation Co., Ltd.	50	Mar. 31, 2003	
Kanazawa System House Co., Ltd.	35	Mar. 31, 2003	
Toyota Macs Incorporated	26	Mar. 31, 2003	
Yokogawa Blue Star Ltd.	69	Dec. 31, 2002	*1
Beijing Metallurgy Yokogawa Automation Engineering Co., Ltd.	30	Dec. 31, 2002	
Yokogawa Kontrol (Malaysia) Sdn. Bhd.	30	Feb. 28, 2003	
Yokogawa Shanghai Instrumentation Co., Ltd.	49	Dec. 31, 2002	
Yokogawa Information Systems Corporation	100	Mar. 31, 2003	*2
Yokogawa Organization Resources Counselors Corporation	49	Dec. 31, 2002	
Marubeni-Yokogawa Medical Engineering Co., Ltd.	40	Mar. 31, 2003	
Yokogawa Foundry Corporation	100	Mar. 31, 2003	
Yokogawa Toa Kogyo, Ltd.	20	Oct. 31, 2002	
Internetnode Inc.	50	Mar. 31, 2003	
Waseda University Learning Square Corporation	50	Mar. 31, 2003	
MIE Industrial Sdn. Bhd.	42	Dec. 31, 2002	
SMAI Camera Technologies, Inc.	39	Dec. 31, 2002	

Note: *1 Due to acquisition of additional shares, Yokogawa Blue Star Ltd., an affiliate accounted for by equity method for fiscal year 2002, became an unconsolidated subsidiary accounted for by the equity method for fiscal year 2003.

*2 In the year ended 2003, Yokogawa Information Systems Corporation, a subsidiary, changed its name from Yokogawa Solutions Corporation.

*3 Due to the completion of liquidation, equity method is no longer applied to Yokogawa Elder Corporation, Aqua Consult & Engineering Co., Ltd., and Yokoshou Engineering Corporation, unconsolidated subsidiaries for fiscal year 2003.

*4 Due to the increase in materiality as a result of acquisition of additional shares, becoming a consolidated subsidiary, Yokogawa Xiyi Co., Ltd., was no longer applied by equity method for fiscal year 2003.

*5 Due to the sale of the shares, equity method is no longer applied to Sansetsu Corporation and Yokogawa Johnson Controls Corporation, affiliates for fiscal year 2003.

*6 Due to acquisition of additional shares and exchange of shares, equity method is no longer applied to Ando Electric Co., Ltd., an consolidated subsidiary for fiscal year 2003.

*7 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.

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the year ended March 31, 2003

(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)

In the year ended March 31, 2002, 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 whose 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. Cost of sales is primarily determined using the moving-average method.

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

(c) Hedge Accounting

All derivatives are stated at fair value. Gains and losses arising from changes in 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 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 (employees portion) 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.

Following the enactment of the Welfare Pension Insurance Law in Japan, on March 31, 2003, Ando Electric Co., Ltd., a consolidated subsidiary, obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the Employee Pension Fund that Ando Electric Co., Ltd. operates on behalf of the Government (the so-called substitutional portion). Ando Electric Co., Ltd. applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13 issued by the Japanese Institute of Certified Public Accountants) and a gain in the amount of ¥3,614 million (\$30,067 thousand) for the settlement of the substitutional portion was recognized at the date of approval from Japan's Ministry of Health, Labour and Welfare. The amount of plan assets to be returned is ¥6,048 million (\$50,323 thousand) at March 31, 2003.

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 internal rule.

(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.

The Company and its subsidiaries have 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 invest-

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the year ended March 31, 2003

ments with original maturity of three months or less and with minor risk of significant fluctuations in value.

Assets and liabilities of the newly consolidated subsidiaries, Ando Electric Co., Ltd. and its subsidiaries, Ando Electric Technologies Co., Ltd., Ando Electric Engineering Service Co., Ltd., and Ando Corporation, due to acquisition of additional shares and exchange of shares, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 33,880	\$ 281,863
Non-current assets	12,277	102,143
Total	46,157	384,006
Current liabilities	36,996	307,792
Non-current assets	9,824	81,727
Total	¥46,820	\$389,519

Expenditures for the acquisition of their additional shares are ¥4,735 million (\$39,391 thousand).

Cash and cash equivalents of the 4 subsidiaries above at the commencement of consolidation are ¥1,481 million (\$12,321 thousand).

Due to exchange of shares with Ando Electric Co., Ltd., Capital surplus was increased by ¥235 million (\$1,949 thousand).

(13) Net (loss) Income per Share

Effective from the fiscal year ended March 31, 2003, the Company and its subsidiaries applied the Financial Accounting Standards No.2 "Financial Accounting Standards for Earning per Share" and the Financial Accounting Standards Implementation Guidance No.4 "Implementation Guidance for Accounting Standards for Earnings per share" issued by Accounting Standard Board of Japan on September 25, 2002.

The effect of the adoption is set forth in Note 17.

(14) Presentation of Balance Sheets

Effective from the fiscal year ended March 31, 2003, the Company adopted the new Japanese regulation for the presentation of Shareholders' equity. As a result of adoption of the new regulation, the Company represented the accounting terms as Common stock, Capital surplus, Retained earnings and other capital accounts in Shareholders' equity. Prior fiscal year's figures have been reclassified accordingly.

(15) 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 ¥120.20 = US\$1, the approximate effective rate of exchange

prevailing at March 31, 2003. 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 ¥117,029 million and ¥124,056

million (\$1,032,081 thousand) at March 31, 2002 and 2003, 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, 2002 and 2003, is as follows:

(1) Finance lease contracts without ownership transfer

	Millions of Yen			Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2002	Acquisition Cost	Accumulated Depreciation	Balance as of March 31, 2003	Balance as of March 31, 2003
Machinery and Equipment	¥1,545	¥ 863	¥ 682	¥1,682	¥ 891	¥ 791	\$ 6,580
Furniture and Fixtures	2,811	1,701	1,110	2,620	1,393	1,227	10,210
Total	¥4,356	¥2,564	¥1,792	¥4,302	¥2,284	¥2,018	\$16,790

Future lease payments, interest included on lease contracts as of March 31, 2002 and 2003, 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,
	2002	2003	2003		2002	2003	2003
Due within one year	¥ 721	¥ 770	\$ 6,409	Lease rental expenses for the year	¥1,008	¥1,149	\$9,563
Due over one year	1,071	1,248	10,381				
	¥1,792	¥2,018	\$16,790				

(2) Operating lease contract

Future lease payments as of March 31, 2002, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31,		As of March 31,
	2002	2003	2003
Due within one year	¥ 987	¥1,181	\$ 9,825
Due over one year	2,927	3,876	32,249
	¥3,914	¥5,057	\$42,074

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the year ended March 31, 2003

6. Long-Term Debt

Long-term debt as at March 31, 2002 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2002	2003	2003
Loans from banks, other financial institutions, etc. due from 2003 to 2022 with mortgage and collateral	¥19,105	¥30,147	\$250,799
2.150 percent. bonds due on July 24, 2002	10,000	–	–
2.475 percent. bonds due on February 20, 2003	10,000	–	–
1.950 percent. bonds due on November 25, 2003	10,000	10,000	83,195
2.000 percent. bonds due on March 26, 2004	10,000	10,000	83,195
0.850 percent. bonds due on July 19, 2007	–	10,000	83,195
0.740 percent. bonds due on December 19, 2007	–	10,000	83,195
Zero-coupon bonds due on September 25, 2002	2,000	–	–
	61,105	70,147	583,579
Less: Current portion	24,311	22,710	188,932
	¥36,794	¥47,437	\$394,647

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

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥ 2,710	\$ 22,543
Over one year less than two year	3,464	28,820
Over two year less than three year	6,389	53,154
Over three year less than four year	4,181	34,778
Over four year less than five year	10,337	85,996
Thereafter.....	3,066	25,508
	¥30,147	\$250,799

Interest rate on long-term loans (excluding current portion) from banks was 1.99%, annual average rate.

7. Collateral and Secured Debt

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2002	2003	2003
Collateral:			
Cash and time deposits	¥ 12	¥ 143	\$1,188
Buildings and structures	196	195	1,627
Land	9	9	75
Investments in securities	1	1	6
Total	¥218	¥348	\$2,896

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2002	2003	2003
Secured debt:			
Notes and accounts payable	¥52	¥ 18	\$ 147
Short-term bank loans	29	29	241
Long-term debt	150	120	1,003
Total	¥231	¥167	\$1,391

8. Marketable Securities and Investments in Securities

- 1) The book value, market value and unrealized gains or losses for held-to-maturity debt securities with fair value as of March 31, 2002 and 2003, are as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	March 31,						March 31,		
	2002			2003			2003		
	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	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –	\$ –	\$ –	\$ –
Sub-total	–	–	–	–	–	–	–	–	–
Market value less than book value:									
Government and municipal bonds	2	2	(0)	4	4	–	33	33	–
Corporate bonds	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–
Sub-total	2	2	(0)	4	4	–	33	33	–
Total	¥ 2	¥ 2	¥ (0)	¥ 4	¥ 4	¥ –	\$33	\$33	\$ –

- 2) The cost, book value and unrealized gains or losses for other securities with fair value as of March 31, 2002 and 2003, are as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	March 31,						March 31,		
	2002			2003			2003		
	Cost	Book value	Unrealized gains (losses)	Cost	Book value	Unrealized gains (losses)	Cost	Book value	Unrealized gains (losses)
Book value over cost:									
Equity securities	¥ 3,238	¥ 6,009	¥2,771	¥ 3,087	¥ 5,313	¥2,226	\$ 25,677	\$ 44,197	\$18,520
Debt securities									
Corporate bonds	917	1,006	89	950	1,016	66	7,907	8,457	550
Other	–	–	–	100	100	0	832	833	1
Sub-total	4,155	7,015	2,860	4,137	6,429	2,292	34,416	53,487	19,071
Book value less than cost:									
Equity securities	14,403	12,248	(2,155)	6,755	5,953	(802)	56,202	49,529	(6,673)
Debt securities									
Government and municipal bonds	–	–	–	16	16	(0)	137	136	(1)
Other	–	–	–	13	13	–	105	105	–
Other	250	247	(3)	306	245	(61)	2,544	2,038	(506)
Sub-total	14,653	12,495	(2,158)	7,090	6,227	(863)	58,988	51,808	(7,180)
Total	¥ 18,808	¥19,510	¥ 702	¥11,227	¥12,656	¥1,429	\$ 93,404	\$105,295	\$11,891

Impairment loss of ¥7,961 million (\$ 66,230 thousand) for other securities with fair value was recorded in the year ended March 31, 2003. 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 year ended March 31, 2003

3) Other securities sold during the year ended March 31, 2002 and 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2002	2003	2003
Proceeds from sale of other securities	¥1,020	¥2,864	\$23,827
Gross realized gain on sale of other securities	302	643	5,353
Gross realized loss on sale of other securities	127	23	194

4) Book value of major securities without fair value as of March 31, 2002 and 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2002	2003	2003
Other securities			
Unlisted equity securities (excluding Over-the-Counter securities)	¥13,809	¥15,002	\$124,811
Unlisted debt securities	256	256	2,126
Money Management Funds	13,739	101	839
Free Financial Funds	241	—	—
Medium term Japanese Government Bonds fund	403	—	—

5) 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,			
	2002				2003				2003			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Debt securities												
Government and municipal bonds ...	¥ —	¥ 2	¥ —	¥ —	¥ —	¥ 15	¥ —	¥ —	\$ —	\$ 125	\$ —	\$ —
Corporate bonds	—	1,000	—	—	—	—	—	—	—	—	—	—
Other	—	256	—	—	101	485	203	24	840	4,033	1,693	200
Other	—	—	—	—	—	—	—	—	—	—	—	—
Total	¥ —	¥1,258	¥ —	¥ —	¥101	¥500	¥203	¥24	\$840	\$4,158	\$1,693	\$200

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, 2002 and 2003, were as follows:

	Millions of Yen				Millions of Yen				Thousands of U.S. Dollars			
	March 31,				March 31,				March 31,			
	2002				2003				2003			
	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)
Forward exchange contract												
Selling contracts												
U.S. dollar	¥ 417	¥ –	¥414	¥ 3	¥ 989	¥ –	¥ 989	¥ 0	\$ 8,231	\$ –	\$ 8,233	\$ 2
Other	69	–	73	(4)	356	–	352	(4)	2,962	–	2,929	(33)
Buying contracts												
U.S. dollar	141	–	137	(4)	–	–	–	–	–	–	–	–
Currency option												
Selling contracts												
Yen put-U.S. dollar call	2,708	–	(21)	4	2,837	–	17	(2)	23,602	–	145	(17)
(Option premium)	(26)	–			(19)				(162)			
Buying contracts												
U.S. dollar put-Yen call	2,538	–	8	(18)	2,668	–	15	(4)	22,196	–	127	(35)
(Option premium)	(25)	–			(19)				(162)			
Currency swap												
Receipt of Yen and Payment of U.S. dollar	–	–	–	–	–	–	–	–	–	–	–	–
Total	¥5,873	¥ –	¥611	¥(19)	¥6,850	¥ –	¥1,373	¥(10)	\$56,991	\$ –	\$11,434	\$(83)
	(51)				(38)				(324)			

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, 2002 and 2003, in accordance with the Japanese Accounting Standards for derivative financial instruments.

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the year ended March 31, 2003

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,
	2002	2003	2003
Deferred Tax Assets			
Excess amount of tax deductible for retirement allowance	¥13,199	¥10,447	\$ 86,909
Net operating loss carry forward	12,711	40,878	340,085
Write down of investments in securities	8,329	5,976	49,713
Excess amount of tax deductible for accrued bonus	1,942	2,340	19,469
Loss on write-down of inventories	1,437	1,465	12,189
Other items	6,123	6,024	50,118
Sub total -deferred tax assets	43,741	67,130	558,483
Valuation allowance	(16,809)	(43,882)	(365,071)
Total deferred tax assets	26,932	23,248	193,412
Deferred Tax Liabilities			
Special tax-purpose reserve	(2,330)	(2,198)	(18,289)
Foreign subsidiaries	(1,217)	(1,544)	(12,847)
Other items	(1,422)	(2,078)	(17,284)
Total deferred tax liabilities	(4,969)	(5,820)	(48,420)
Net deferred tax assets	¥ 21,963	¥17,428	\$144,992

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

Effective statutory tax rates, that the Company used to calculate deferred tax assets and deferred tax liabilities, are approximately 42.05% for the year ended March 31, 2002, and 40.69% for the year ended March 31, 2003. As a result of the tax rate change, deferred tax assets (net of deferred tax liabilities) decreased by ¥339 million (\$2,819 thousand) and income tax expenses increased by the same amount.

Increase in the amount of income tax expenses due to the tax rate change above, is calculated by multiplying the total amount of temporary differences and net operating loss carried forward as of March 31, 2003, by the difference between new tax rate and previous tax rate.

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 27, which adopted contributory pension plan (cover a portion of governmental pension) was 4 and which adopted qualified pension plan was 18.

The reserve for retirement benefits as of March 31, 2002 and 2003, is analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31,		As of March 31,
	2002	2003	2003
Projected benefit obligations	¥(148,547)	¥(172,635)	\$(1,436,234)
Plan assets	99,899	98,177	816,782
Unfunded projected benefit obligations	(48,648)	(74,458)	(619,452)
Unrecognized plan assets	(53)	—	—
Unrecognized actuarial differences	11,724	39,313	327,062
Unrecognized prior service cost	(1,832)	(2,198)	(18,286)
Accrued pension cost	(38,809)	(37,343)	(310,676)
Prepaid pension cost	106	2,906	24,173
The reserve for retirement benefits	¥ (38,915)	¥ (40,249)	\$ (334,849)

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 ¥2,416 million, ¥2,173 million (\$18,082 thousand) at March 31, 2002 and 2003, respectively.

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

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Net pension expense related to the retirement benefits for the year ended March 31, 2001 and 2002, and 2003 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	2003	2003
Service cost (*1, 2)	¥ 8,817	¥ 8,700	¥ 9,395	\$ 78,160
Interest cost	3,949	4,159	4,922	40,950
Expected return on plan assets	(2,452)	(3,011)	(3,765)	(31,323)
Amortization of actuarial differences	—	536	2,324	19,338
Amortization of prior service cost	—	(194)	(420)	(3,494)
Amortization of transition amount	2,021	—	—	—
Additional retirement benefit, etc.	183	804	6,599	54,898
Sub-total	12,518	10,994	19,055	158,529
Gain on the settlement of the substitutional portion of governmental pension fund (*3)	—	—	(3,614)	(30,069)
Net pension expense	¥12,518	¥10,994	¥15,441	\$128,460

Notes: *1 Employees' contribution for contributory pension plan (cover a portion of governmental pension) was deducted.

*2 Pension expense of consolidated subsidiaries which applied expediency method are included in "Service Cost."

*3 Gain on the settlement of the substitutional portion of governmental pension fund attributes to Ando Electric Co., Ltd., a consolidated subsidiary.

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

	As of March 31,	
	2002	2003
Discount rate	3.0%	2.5 %
Expected rate of return on plan assets	3.5%	3.5 %
Method of attributing the projected benefits to periods of services	mainly point basis	mainly point basis
Amortization of unrecognized prior service cost	10 years	10 years
Amortization of unrecognized actuarial differences	10 years	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, and for guarantees of the execution of constructions by an affiliate, its unconsolidated subsidiaries and affiliates in the amount of ¥2,047 million (\$17,027 thousand)

at March 31, 2003. In addition, the Company was contingently liable for guarantees of purchase obligations related to finance lease in amount of ¥3 million (\$24 thousand) at March 31, 2003.

13. Research and Development Cost

Research and development cost incurred during the year ended March 2001, 2002 and 2003 included in "Cost of Sales" and "Selling, General and Administrative Expenses", aggregated to

¥19,180 million, ¥19,237 million and ¥25,233 (\$209,929 thousand), respectively.

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, 2003, are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2002	2003	2004
Salaries	¥43,209	¥43,892	¥45,324	\$377,071
Bonuses to employees	9,261	8,160	6,765	56,281
Provision of accrued bonus	4,127	3,117	3,558	29,601
Provision of doubtful accounts:	—	185	447	3,721
Provision of retirements benefits:				
Directors and corporate auditors	246	264	293	2,443
Employees	5,905	5,846	6,602	54,926

15. Loss on Restructuring

For the year ended March 31, 2003, the Company recorded a restructuring charge of ¥17,877 million (\$148,726 thousand) consisted primarily of employee termination benefits, losses on disposal of property and equipment, and the cost related to the removal of property and equipment, in order to reorganize operational and manufacturing structures.

16. Related Party Transaction

<Fiscal 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	Millions of Yen	
	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.

<Fiscal year ended March 31, 2002>

The disclosure for related party transactions is omitted as there have been no significant transactions with related parties.

<Fiscal year ended March 31, 2003>

The disclosure for related party transactions is omitted as there have been no significant transactions with related parties.

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the year ended March 31, 2003

17. Net (loss) Income and Dividends per Share

Net (loss) income per share shown for each year in the accompanying Consolidated Statements of Income and Retained Earnings, are 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 year 2001, and on net loss per share for fiscal year 2002 and 2003 is disclosed since the Company has issued neither bonds with subscription warrant nor convertible bonds.

Effective from the year ended March 31, 2003, the Company and its subsidiaries applied the Financial Accounting Standards No.2 "Financial Accounting Standards for Earnings per Share" and the Financial Accounting Standards Implementation Guidance No.4 "Implementation Guidance for Accounting Standards for Earnings per share" issued by Accounting Standard Board of Japan on September 25, 2002.

Basis for the calculation of net loss per share for the year ended March 31, 2003, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net loss	¥(26,232)	\$(218,240)
Less: Components not pertaining to common shareholders		
Bonuses to directors and corporate auditors	(25)	(211)
Net loss pertaining to common stock	(26,257)	(218,451)
Average outstanding shares of common stock (shares)	242,247,362	

By applying the current method, the amounts of net loss per share for the year ended March 31, 2002 is calculated as follows:

	Yen	U.S. Dollars
Net loss per share	¥(94.72)	\$(0.79)

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.

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.

Net sales, operating profit 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, 2001, 2002 and 2003. 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 three years ended March 31, 2001, 2002 and 2003, is summarized as follows:

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

	2002					
	Millions of Yen					
	Sales to Outside Customers	Inter- Segment Sales	Total Sales	Operating Expenses	Operating Profit (Loss)	Assets
Japan	¥238,881	¥24,306	¥263,187	¥264,959	¥(1,772)	¥230,692
Asia	23,334	10,391	33,725	32,416	1,309	23,802
Europe	20,919	2,107	23,026	22,202	824	16,058
North America	18,219	2,342	20,561	20,063	498	9,312
Other	9,475	168	9,643	9,231	412	6,296
Total	310,828	39,314	350,142	348,871	1,271	286,160
Elimination or Unallocated	–	(39,314)	(39,314)	(39,788)	474	67,740
Consolidated Total	¥310,828	¥ –	¥310,828	¥309,083	¥ 1,745	¥353,900

	2003						
	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)
Japan	¥249,913	¥23,134	¥273,047	¥275,348	¥(2,301)	¥251,709	\$(19,143)
Asia	27,143	10,094	37,237	35,081	2,156	26,272	17,930
Europe	23,791	2,486	26,277	25,191	1,086	19,656	9,035
North America	17,751	1,612	19,363	19,845	(482)	7,417	(4,012)
Other	10,169	627	10,796	10,150	646	6,456	5,377
Total	328,767	37,953	366,720	365,615	1,105	311,510	9,187
Elimination or Unallocated	–	(37,953)	(37,953)	(38,410)	457	53,221	3,805
Consolidated Total	¥328,767	¥ –	¥328,767	¥327,205	¥1,562	¥364,731	\$ 12,992

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.

Notes to the Consolidated Financial Statements

YOKOGAWA ELECTRIC CORPORATION and SUBSIDIARIES

For the year ended March 31, 2003

(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%

	2003				
	Millions of Yen				
	Asia	Europe	North America	Other	Total
Overseas sales	¥54,590	¥26,607	¥18,932	¥16,273	¥116,402
Consolidated Sales	—	—	—	—	¥328,767
Ratio	16.6%	8.1%	5.8%	4.9%	35.4%

	2003				
	Thousands of U.S. Dollars				
	Asia	Europe	North America	Other	Total
Overseas sales	\$ 454,158	\$221,359	\$157,507	\$135,382	\$ 968,406
Consolidated Sales	—	—	—	—	\$2,735,166
Ratio	16.6%	8.1%	5.8%	4.9%	35.4%

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.

To the Board of Directors and Shareholders of Yokogawa Electric Corporation

We have audited the accompanying consolidated balance sheets of Yokogawa Electric Corporation and its subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, all expressed in Japanese Yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yokogawa Electric Corporation and its subsidiaries at March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

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

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

Chuo Aoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan

June 27, 2003

Directors and Auditors

As of June 27, 2003

President and Chief Executive Officer

Isao Uchida

Directors

Akira Nagashima
Yasuhiro Katsube
Kazunori Yagi
Seiji Takahashi
Kazuhiko Kimura
Teruyoshi Minaki
Masahisa Naito

Corporate Auditors

Fumio Mizoguchi
Taiki Utsumi
Takahide Sakurai
Toru Hashimoto

Corporate Data

As of March 31, 2003

Headquarters

2-9-32 Nakacho, Musashino-shi
Tokyo 180-8750, Japan
Tel: 81-422-52-5530
Fax: 81-422-55-6492
(Public Relations and
Investor Relations Department)
Website: <http://www.yokogawa.com/>

Founded

September 1, 1915

Paid-in Capital

¥32,306,071,542

Number of Employees

5,538

Consolidated Employees

18,675

Number of Shares of Common Stock Issued

253,967,991

Number of Shareholders

21,389

Factories and affiliates in Japan

12 factories and 39 affiliates

Factories and affiliates outside Japan

13 factories and 63 affiliates in 27 countries

Stock Exchange Listings

Tokyo

Transfer Agent and Registrar

The Mizuho Trust and Banking Co., Ltd.
1-2-1 Yaesu, Chuo-ku, Tokyo,
103-8670, Japan

Annual Meeting

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

Auditors

ChuoAoyama Audit Corporation

Yokogawa Electric Corporation

2-9-32 Nakacho, Musashino-shi, Tokyo 180-8750, Japan

Tel: 81-422-52-5530 Fax: 81-422-55-6492

(Public Relations and Investor Relations Department)

<http://www.yokogawa.com/>