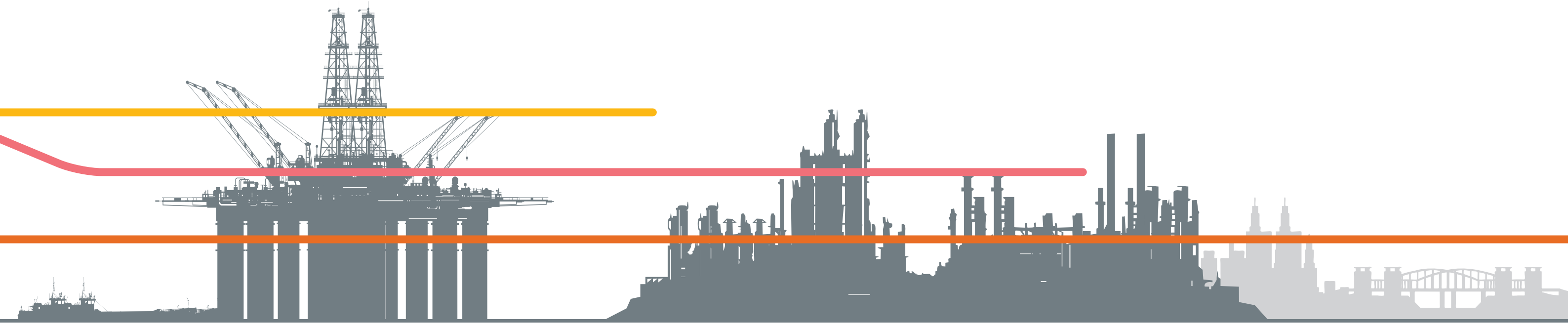
YOKOGAWA

Sharing Value across the Globe

Annual Report **2014**

For the year ended March 31, 2014



Solid High-technology Solutions

THE YOKOGAWA PHILOSOPHY

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

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

Since its founding in 1915, Yokogawa Electric Corporation has contributed to society by supplying industry with cutting-edge products based on its measurement, control, and information technologies. Always sensitive to changing customer needs, Yokogawa has continued to transform itself and has become a leading company in the global industrial automation and control field. While striving to enhance our corporate value, we remain committed to doing our part as a trustworthy industry partner to realize a more prosperous society.

1915–

1915 Tamisuke Yokogawa, Doctor of Architectural Engineering, established an electric meter research institute in Shibuya, Tokyo with Ichiro Yokogawa and Shin Aoki

1917 First to produce and sell electric meters in Japan

1920 Incorporated as Yokogawa Electric Works Ltd.

Electric meter research institute in Shibuya, Tokyo

1930–

1933 Started research and manufacture of aircraft instruments and flow, temperature, and pressure controllers

1950 Developed Japan's first electronic recorder

1955 Signed a technical assistance agreement for industrial instruments with Foxboro, USA

1957 Established Yokogawa Electric Works, Inc. as North American sales office

CENTUM

1960–

1964 Made a full-scale entry into the industrial analyzer market

1966 Developed and started manufacture and sale of vortex flowmeters

1974 Established Yokogawa Electric Singapore Pte. Ltd. as Singapore plant

Established Yokogawa Electric (Europe) B. V. as European sales office

1975 Released CENTUM, the world's first distributed process control system

1980–

1983 Formed Yokogawa Hokushin Electric Corp. through merger with Hokushin Electric Works, Ltd.

1986 Jointly established Xiyi Yokogawa Co., Ltd. in Xian, China, with Xian Instruments Factory

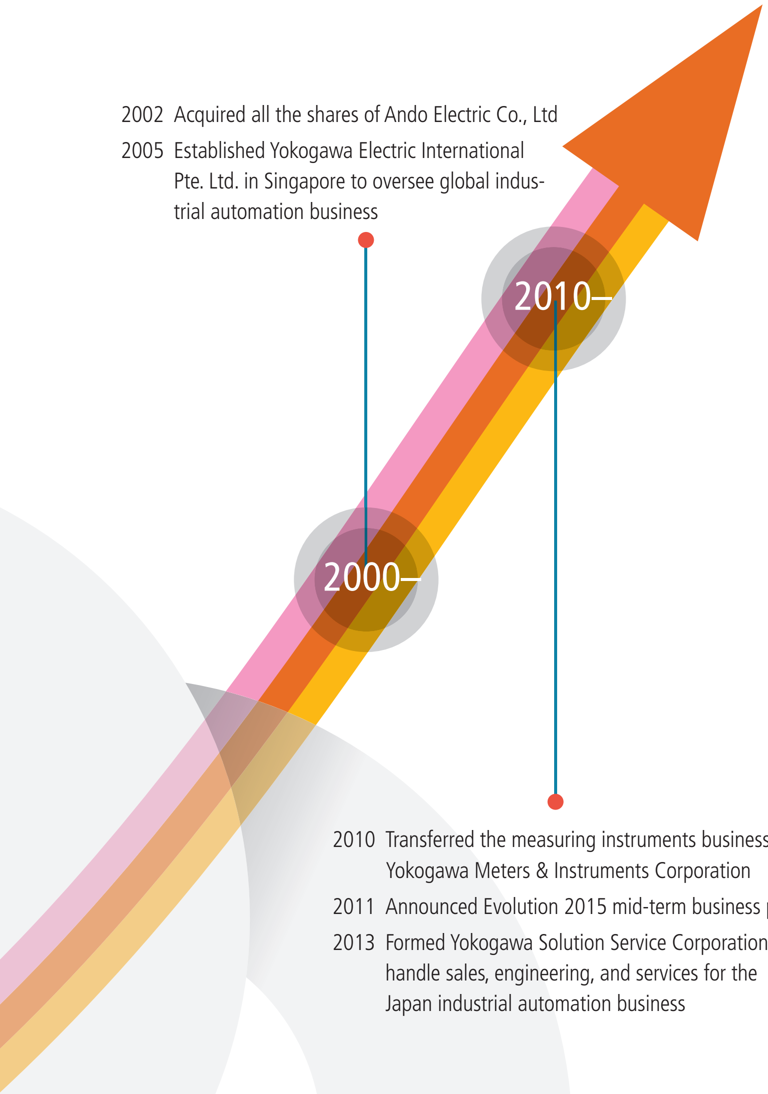
Changed the Company name to Yokogawa Electric Corporation

1988 Entered the high-frequency measuring instruments business

1990 Established Yokogawa Middle East E.C. in Bahrain

1996 Released confocal scanner and entered the biotechnology business

for Creating Social Value



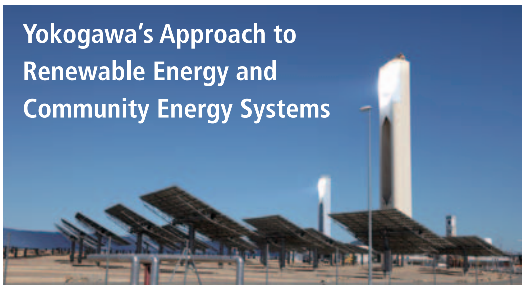
2002 Acquired all the shares of Ando Electric Co., Ltd

2005 Established Yokogawa Electric International Pte. Ltd. in Singapore to oversee global industrial automation business

2010 Transferred the measuring instruments business to Yokogawa Meters & Instruments Corporation

2011 Announced Evolution 2015 mid-term business plan

2013 Formed Yokogawa Solution Service Corporation to handle sales, engineering, and services for the Japan industrial automation business



Message from the Top Management

In the fiscal year ended March 31, 2014 (fiscal year 2013), the Yokogawa Group continued to strive for growth by focusing on the industrial automation and control business, which remained strong thanks to growth in energy-related investment. Accordingly, and with the additional benefit of the continued weakness of the yen, the Group reported higher revenue and earnings with year-on-year increases in net sales and operating income. Net income, on the other hand, was down from the previous year, when there was a spike in extraordinary income due to the sale of idle assets.

The Group's business environment is changing drastically. In specific terms, the Japan market is undergoing structural changes, the globalization of markets is accelerating, and global competition is intensifying in the control business. In fiscal year 2014, we are implementing growth strategies while working to improve our financial health. At the same time, we are accelerating our transformation into a solutions and service company in order to survive in an increasingly competitive market. Complementing these measures, we are improving profitability while reinforcing our inherent strengths, which include a lineup of highly reliable and high-quality products, superior project management capabilities, extensive knowledge of industries, high-level engineering capabilities, and localized operations.

Moving forward, we will continue to place every emphasis on fulfilling the expectations of our shareholders by enhancing our corporate value. As we work to achieve our goals, we kindly request your continued support and understanding.

Shuzo Kaihori
Chairman and CEO

Takashi Nishijima
President and COO

President and COO Takashi Nishijima

Resolving a Number of Pressing Issues by Aggressively Expanding Our Businesses

Orders, net sales, and operating income were all up compared with the previous fiscal year due mainly to efforts aimed at expanding the industrial automation and control business, which remained strong outside Japan thanks to energy-related investment growth and continued weakness in the value of the yen.

Q1 Please tell us about the Company's results in fiscal year 2013.

In fiscal year 2013, our orders, net sales, and operating income were all up from the previous fiscal year.

Looking at the global economic situation, the U.S. economy showed modest signs of recovery. There were also indications of a positive turnaround in Europe in the second half of the year. However, there were ongoing concerns about the slowdown in economic activity in emerging countries. As a result, the global economy showed only moderate growth.

There were also signs of a gradual upswing in the Japanese economy, with the government's fiscal and monetary policies triggering expectations of growth and leading to a deflation of the strong yen and steady increases in stock prices. Conditions also benefitted from a pickup in personal consumption and corporate-sector results, although the costs of energy and imported raw materials rose. Concerns about a possible downturn in personal consumption due to the consumption tax hike also emerged. As a result, both consumers and the corporate sector remained cautious.

Under these circumstances, and guided by its Evolution 2015 mid-term business plan, the Yokogawa Group worked to aggressively expand its business activities, focusing mainly on the industrial automation and control business, which remained strong outside Japan thanks to the growth in energy-related investment. As a result, and partly due to continued weakness in the yen, orders, net sales, and operating income were up from the previous fiscal year. (Please refer to table 1.)

Q2 Please provide us with your forecasts for the market and the Group's results in fiscal year 2014.

In our mainstay business of industrial automation and control, we expect robust growth chiefly in energy-related markets thanks to strong demand for energy and the active development of energy resources in emerging and resource-rich countries. Accordingly, orders, sales, and operating income in this business are projected to increase in fiscal year 2014.

(Table 1) Results of Operations in Fiscal Year 2013 and Business Forecasts for Fiscal Year 2014

Billions of yen unless otherwise stated; rounded to the first decimal place

		FY2013 results	YoY	FY2014 forecasts	YoY
Orders		406.0	51.5	417.0	11.0
Net sales		388.5	40.6	400.0	11.5
Operating income		25.9	7.5	28.0	2.1
Ordinary income		25.7	7.7	26.0	0.3
Net income		12.3	(2.4)	14.0	1.7
Exchange rate (Yen)	US$	100.67	17.34	100.00	(0.67)
	Euro	135.24	27.84	135.0	(0.24)

In the test and measurement business, we anticipate orders and sales to decrease, and this is due mainly to the discontinuation of the semiconductor tester and motion control businesses and the sale of a subsidiary that was involved in the measuring instruments business. Operating income, on the other hand, is forecast to rise as a result of factors such as the discontinuation of the motion control business.

Taking all this into consideration, we think that consolidated orders, net sales, operating income, and net income are going to increase in fiscal year 2014. Dividends will probably remain unchanged, with an interim dividend of ¥6 per share and a period-end dividend of ¥6 per share, for an annual dividend of ¥12 per share.

Q3 What issues do you expect to face in running Yokogawa, and what are your policies going forward?

The Yokogawa Group will need to address the following two urgent issues:

1. The need to outpace the changes that are underway in the market by transforming our business model
2. The need to generate real growth, excluding the effects of foreign currency exchange movements

The Japan market is changing more quickly than we expected. In addition to the large-scale structural reforms that are underway in the oil and petrochemical industries, companies are speeding up the offshoring of production operations. Also, our customers around the world are demanding increasingly higher value-added products and services, and the global competition for their business is growing increasingly fierce. As our customers increasingly move their business activities outside their own home markets, we have a pressing need to coordinate activities that take place across regions. At the same time, it is becoming increasingly important for us to direct our investment toward such new growth areas such as Africa and Central Asia. It is therefore vital that we outpace these changes in the market by transforming our business.

A prolonged weakness in the yen throughout fiscal year 2013 substantially drove up our profits. Excluding the effects of these fluctuations in foreign currency exchange rates, we were unable, however, to generate real growth.

It is imperative for the Group as a whole to work diligently to address this issue. We must take bold steps to accelerate the pace of growth.

Moving forward, the Yokogawa Group will pursue management policies that will address these two issues. Looking ahead, we will accelerate growth and improve profitability.

Establishing and expanding a solutions service business model will play a key role in accelerating growth. In addition to the control systems, field instruments, and other products belonging to the Company's core businesses, Yokogawa boasts advanced operations assistance and operations management solutions as well as ERP and other high-end manufacturing-related system solutions. In this regard, the scope of our business is expanding vertically.

Yokogawa also has a long track record in resolving plant operation, maintenance, and safety issues. Leveraging this strength, we will take the first steps to building a consulting business model that seeks to identify potential issues early on, before they can lead to problems for our customers. In this manner, we will expand the scope of our business activities into industries where we have yet to establish a foothold.

Moreover, we will continue to emphasize the provision of support that spans the entire plant lifecycle. We will accelerate the pace of growth by expanding our solutions services vertically and horizontally based on a lifecycle matrix.

In expanding our solutions services, it is vital that we bolster the underlying strengths of our product portfolio. The high quality and reliability of our products define us as a company and are indispensable to plant safety. As a major step toward building even more robust ties with our customers, we will continue to focus on product development.

Turning to the subject of how we will improve profitability, we plan to reinforce our activities in three key areas, namely, reducing business costs in Japan, becoming more cost competitive, and improving efficiency through global optimization.

To reduce business costs in Japan, we are considering the possibility of moving certain personnel outside Japan over a three-year period starting in 2014. These will be individuals with outstanding skills and a wealth of experience spanning a wide range of industries. We will also seek to train personnel in a variety of skills so that they can provide a broad spectrum of engineering and lifecycle services, and will assign them to locations where they can work in close proximity with our customers, including operators of major industrial complexes. While strengthening our non-Japan business, this will allow us to make the most efficient use of our limited resources and achieve an optimum balance in the costs for our operations inside and outside Japan.

As a part of our efforts to enhance cost competitiveness, we will work to move more of our procurement and production outside Japan, with the aim of conducting these activities closer to our end users. In Japan, we will seek to further automate production lines that have room for improvement in this area. At the same time, we will look for ways to optimize our manufacturing overhead costs around the world.

To improve efficiency, we will introduce a setup whereby the heads of our regions outside Japan will report directly to me. Our goal is to ensure an optimal balance between the global integration of management resources for improved efficiency and the regional localization of operations.

Q4 In closing, could you please provide us with your thoughts on the Company's efforts to be a good corporate citizen?

Yokogawa has accumulated a robust portfolio of advanced technologies and a wealth of experience in the measurement, control, and information fields. This allows us not only to support the development of infrastructure that industry and society depend on, but also to contribute in fields such as alternative energy and energy conservation that help to protect the environment.

In January 2009, Yokogawa joined the United Nations Global Compact, a voluntary corporate citizenship initiative centering on 10 principles in the areas of human rights, labour, the environment, and anti-corruption, and has remained focused on engaging in business activities that are consistent with these principles. Worldwide, the Yokogawa Group is vigorously engaged in activities that contribute to society and is working to resolve a variety of social issues in each country and region. As a company that does business globally, we believe that contributing to society should be one of our core responsibilities.

Yokogawa recognizes that it is its responsibility as a corporation to consistently generate maximum value that will benefit both customers and society. At the same time, we understand that fulfilling our corporate social responsibility plays a significant role in ensuring our existence as a going concern. To help realize a sustainable society, we will maintain an unwavering commitment to engaging in business activities that contribute to society and enhance our corporate value.

Consolidated 11-year Summary

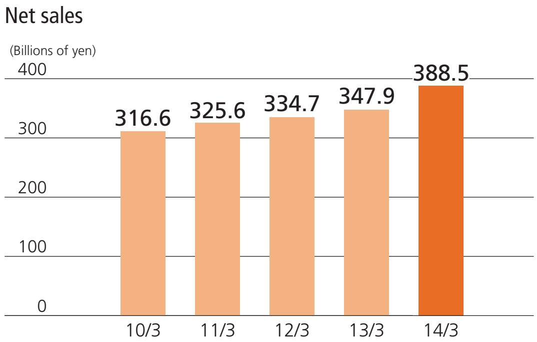
Yokogawa Electric Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004 to 2014

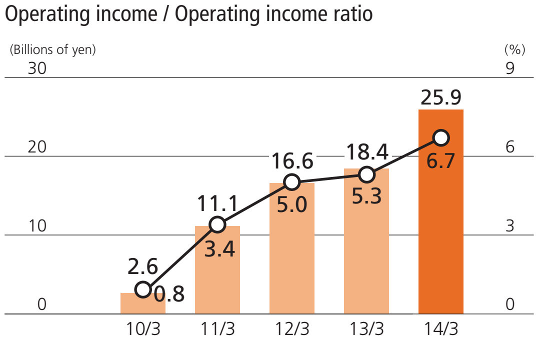
	2004/3	2005/3	2006/3	2007/3	2008/3	2009/3
Financial data						
For the year:						
Net sales	¥371.9	¥387.1	¥388.9	¥433.4	¥437.4	¥376.5
Cost of sales	241.4	250.0	245.9	275.9	277.4	253.0
Selling, general and administrative expenses	112.3	112.3	117.6	128.2	132.6	118.8
Operating income	18.3	24.8	25.3	29.3	27.4	4.7
Net income (loss)	24.3	9.4	21.6	12.6	11.7	(38.4)
Capital expenditures	21.4	18.7	29.5	40.3	38.0	26.8
Depreciation and amortization	13.5	14.3	15.1	16.5	23.1	21.6
Research and development costs	27.0	29.0	30.9	36.2	40.9	37.2
Cash flow from operating activities	8.3	18.3	25.6	40.5	20.8	24.5
Cash flow from investing activities	(10.2)	(11.2)	(11.7)	(39.0)	(51.0)	(24.1)
Cash flow from financing activities	(11.4)	(1.3)	(14.1)	(6.1)	23.9	28.4
At year-end:						
Total assets	397.4	400.3	417.8	438.7	444.6	401.0
Interest-bearing debt	99.6	100.3	61.3	59.6	93.0	124.3
Shareholders' equity	160.3	168.8	224.6	234.3	220.7	167.2
Financial indicators:						
Operating income ratio	4.9	6.4	6.5	6.8	6.3	1.3
Debt equity ratio (times)	0.62	0.59	0.27	0.25	0.42	0.74
ROE (Return on equity)	16.6	5.7	11.0	5.5	5.1	(19.8)
ROA (Return on assets)	6.4	2.3	5.3	2.9	2.6	(9.1)
Shareholders' equity ratio	40.3	42.2	53.7	53.4	49.6	41.7
Per share data:						
Net income (loss)	99.84	38.43	87.45	47.79	44.76	(149.26)
Cash dividends	7.50	7.50	15.00	15.00	16.00	16.00
Shareholders' equity	658.97	693.75	854.24	891.08	856.72	649.20
Stock information:						
Stock price at the end of the term (yen / US dollars)	1,544	1,452	2,095	1,806	998	394
Market capitalization (billions of yen / millions of US dollars)	392.1	368.8	562.8	485.1	268.1	105.8
Number of issued shares	253,967,991	253,967,991	268,624,510	268,624,510	268,624,510	268,624,510
Other information:						
Average exchange rate during the period						
US dollar	¥113.97	¥107.46	¥113.09	¥117.00	¥113.80	¥100.66
Euro	132.73	134.90	137.81	150.33	162.26	143.28
Non-financial data						
Number of employees (by segment):	18,364	18,972	17,858	19,286	20,266	20,247
Industrial automation and control business					15,505	15,960
Test and measurement business					2,885	2,350
Other businesses					1,876	1,937
Environmental data:*						
Total CO_2 emissions (tons)	12,872	14,122	14,786	15,031	16,875	24,875
Water consumption (km^3)	200	222	190	208	243	466
Waste emissions (tons)	874	713	713	653	671	807

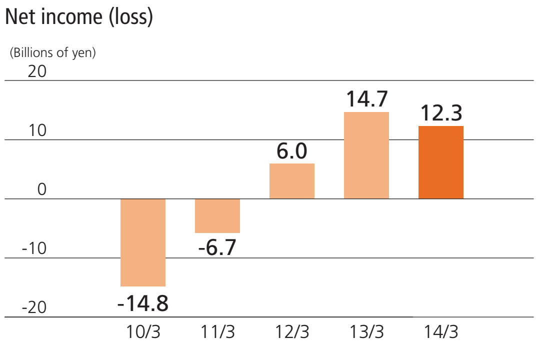
Unification of the accounting periods of non-Japan consolidated subsidiaries
Beginning with the fiscal year ended March 31, 2007, financial statements based on the provisional settlement of accounts implemented as of the consolidated closing date are being used for Yokogawa Electric China Co., Ltd. and 10 other non-Japan subsidiaries, and the closing date for Yokogawa USA, Inc., and 47 other non-Japan subsidiaries has been changed to the consolidated closing date. Through these changes, 13 consolidated subsidiaries had a 15-month accounting period, and 46 consolidated subsidiaries had a 13-month accounting period. Due to these changes to the accounting period, compared to the usual standard, the fiscal year 2006 consolidated statement of income showed a 22.1 billion yen increase in net sales, a 1.4 billion yen increase in operating income, and a 985 million yen increase in net income.

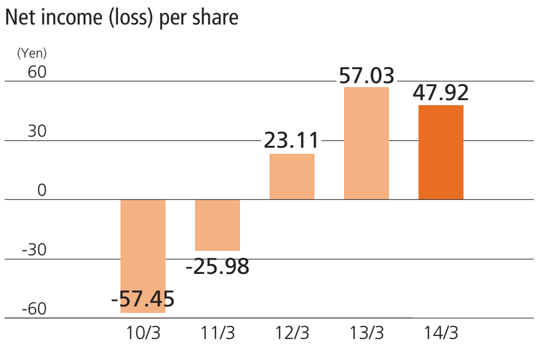
				Billions of yen	Millions of US dollars
2010/3	2011/3	2012/3	2013/3	2014/3	2014/3
¥316.6	¥325.6	¥334.7	¥347.9	¥388.5	$3,774
214.5	215.1	195.4	206.6	229.3	2,228
99.5	99.4	122.6	122.8	133.3	1,295
2.6	11.1	16.6	18.4	25.9	252
(14.8)	(6.7)	6.0	14.7	12.3	120
11.1	11.3	11.1	13.5	14.0	136
16.0	13.8	12.8	13.5	13.6	132
28.8	29.2	27.5	25.5	25.8	251
21.4	16.2	12.9	17.4	30.1	293
(13.2)	(8.0)	(7.8)	(7.5)	(13.9)	(135)
11.1	(25.7)	(8.0)	(8.0)	(21.6)	(210)
398.8	361.2	359.5	379.9	398.9	3,876
137.1	111.0	103.3	98.6	81.4	790
153.4	141.7	145.7	168.4	187.3	1,819
				%	
0.8	3.4	5.0	5.3	6.7	
0.89	0.78	0.71	0.59	0.44	
(9.2)	(4.5)	4.1	9.4	6.9	
(3.7)	(1.8)	1.7	4.0	3.1	
38.5	39.2	40.5	44.3	46.9	
				Yen	US dollars
(57.45)	(25.98)	23.11	57.03	47.92	0.47
2.00	0.00	5.00	10.00	12.00	0.12
595.42	550.19	565.69	653.83	727.09	7.06
				Yen	US dollars
814	634	837	946	1,667	16.20
218.7	170.3	224.8	254.1	447.8	4,351
268,624,510	268,624,510	268,624,510	268,624,510	268,624,510	—
				Yen	
¥92.61	¥85.13	¥78.82	¥83.33	¥100.67	
130.68	112.45	109.34	107.40	135.24	
19,574	19,334	19,437	19,685	19,837	
15,995	16,159	16,672	17,188	17,669	
2,469	2,288	1,968	1,667	1,328	
1,110	887	797	830	840	
26,065	26,034	21,650	15,471	16,337	
333	328	286	222	208	
532	542	639	367	325	

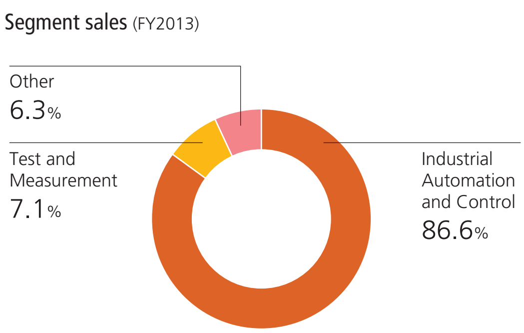
* Aggregated data on the Company's ISO14001-certified offices and factories











Special Feature

Yokogawa's Approach to Renewable Energy and Community Energy Systems

There is a growing concern about the impact that society has on the environment. Nowhere is this concern as acute as with the issue of energy consumption, which is escalating worldwide due to population growth, mainly in emerging countries, and economic development. To counter the resulting increase in greenhouse gas emissions, the focus is increasingly shifting toward solutions such as the creation of systems that can ensure a stable supply of clean energy from renewable energy sources and the development of community energy systems based on distributed energy networks that improve efficiency by enabling the local production and consumption of energy.

In this special feature, we introduce how Yokogawa is contributing to society by promoting the construction of community energy systems.

Drawing on the Benefits of the Sun

A great deal of energy from the sun is stored as heat in our planet's atmosphere, oceans, and land masses, and the resulting temperature differences help to drive the wind and ocean currents. Energy from the sun is also important in the photosynthesis of plants. Renewable energy is in large part derived from the sun's power, and must be converted into a form that can be used in an easy and efficient manner.

Fossil fuels such as oil and natural gas are processed into more usable forms at refineries and are used to generate electricity at power plants, with the refined product being transported to points of consumption through pipelines and other means, and electricity being supplied to end users via power grids. The use of fossil fuels as an energy source entails the development of large-scale, centralized energy supply networks. Solar

Concentrated solar power generation facility

energy, on the other hand, is available anywhere around the world. A good deal of attention is being given now to the development of community energy systems that enable the local production and consumption of energy by harnessing the specific attributes of a particular region, whether that be the availability of abundant sunlight, warm ocean water, forests, or farmland.

Yokogawa's Industrial Automation

Accurately measuring and optimally controlling such key plant process parameters as temperature, pressure, and flowrate in plants are essential prerequisites for safe and efficient production. At the same time, it is equally important to ensure optimal operations across the entire lifecycle of a plant's equipment and facilities. This necessitates the accurate monitoring and management of plants to ensure that there is no decline in performance caused by malfunctioning or ageing equipment or facilities. Making the most of its measurement, control, and information technologies, Yokogawa provides industrial automation products and services to a wide spectrum of industries, including oil & gas, petrochemicals, chemicals, iron and steel, and electric power. These support safe and stable plant operations and help to conserve energy.

Drawing on its accumulated technologies and expertise, Yokogawa is well placed to help in the control of important equipment and facilities to ensure the stable and safe supply of energy through the development of community energy systems.

Yokogawa's Achievements in the Renewable Energy Field

Yokogawa has long been involved in the renewable energy field since its early days and is a proven supplier of control systems, controllers, sensors, and other products for use in facilities all over the world, including biomass plants in Brazil, geothermal plants in Indonesia, wind farms in China, and solar thermal plants in Spain. While fossil fuels are formed over long periods of time and provide a convenient, easily extracted source of energy, renewable energy sources exhibit a low energy density, and considerable effort and infrastructure is required for their extraction and use. Therefore, companies initially focused their attention on reducing facility costs, and Yokogawa channeled its energies toward the supply of products such as controllers and sensors.

In recent years, attention has shifted to the safe and efficient operation and management of existing facilities, and the scope of Yokogawa's business has similarly expanded to include control systems. At the same time, initiatives are being launched to promote the use of abundant and stable supplies of new energy sources through the practical application of technologies such as combined storage cell and heat storage systems and ocean thermal energy conversion (OTEC) plants, and this is triggering increased demand for more sophisticated control system solutions.

Solar powered air conditioning system built by NEP Solar Pty. Ltd. in Australia
Solar tracking controllers and central monitoring and control software help this system operate more efficiently.

Progress in the Development of Distributed Energy Networks

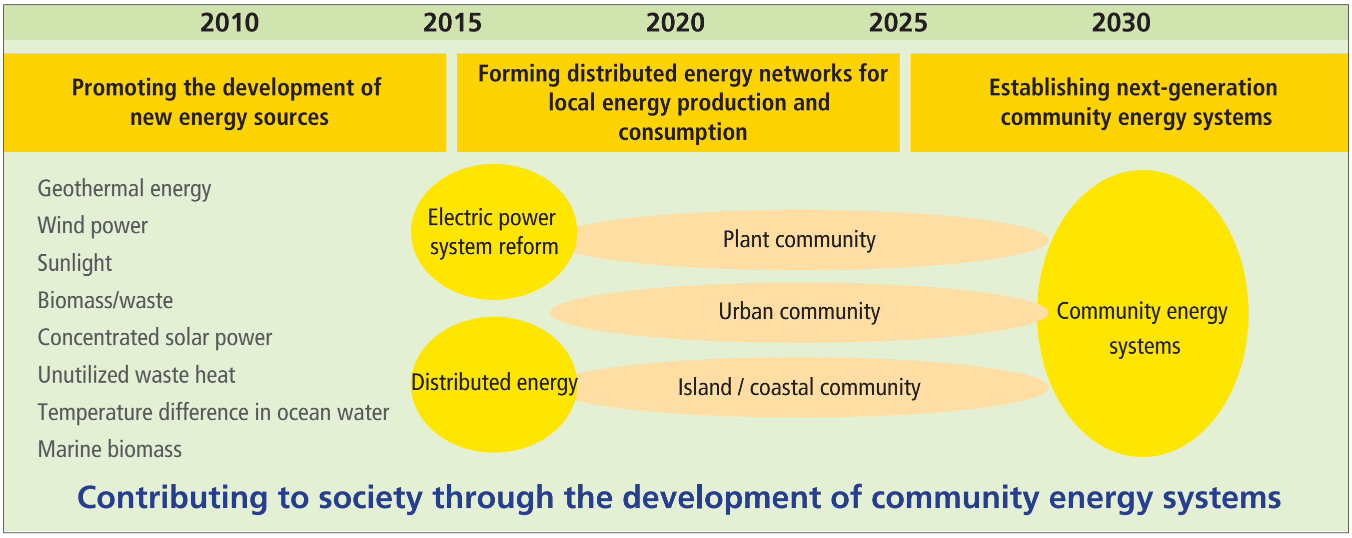
With the development and growing use of renewable energy technologies, communities are able to establish distributed energy networks that involve the local consumption of energy that has been produced using locally available resources. With this in mind, it is vital for these communities to integrate and efficiently manage their energy resources.

Smart city energy networks focusing on housing, commercial buildings, and urban facilities such as hospitals are optimal circulation systems that combine energy supplied from external sources, energy provided by distributed energy sources such as cogeneration facilities that deliver both heat and electricity, and energy that is generated within the community, including that from waste and exhaust heat.

OTEC pilot plant in Kumejima, Okinawa Prefecture, Japan
The integrated production control system optimizes the entire plant's operation so that it can generate power more efficiently.

Industrial facilities such as factories not only consume energy, but also produce it in a variety of forms, such as heat, hydrogen, and other gases. Such facilities can thus form the nucleus for a collaborative community that encompasses the surrounding area.

A pilot plant was built on Okinawa Prefecture's Kumejima island to demonstrate the practicality of OTEC technology, and this plant began operating in June 2013. This OTEC system utilizes the temperature



difference between warm surface seawater and cold deep seawater to generate electricity. By harnessing the four useful features of deep seawater, namely its low temperature, rich nutrients, cleanliness, and stable quality, this initiative is also expected to invigorate local aquaculture, agriculture, and other industries. Moreover, this pursuit of a viable OTEC system is attracting considerable interest as a promising means for creating a new type of local production for local consumption community that is suitable for remote islands and coastal areas. Yokogawa has participated in this OTEC initiative from its inception and is promoting this project together with universities and companies that possess advanced technologies. Looking ahead, the Company will actively participate in a variety of similar initiatives in a bid to enhance its standing as a leading company.

A Hydrogen-based Energy System

Many fossil fuels, including oil and natural gas, are transported in liquid form. These liquids are then used as an energy source to produce steam and drive a generator that produces electricity. On the other hand, renewable energy sources in their various forms are either difficult or impossible to transport and store. As solar energy is best acquired in those regions that are in the lower latitudes, the distance between the points of supply and demand can be a major issue. The availability of renewable energy sources can also be affected by the seasons and other environmental factors. Difficulties in supplying the necessary amount of electricity pose additional hurdles. As one means to address these issues, the use of hydrogen is worth studying.

While hydrogen is already used as a power source in a variety of applications, including vehicle hydrogen-fuel cells, its use as a medium for the storage and transportation of energy is only now attracting widespread attention. Hydrogen gas can be produced by using thermal energy or electricity for the water splitting process. While hydrogen can be difficult to handle in this form, the practical application of a variety of technologies, including those that employ toluene combinations, has enabled its safe and efficient storage and transportation.

The development of a commercially viable means for using hydrogen to transport energy from the point of production to the point of consumption is fueling expectations for distributed energy networks and the further evolution of community energy systems. Consequently, we are witnessing market growth that is being driven by increased demand for Yokogawa's advanced technologies and know-how.

Rising demand for renewable energy and the increasing development of distributed energy networks present a significant market opportunity. Yokogawa is convinced that advances in technology will soon make it possible for urban regions to make use of hydrogen that has been produced in lower-latitude locations using solar thermal energy. The development of such energy systems is close to becoming a reality.

Moving forward, Yokogawa will position these trends as opportunities for business expansion and aims to contribute in the realization of such ideal energy systems.

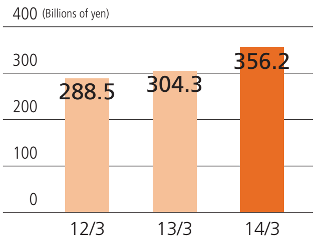
Our Business Segments

Industrial Automation and Control Business

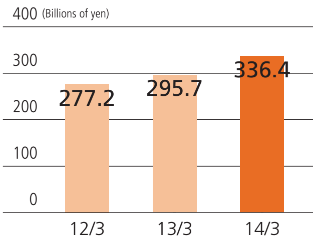
Main products, solutions

- Production control systems
- Safety instrumented systems
- Production management systems
- Quality management systems
- Asset management systems
- Energy management systems
- Differential pressure / pressure transmitters
- Flowmeters • Recorders • Analyzers
- Programmable controllers
- Energy saving solutions / alternative energy solutions
- Security solutions
- IT solutions

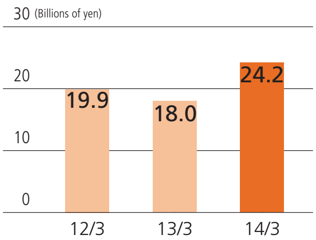
Orders



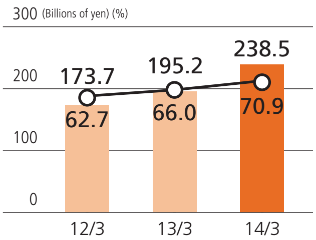
Net sales



Operating income



Non-Japan net sales
Non-Japan net sales ratio



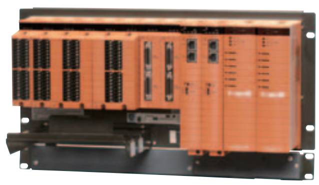
Yokogawa, a pioneering developer of the distributed control systems that are used to monitor and control processes in a broad range of production facilities, is well regarded in the global marketplace as a leader in the control field. Based on its VigilantPlant vision for realizing the ideal plant, Yokogawa offers highly reliable products and services such as the VigilantPlant Services™ solutions suite that enhance productivity, make maximum use of assets, ensure safety, and optimize operations over the entire plant lifecycle. These solutions play a vital supporting role in the oil, chemical, natural gas, electric power, iron and steel, pulp and paper, pharmaceutical, food, and other industries.

Yokogawa also provides solutions based on its measurement, control, and information technologies that are helping to make more efficient use of renewable energy sources, and is devising new ways in which next-generation energy sources can be utilized to achieve a more sustainable society.

• Products and solutions for stable production operations

Yokogawa delivers highly reliable production control systems for the monitoring and control of plant operations, safety instrumented systems that enhance plant safety, network-based control systems that are reliable and suitable for a versatile range of applications, and programmable controllers for production equipment.

CENTUM VP
Integrated Production Control System



ProSafe-RS
Safety Instrumented System

GC8000
Process Gas Chromatograph

FLXA21
Modular 2-wire Liquid Analyzer

GX and GP series
SMARTDAC+ Paperless Recorders

DPharp EJX
Differential Pressure / Pressure Transmitter

ADMAG AXR
2-wire Magnetic Flowmeter

Yokogawa's lineup of measurement solutions for production sites includes transmitters and flowmeters that measure the pressure, temperature, and flow rates of liquids and gases, gas chromatographs that measure the concentrations of components in processes, pH meters and other analyzers, paperless recorders that electronically store measurement data, and temperature controllers. Through these products and solutions, the Company is helping its customers achieve more stable and efficient production operations.

• Energy-saving solutions/alternative energy solutions

Yokogawa offers solutions that visualize, analyze, and optimize energy usage throughout plants while also reducing costs. The Company offers solutions that support the effective use of renewable energy, including next-generation energy sources such as solar thermal energy and ocean thermal energy.

• Security solutions

Yokogawa has strengthened the security of its control systems and extends a variety of support services that offer increased protection from cyber-attacks and computer viruses. Yokogawa also provides camera systems for the monitoring and management of plant facilities. Through such hardware and IT solutions, Yokogawa is working to make its customers' plants safer.

• IT solutions

We support our customers over the entire lifecycle of their plant facilities by providing manufacturing execution, production management, and enterprise resource planning systems that integrate and visualize data for real-time management of plant operations.

Fiscal Year 2013 in Review

Although the Japanese market faced uncertainty, energy-related markets outside Japan remained robust. Under these circumstances, and partly thanks to the continued weakness of the yen, orders, net sales, and operating income were all up compared with the previous fiscal year.

Fiscal Year 2014 Outlook and Business Strategy

Robust growth is expected chiefly in energy-related markets thanks to strong demand for energy and the active development of energy resources in emerging and resource-rich countries. Accordingly, orders, sales, and operating income are expected to increase in fiscal year 2014. Yokogawa will aggressively develop its business, focusing on energy-related markets in resource-rich and emerging nations that expect continued strong demand.

Test and Measurement Business

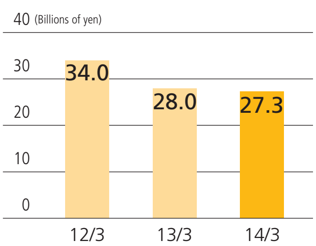
Main products, solutions

- Waveform measuring instruments
- Optical communication measuring instruments
- Signal generators
- Measuring instruments for electric power, temperature, and pressure
- High-throughput cytological discovery systems
- Confocal scanner units

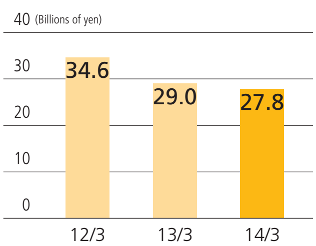
AQ6370D
Optical Spectrum Analyzer

CSU-W1
Confocal Scanner Unit

Orders

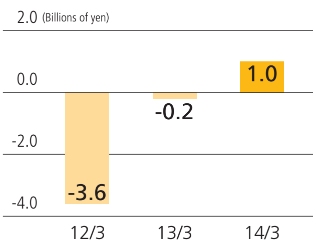


Net sales

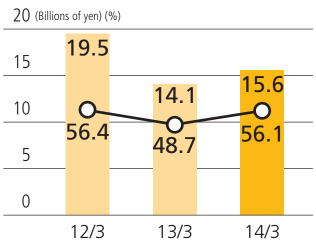


PX8000
Precision Power Scope

Operating income (loss)



Non-Japan net sales
Non-Japan net sales ratio



CellVoyager CV7000
High-throughput Cytological Discovery System

Yokogawa has been involved in the test and measurement field since its founding and has contributed to many industries through its supply of test and measurement equipment. The Company meets the needs of its customers with an extensive lineup of measuring instruments that are essential for the development and production of electrical equipment, electronics, automobiles, and other products, and backs them up with a robust service network that provides instrument calibration and other services. To create superior products with unique functionality, Yokogawa develops key components in-house.

The Company is also developing new markets with the provision of life science equipment, such as confocal scanner units for live cell imaging and drug discovery support systems that automate the testing of compounds.

Fiscal Year 2013 in Review

Orders and net sales in the test and measurement business segment declined year on year mainly as a result of the discontinuation of the semiconductor tester business. On the other hand, the segment generated operating income for the first time since fiscal year 2006. This was largely attributable to the decrease in expenses related to the discontinuation of businesses.

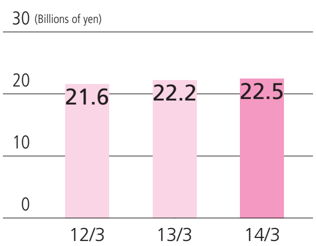
Fiscal Year 2014 Outlook and Business Strategy

A year-on-year decrease in orders and net sales is expected in fiscal year 2014. This is mainly due to the discontinuation of the semiconductor tester and motion control businesses and the sale of a subsidiary involved in certain measuring instruments business activities. In contrast, operating income is projected to increase as a result of the discontinuation of these businesses and other factors. Henceforth, Yokogawa's business development efforts will focus on markets related to the environment, electrical power, and optical communications that show good prospects for continued growth.

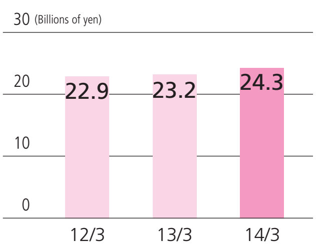
Other Businesses

Main products, solutions
- Aviation equipment
- Marine equipment
- Hydrological and meteorological equipment

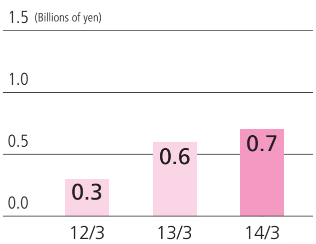
Orders



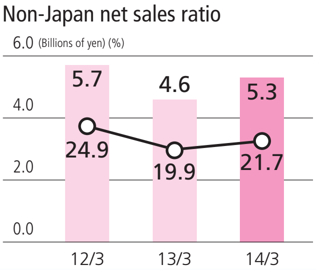
Net sales



Operating income



Non-Japan net sales
Non-Japan net sales ratio



Yokogawa also engages in other businesses that involve the provision of aviation equipment, marine equipment, and hydrological and meteorological equipment. Yokogawa supplies multifunctional flat-panel cockpit displays for use in various types of aircraft, including wide-body passenger jets manufactured by Airbus. Gyrocompasses, autopilots, and other types of marine equipment made by the Company are utilized in ships of all types, from cruise liners to freighters. Rain gauges, hydrostatic level gauges, and other similar types of equipment are supplied to the Japan Meteorological Agency and local government authorities.

Fiscal Year 2013 in Review

In the other businesses segment, orders, sales, and operating income all increased from the previous fiscal year. This largely reflects robustness in the commercial aircraft and marine-related markets.

Fiscal Year 2014 Outlook and Business Strategy

Given the good prospects for continued market growth, Yokogawa aims to expand its sales of flat-panel cockpit displays in the commercial aircraft market and energy-conservation-related products in the marine-related market.

Flat Panel Displays for Aviation Use

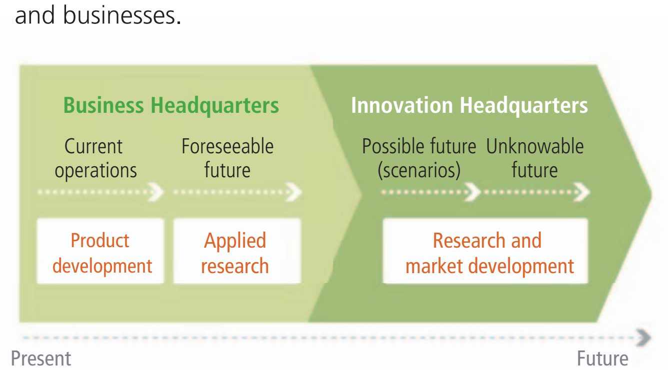
Gyrocompasses

Research and Development / Intellectual Property

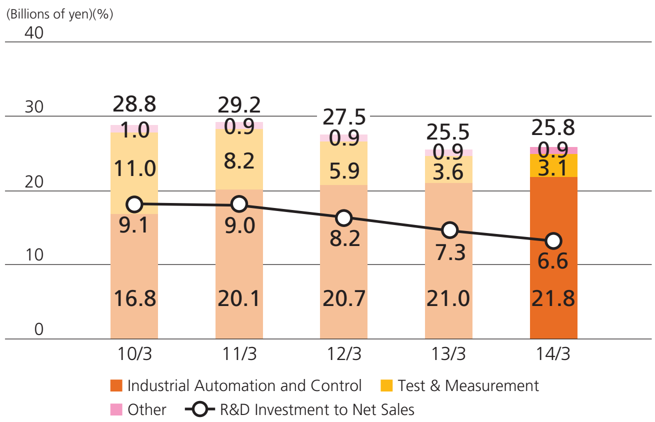
Research and Development

In broad terms, Yokogawa has adopted a two-tiered approach toward R&D. In tier one, the individual business headquarters lead product development and advanced development activities that are aimed at meeting customer needs in the near-term and relatively foreseeable future. In tier two, the Innovation Headquarters heads up research and market development activities that are conducted with a longer-term perspective, involve greater uncertainty, and are directed toward the generation of new business opportunities.

Research at the Innovation Headquarters is unified under three functions: long-term marketing that explores the distant and as yet unknowable future, research and development of core technologies, and market development. The aim of the Headquarters is to foster innovation through new value propositions and the creation of new markets and businesses.



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



Intellectual Property Strategy

Yokogawa views the intellectual property generated from its R&D activities as a resource for creating corporate value. In the creation, nurturing, and leverage of intellectual property, our strategy is to vigilantly protect our intellectual property rights and thus increase the global competitiveness of the Group's technologies.

Protection of Intellectual Property and Involvement in Open International Standards

Amid intense global competition, Yokogawa uses open innovation to rapidly secure solid positions in markets around the world. Based on its intellectual property strategy, Yokogawa establishes and exercises intellectual property rights on its proprietary technologies. International standards are an important aspect of our business, and Yokogawa participates as a member of international standard-setting organizations such as the International Electrotechnical Commission (IEC) and the International Organization for Standardization (ISO).

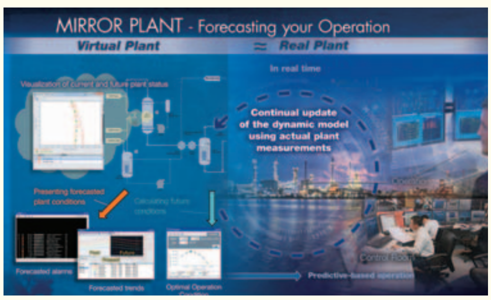
Intellectual property rights owned by the Company (As of March 31, 2014)

	In Japan			Outside Japan			
	Registered	Patent pending	Subtotal	Registered	Patent pending	Subtotal	Total
Patent	2,168	695	2,863	659	603	1,262	4,125
Design	111	17	128	55	13	68	196
Trademark	476	1	477	628	91	719	1,196
Total	2,755	713	3,468	1,342	707	2,049	5,517

R&D Example

MIRROR PLANT: Researchers aim to create new markets

At the Innovation Headquarters, our researchers develop innovative core technologies and solutions by working closely with our customers to identify and resolve issues. This approach led to the development of the MIRROR PLANT online plant simulator. Customized with information obtained on site, MIRROR PLANT can visualize the internal state of plant processes and make near-term predictions of possible abnormal plant behaviors, much like veteran operators do based on their long experience and deep expertise. Process control systems typically monitor and control processes based on measurement readings. With MIRROR PLANT, however, operators can anticipate events and make adjustments, leading to improved plant safety and product quality. It is expected that this technology will spur innovative new approaches to plant control. Yokogawa will continue to work with its customers to develop and create solutions and services that leverage the Company's core measurement and control technologies.



Fiscal Year 2013 in Review (by topic)

▶ Development of FIELDEYE II all-weather CCD color camera for plant monitoring and release of the first model in this new product series, the FC33U

FC33U

▶ Appointment of Shuzo Kaihori as Chairman and Chief Executive Officer and Takashi Nishijima as President and Chief Operating Officer

▶ Yokogawa Solution Service Corporation established

▶ SMARTDAC+ GX/GP series paperless recorders receive 2013 Good Design Best 100 Award

▶ Order to supply monitoring system for large-scale water distribution pipeline project in Saudi Arabia

▶ **Order to supply control system for a second-generation bioethanol plant that is one of the world's largest, and the first of its type in the southern hemisphere**

Yokogawa América do Sul Ltda. received an order to supply the control system and field instruments for a second-generation bioethanol plant in Brazil. As opposed to first-generation facilities that produce bioethanol from food products, this plant will rely on second-generation non-food organic sources such as woodchips and straw. Bioethanol is being produced in rising quantities around the world as a clean alternative to fossil fuels. As the project's main automation contractor, Yokogawa América do Sul has been involved from the FEED stage, performing the basic design for an optimal control system and field instrumentation solution.

▶ Release of pH/ORP sensor for the new SENCOM platform product series

April 2013 | May | June | July | August | September

▶ Ocean thermal energy conversion (OTEC) pilot plant in Okinawa commenced operations (order received in July 2012)

▶ Order to supply control system for municipal water treatment plant in Bali, Indonesia

▶ **Order to supply control system for one of the UK's largest onshore gas storage facilities**

Yokogawa United Kingdom Ltd. was awarded a contract by a subsidiary of SSE plc, a major electric utility in the UK, to supply an integrated control and safety system for an onshore gas storage facility. This is one of the largest such facilities in the UK. An increasing volume of natural gas is being produced due to shale gas development, and many projects for the construction and upgrade of gas-related plants and facilities, including storage facilities, are in the planning stages in Europe and North America.

▶ **Award of FEED contract by JX Nippon Oil & Energy Corporation for control room/system consolidation project at Mizushima-A oil refinery**

Yokogawa Solution Service Corporation received an order from JX Nippon Oil & Energy Corporation (JXE) to perform the front end engineering design (FEED) work for a project that will consolidate the control rooms and systems at its Mizushima-A oil refinery. This involves planning for the implementation of a single control system that will integrate the monitoring and control functions currently performed by multiple control systems at the complex, and the introduction of a safety instrumented system that will improve the safety of plant operations. The consolidation of control rooms will facilitate information sharing among refinery units, and the consolidation of the control systems will enable the refinery's various processing units to share more production data, helping to improve production efficiency.

▶ Selected for inclusion in the Dow Jones Sustainability Asia Pacific Index for the fourth straight year

▶ **Order to supply LNG carrier control system for Ichthys LNG project in Australia**

Yokogawa received an order from Kawasaki Heavy Industries, Ltd. to supply the control system for an LNG carrier that is being built for the Ichthys LNG project in Australia. This follows control system orders for all other principal Ichthys LNG project facilities, including the offshore production/processing facilities and the floating production, storage and offloading (FPSO) vessel.

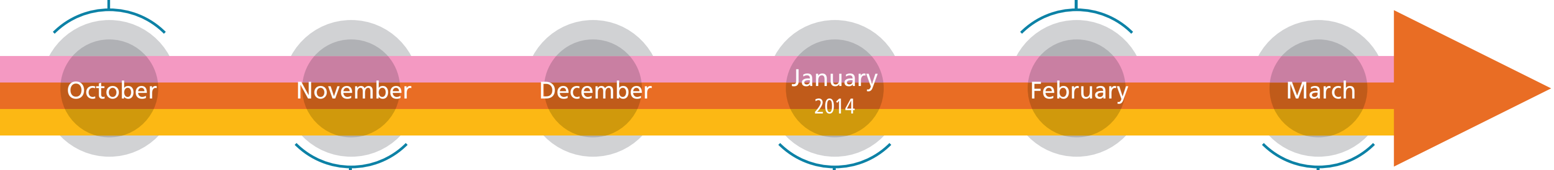
Frost & Sullivan award logo

Multi-protocol Wireless Adaptor

▶ **Received Global Enabling Technology Leadership Award for ongoing innovative technology development in the field wireless industry**

In February 2014, Yokogawa received the Frost & Sullivan 2014 Global Enabling Technology Leadership Award in the wireless solutions category. This award from Frost & Sullivan, an international marketing, market research, and consulting company, is in recognition of the front-running role that Yokogawa has played in developing field wireless solutions utilizing both wired and wireless technologies. These efforts include the 2010 release of the world's first ISA100.11a*-based field wireless system devices and wireless field instruments and the 2014 release of a multi-protocol wireless adaptor for use with existing wired field equipment.

* A field wireless systems communications standard developed by the International Society of Automation (ISA)



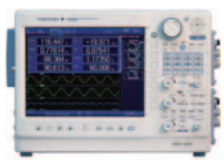
▶ **Order to supply control systems for project to build one of world's largest ethane crackers and multiple large-scale polyethylene facilities in the US**

Yokogawa Corporation of America received an order from Chevron Phillips Chemical Company to supply the control systems for a petrochemicals complex that is being constructed in Texas. It is hoped that this will lead to further opportunities to expand our business in the North American market, where a number of major petrochemical and LNG projects are planned to capitalize on the surge in natural gas production from shale gas fields and other sources.

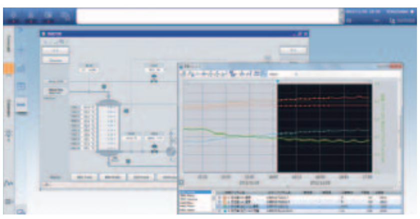
▶ Order from the Bangalore Water Supply and Sewerage Board in India to supply a monitoring system

▶ **Order to supply control systems for Yamal LNG project in Russia**

▶ Release by Yokogawa Meters & Instruments of PX8000 precision power scope, which combines power-analyzer and oscilloscope technologies to offer a new dimension in time-based power measurement



PX8000 Precision Power Scope

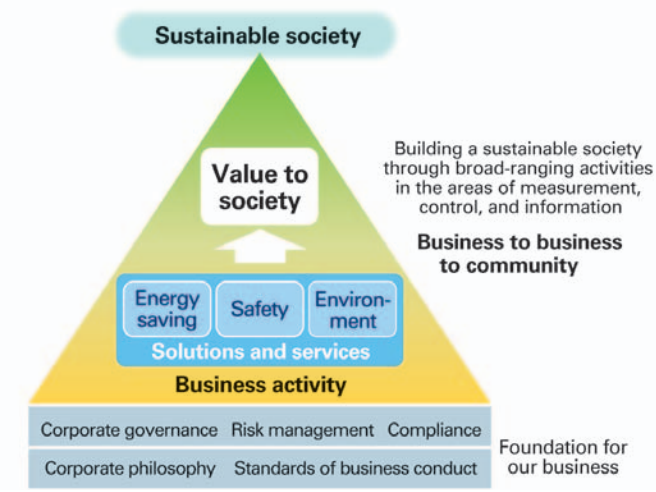


MIRROR PLANT screen shot

▶ **Announcement of new solutions based on newly developed MIRROR PLANT online plant simulator**

The online MIRROR PLANT simulator operates in synch with the plant control system to obtain the real-time data needed to visualize the internal state of difficult-to-measure plant processes and make near-term predictions of plant behavior. This information can be displayed on operator terminals or PC screens. In April 2014, Yokogawa began offering new solutions based on this simulator that will allow its customers in the oil, petrochemical, and natural gas industries to maintain safe plant operations and ensure high product quality.

The Yokogawa Philosophy, which states, "As a company, our goal is to contribute to society through broad-ranging activities in the areas of measurement, control, and information," provides the underlying basis for our efforts to fulfill our corporate social responsibility (CSR). Yokogawa has established a department at its head office that oversees CSR activities throughout the Yokogawa Group. At the same time, Group companies around the world are promoting CSR initiatives that take into consideration the unique attributes of each country and region. Through these means, we are making every effort to contribute to the sustainable development of local communities. The Company has also established the Yokogawa Group Compliance Guidelines, which provide employees with a roadmap for conduct in such areas as human rights, legal compliance, and occupational safety and health.



Yokogawa supports the United Nations Global Compact and thinks of its principles as values that should be shared by all members of the Yokogawa Group. We also maintain our commitment to the ISO 26000 standard as we engage in the CSR activities.

● Contributing to Society through Our Business

Guided by the Yokogawa Philosophy, we have developed outstanding technologies and gained a wealth of experience over the years in the areas of measurement, control, and information. In addition to providing environmental, energy conservation, and safety solutions that help society confront a host of issues such as global warming and the depletion of natural resources, we deliver products and services that draw on our measurement, control, and information technologies. In this manner, and based on its concept of "B to B to C" (business to business to community), Yokogawa is placing every emphasis on contributing to the sustainable development of society.

● Corporate Responsibility

The Standards of Business Conduct for the Yokogawa Group call for the realization of the Yokogawa Philosophy, enhancement of customer satisfaction, observance of laws and regulations, respect for human rights, and maintenance of the order and safety of communities and society. In addition, Yokogawa has been participating in the United Nations Global Compact since January 2009. The Company draws on the Compact's ten principles relating to human rights, labor, the environment, and anti-corruption as guideposts for its global activities. Furthermore, it strives to ensure that its global network of Group companies and suppliers shares the same commitment to these principles.

Highlight

Yokogawa selected by RobecoSAM for inclusion in the Sustainability Yearbook 2014

For the second consecutive year, Yokogawa has been selected for inclusion in the Sustainability Yearbook by RobecoSAM AG, a company that specializes in services such as the gathering and analysis of data for the Dow Jones Sustainability Index (DJSI), a global socially responsible investment (SRI) index. This year, RobecoSAM AG invited a total of 3,000 companies to participate in its Corporate Sustainability Assessment, which examines candidate organizations based on certain economic, environmental, and social criteria. Beginning this year, the assessment criteria also specify that companies must be in the top 15% of their industry and achieve a score that is within 30% of the Industry Leader's score. Based on this assessment, a total of 460 companies in 59 sectors were declared eligible for inclusion in the 2014 edition of the Sustainability Yearbook. The selection of Yokogawa based on these stringent assessment criteria comes in recognition of its contributions in realizing a sustainable society.

Please refer to Yokogawa Electric Corporation's CSR website for further information on this topic.

CSR website URL
http://www.yokogawa.com/csr/index.htm

Environmental Management

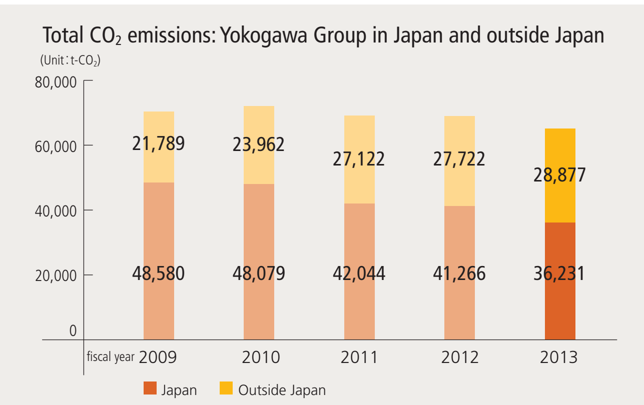
At Yokogawa, we take seriously our responsibility to protect the environment. As one approach to environmental management, we are working to reduce the environmental impact of Group manufacturing and office operations. While actively engaged in such endeavors, we are also helping our customers by developing environmentally friendly products and providing tools they can utilize to analyze and reduce the environmental impact of their own business activities.

● Framework for the Promotion of Environmental Conservation

As part of our environmental management organization, the Yokogawa Group Green Implementation Committee guides environmental conservation activities throughout the Group, including the strengthening of measures to prevent global warming.

● Efforts to Reduce Our Environmental Impact

The Yokogawa Group is working diligently to reduce its CO_2 emissions. With each Group company setting its own reduction targets, various methods are employed, including the shift to alternative energy sources. Looking at the Group as a whole, emissions are exhibiting a steady annual decline. While CO_2 emissions have increased in certain regions, every effort is being made to increase energy efficiency at each Group company and to reduce emissions on a per-unit-of-output basis. Measures to reduce CO_2 emissions include the consumption of green electricity, installation of LED lighting, and the use of highly efficient air conditioning systems. Yokogawa's offices and manufacturing plants are also using the Company's Enerize E3 and InfoEnergy energy management systems to better visualize energy consumption and thereby reduce CO_2 emissions.



● Helping Our Customers Reduce Their Environmental Footprint

Yokogawa has set design and assessment standards for the development and manufacture of environmentally friendly products. In addition, we use lifecycle assessment (LCA) standards to evaluate energy consumption throughout the product lifecycle, from materials and parts production to assembly, distribution, use, and disposal, as well as to evaluate emissions of CO_2, NOx, and SOx at each stage. We then make the results of these assessments publicly available. Products that have cleared these standards are considered to be highly environmentally friendly, and help our customers reduce their environmental impact.

We also provide solutions to our customers that can have a direct impact on their costs and environmental performance by improving operational efficiency and reducing the amount of energy consumed by equipment and facilities. Amid growing global demand, our energy saving technologies have attracted the attention of companies in emerging and industrialized nations all over the world.

Highlight

Harnessing Yokogawa's water solutions to help resolve issues in emerging countries

In recent years, major cities throughout India have been experiencing frequent water shortages due to rapid industrialization and population growth. Unlike most developed nations, India's water distribution network lacks advanced monitoring, management, and maintenance capabilities. Lately, emphasis has been given to pressing issues such as the need to reduce water pipe leakage rates. Drawing on its nearly 30 years of experience in supplying control instruments and system solutions to Indian customers and its extensive know-how in water supply and wastewater treatment, Yokogawa is looking to expand its industrial automation and control business in India and other emerging countries that continue to face water shortages. By providing solutions that enable people to make more efficient use of limited water resources, we are contributing to industrial development and helping to improve quality of life.

Human Resources

Yokogawa was quick to pursue business expansion outside Japan. Beginning with the opening of a US sales office in 1957, the Company has aggressively expanded its global manufacturing and sales network. Currently, Yokogawa has 70 Group companies in 33 countries, and generates approximately 70% of its sales outside Japan. The Yokogawa Group boasts a workforce of approximately 20,000 employees, of which more than 11,000 are based outside Japan. Every effort is being made to recruit personnel in each locality who have a good knowledge of the conditions that impact plant operations. As a result, some 60% of the Group's operations outside Japan are headed by non-Japanese.

In recent years, Yokogawa has accelerated the pace at which it is globalizing headquarters functions such as corporate planning, accounting, human resources, legal affairs, and product development.

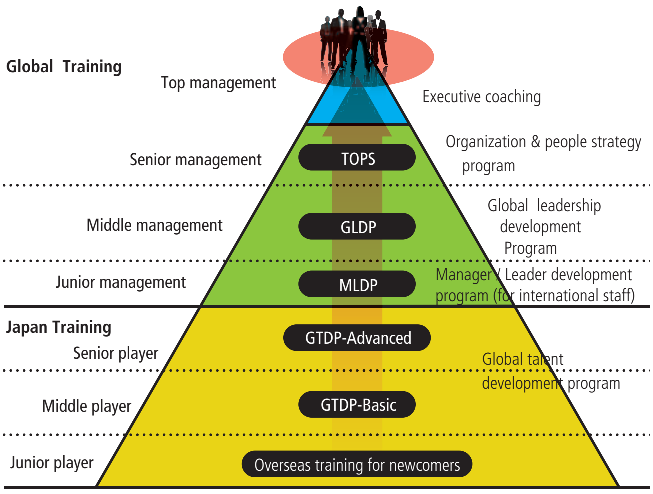
Building a Global Personnel System

Yokogawa is working to build a global personnel system that will ensure the optimal allocation of human resources. To this end, the Company is putting considerable emphasis on the use of a uniform evaluation system for the selection of personnel and the provision of training that will give them a thorough understanding of Yokogawa's values. At the same time, the Company places equal importance on having a transparent employee promotion and compensation system. In order to give personnel a renewed understanding of the significance of the Yokogawa Philosophy, which was formulated in 1988, the Company is providing values training to all Yokogawa Group employees, beginning with those who work outside Japan. In fiscal year 2013, Yokogawa undertook a thorough review of its rules and regulations for expatriate personnel, the first time this had been done in 26 years. This initiative is aimed at putting in place a set of uniform guidelines for transfers between countries, standardizing fundamental operations, and enhancing the transparency of compensation and promotion systems. As a core feature of the Company's personnel systems, Yokogawa is also taking steps to implement a detailed, rank-specific training program.

Program to Foster a New Generation of Executives

Yokogawa has assigned top priority to a Global Leadership Development Program (GLDP) that will foster the development of a new generation of Yokogawa executives. First rolled out in Singapore in 2011, the program was subsequently introduced in the United States in 2012. To date, a total of 94 personnel of many different nationalities have participated in the program, which focuses primarily on group tasks. A second initiative is the Global Talent Development Program (GTDP), which targets younger Group personnel. Mainly for employees in Japan, this program comprises approximately seven months of classroom lectures and a three month internship at a local company or NGO.

Yokogawa will continue to pursue these global personnel development activities while working to address the challenges presented by a difficult business environment. As the Company prepares to celebrate its 100th anniversary, it will better position itself for engaging in global business operations by maintaining a multi-faceted and effective training system.



A GLDP class

Corporate Governance

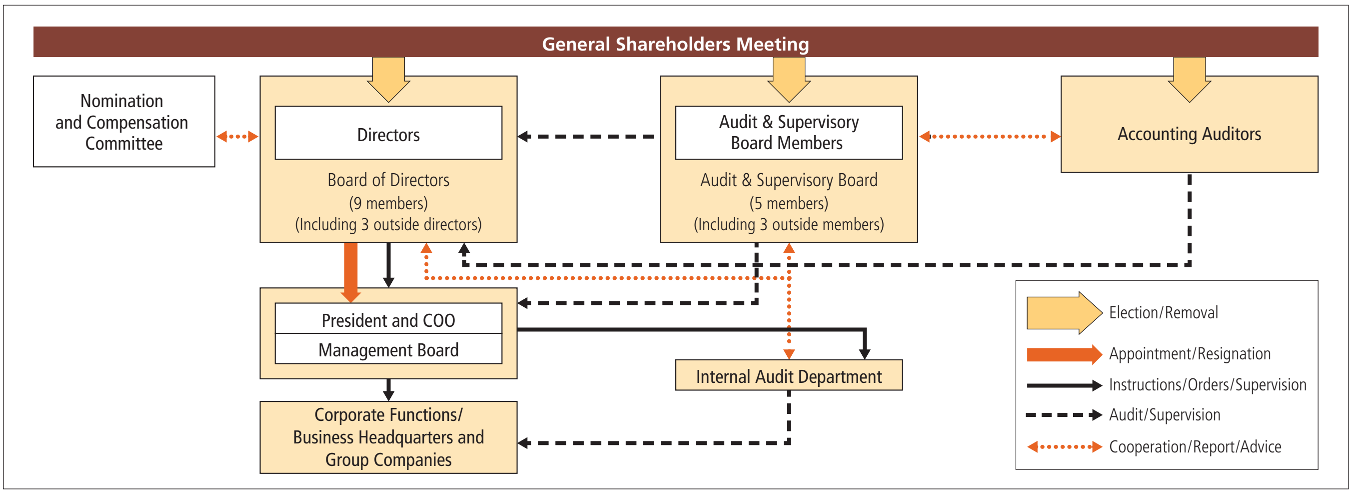
Basic Policy on Corporate Governance

Yokogawa recognizes that the basic mission of corporate management is to secure sound and sustainable growth, and to earn the trust of its shareholders and other stakeholders.

Accordingly, the Company is implementing measures to enhance corporate governance in order to achieve a sound and profitably run organization. The Company has a Board of Directors and employs a corporate auditing system that is overseen by an Audit & Supervisory Board. We are enhancing this system by utilizing directors and Audit & Supervisory Board members who come from outside Yokogawa and are thus independent of the organization.

Through these means, we are bolstering the effectiveness of our corporate governance.

Corporate governance structure



Decision Making, Business Execution, and Audits

Speedy decision making and transparency are ensured through deliberations between directors who are well versed in the Company's business and outside directors who maintain a high degree of independence. Through audits by the Audit & Supervisory Board, the legality, efficiency, and rationality of the directors' activities and the appropriateness of their decisions are rigorously examined.

● Board of Directors

The Board of Directors comprises nine directors, three of whom are independent outside directors. The Board of Directors makes decisions for the Company. Accordingly, it develops management policies and strategies, while monitoring and supervising business execution. The Board of Directors has a maximum of 15 members, as outlined in the Company's Articles of Incorporation. Also, in order to help ensure that the Company is managed in such a way that we maintain the trust of our shareholders, the term of office for directors is set at one year.

● Audit & Supervisory Board

The Audit & Supervisory Board has five members, three of whom are from outside Yokogawa. It carries out auditing in accordance with an annual plan that specifies priority audit items. Members also attend the meetings of the Board of Directors and the Management Board, and hold regular meetings with departments that are involved with internal auditing, business ethics, and / or legal affairs. These meetings focus on the status of audits, compliance-related education, and the status of the internal reporting system. In addition, the Audit & Supervisory Board engages in a regular exchange of opinions with the Chairman of the Board of Directors, the president, and the accounting auditors.

● Management Board

To expedite the decision-making process of the Board of Directors, decisions regarding business execution are delegated to the Management Board. The Management Board is comprised of the president, officers, subsidiary heads who report directly to the president, and standing members of the Audit & Supervisory Board. Details on their decisions are reported to the Board of Directors.

● Nomination and Compensation Committee

The Nomination and Compensation Committee is an advisory body to the Company's Board of Directors and fulfills the functions formerly carried out by the Compensation Committee, namely, determining compensation standards for the post of director and setting actual compensation amounts. To further improve the objectivity and transparency of corporate governance, the committee also selects candidates for the post of director and recommends a candidate for the post of president.

● Accounting Auditors

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

Remuneration for their services in fiscal year 2013 was as follows:

- Payments by the Company: 90 million yen
- Total amount paid in cash and other financial asset profits to the accounting auditor by the company and subsidiaries: 140 million yen.

● Compensation to Directors and Audit & Supervisory Board Members

In order to improve objectivity and transparency when deciding the allocation of compensation for directors within the limits resolved and approved at the shareholders meeting, the Company established a Nomination and Compensation Committee that is comprised of three or more directors, a majority of whom are outside directors, as determined by the Board of Directors. The allocation of compensation for directors is decided through deliberation by the Nomination and Compensation Committee.

The compensation for directors other than the outside directors is set at a level that allows for the effective execution of their main duties, which are comprised of executive management functions as well as functions involving the supervision and monitoring of officers and other employees. Furthermore, this level of compensation is linked to performance, comprised of a fixed component and a performance-linked (bonus) component according to each role. In consideration of the duties they perform, outside directors only receive fixed compensation.

Total amount of compensation paid to directors and corporate auditors in fiscal year 2013

	Total compensation (Millions of yen)	Compensation breakdown (Millions of yen)				Recipients
		Fixed compensation	Stock options	Performance-linked compensation	Retirement benefit	
Directors (excluding outside directors)	209	134	—	74	—	4
Outside Directors	32	32	—	—	—	3
Audit & Supervisory Board Members (excluding outside members)	60	60	—	—	—	2
Outside Members, Audit & Supervisory Board	27	27	—	—	—	4

Notes: 1. The above numbers include two outside members of the Audit & Supervisory Board who retired during fiscal year 2013.
2. The total paid to directors does not include employee salaries for directors who are concurrently employees.

Compensation for Audit & Supervisory Board members is decided by mutual consultation among its members and set within the limits approved at the shareholders meeting. In consideration of the duties they perform, Audit & Supervisory Board members (including outside members) only receive fixed compensation.

● Major Activities of Outside Directors and Outside Members of Audit & Supervisory Board in Fiscal Year 2013

• Yasuro Tanahashi - Outside Director

Present at 13 of the 14 Board of Directors meetings convened in the year. As necessary, provided advice based on his managerial experience, wide knowledge of Japan's key industries, and broad outlook gained from abundant experience in establishing and developing new businesses.

• Nobuo Katsumata - Outside Director

Present at 13 of the 14 Board of Directors meetings convened in the year. As necessary, provided advice with keen insight based on his managerial experience mainly at general trading companies with global operations, and his abundant experience in corporate restructuring.

Note that he retired from his position on the Company's Board of directors on June 25, 2014.

• Mitsudo Urano - Outside Director

Present at 12 of the 14 Board of Directors meetings convened in the year. As necessary, provided advice with keen insight based on his managerial experience primarily in manufacturing and abundant experience in matters such as management information systems.

• Hideto Masaki - Outside Member, Audit & Supervisory Board

Present at 12 of the 14 Board of Directors meetings and 15 of the 17 Audit & Supervisory Board meetings convened in the year. As necessary, provided advice with keen insight based on his abundant managerial experience and deep knowledge of corporate value evaluation.

• Zenichi Shishido - Outside Member, Audit & Supervisory Board

Present at 14 of the 14 Board of Directors meetings and 17 of the 17 Audit & Supervisory Board meetings convened since his appointment on June 27, 2012. As necessary, provided advice with keen insight based on legal management and a broad knowledge of corporate governance.

• Satoru Nishibori - Outside Member, Audit & Supervisory Board

Present at 4 of the 5 Board of Directors meetings and 5 of the 6 Audit & Supervisory Board meetings convened since his appointment on June 26, 2013. As necessary, provided advice with high insight based on his abundant managerial experience and wide range of activities in the business world.

Note that he retired from his position on the Company's Audit & Supervisory Board on October 28, 2013.

The Tokyo Stock Exchange requests listed companies to secure at least one independent officer (an outside director or an outside member of an audit & supervisory board with no conflicts of interest involving general shareholders). The Company has three outside directors and one outside member of the Audit & Supervisory Board who are registered with the Tokyo Stock Exchange as independent officers.
(As of March 31, 2014)

● Takeover Defense Measures

In 2007, Yokogawa introduced a takeover defense plan with measures to prevent the large-scale acquisition of the Company's shares. At the May 13, 2014 meeting of the Company's Board of Directors, it was resolved that this plan was no longer a matter of vital importance in the current business environment and that it should be discontinued.

Henceforth, the Company will focus on protecting and enhancing its corporate value by ensuring sound and sustainable development, fulfilling society's expectations, and reinforcing corporate governance.

For the details, please refer to the IR News section on the Company's website, particularly the "Non-renewal of Countermeasures to Large-scale Acquisition of Yokogawa Electric Shares (Takeover Defense Measures)" press release of May 13, 2014.
URL: http://www.yokogawa.com/pr/ir/pdf/2014/20140513-en.pdf

● Internal Control Systems

Yokogawa has set forth its basic compliance policies in the Standards of Business Conduct for the Yokogawa Group, and directors take the lead in working to see that business ethics are upheld and embraced throughout the Group. In addition, the Yokogawa Group Internal Control Systems, which are intended in part to ensure the reliability of financial statements and the propriety of decision making, guarantee the appropriateness and efficiency of Group operations.

● Risk Management

The Yokogawa Group Internal Control Systems were established in part to make sure that rules and other risk management systems are enforced. As the unit responsible for risk management, the department responsible for internal auditing reports important matters to the Board of Directors and the Audit & Supervisory Board. Responses to crisis situations involving events with a potentially material impact on the Group's management are set forth in the Group Policy for Crisis Management. As the head of the Crisis Management Office, the president controls the communication of information and issuance of instructions during times of crisis, and works to ensure safety and minimize economic losses.

The Group's policies on the handling and protection of confidential information are set forth in the Confidentiality Code.

● Compliance

A department in charge of business ethics has been established within Yokogawa, and its roles include the identification and resolution of issues pertaining to the compliance system. The Company is strongly promoting compliance management. It aims to be a healthy and open business entity with both a culture that encourages and enforces proper ethical conduct and a system for preventing misconduct and scandals before they occur.

As part of our compliance activities, we have established the Standards of Business Conduct for the Yokogawa Group, which covers the Yokogawa Philosophy and employee code of conduct, and the Yokogawa Group Compliance Guidelines, which include supplementary Anti-bribery Guidelines that set out how employees should respond to a variety of issues encountered on the job. A Compliance Week is also held and training is provided to enhance employee awareness.

In addition, to rapidly identify and address compliance issues, we have established compliance hotlines, which we actively encourage our employees to use. Moreover, each year we carry out surveys to clarify how employees perceive compliance issues. We analyze the survey data by workplace and function, and use the results when formulating compliance measures in the subsequent fiscal year.

FY2013 IR activity report

- May 14, 2013: Announcement of FY2012 financial results; FY2012 financial results presentation meeting
- Jun. 26: Annual General Meeting of Shareholders; issuance of report to shareholders
- Aug. 6: Issuance of Annual Report 2013
- Aug. 9: Announcement of FY2013 first quarter financial results; presentation
- Aug. 26: Overseas IR activities (Hong Kong)
- Nov. 8: Announcement of FY2013 second quarter financial results; presentation
- Nov. 11: Overseas IR activities (North America)
- Dec. 6: Issuance of interim report to shareholders
- Dec. 7: Payment of interim dividend
- February 7, 2014: Announcement of FY2013 third quarter financial results; presentation
- Late February – Early March:

Participation in conferences with four securities firms (Nomura, Mizuho, Daiwa, and CLSA)

Directors, Audit & Supervisory Board Members, and Officers

As of June 25, 2014

Directors

SHUZO KAIHORI

Representative Director
Chairman and Chief Executive Officer

TAKASHI NISHIJIMA

Representative Director
President and Chief Operating Officer

SATORU KUROSU

Director
Executive Vice President

HITOSHI NARA

Director

MASATOSHI NAKAHARA

Director
Senior Vice President

JUNICHI ANABUKI

Director
Vice President

YASURO TANAHASHI

Outside Director

MITSUDO URANO

Outside Director

NORITAKA UJI

Outside Director

Audit & Supervisory Board Members

TAKAFUMI KOYANAGI
Member, Audit & Supervisory Board

KIYOSHI MAKINO
Member, Audit & Supervisory Board

HIDETO MASAKI
Outside Member, Audit & Supervisory Board

ZENICHI SHISHIDO
Outside Member, Audit & Supervisory Board

IZUMI YAMASHITA
Outside Member, Audit & Supervisory Board

Officers

Senior vice president

TAKASHI FUJII
HIROSHI SUZUKI

Vice president

MASAHARU YAMAZAKI
NOBUAKI KONISHI
YASUNORI KAWATA
CHIAKI ITOH
YOSHITOSHI MANABE
KATSUYA IKEZAWA
HAJIME WATANABE

Note: Yasuro Tanahashi, Mitsudo Urano, and Noritaka Uji (Outside Directors) as well as Zenichi Shishido and Izumi Yamashita (Outside Members, Audit & Supervisory Board) are independent officers as defined by the regulations of the Tokyo Stock Exchange.

Financial Review

Analysis of Fiscal Year 2013 Results

In the fiscal year ended March 31, 2014 (fiscal year 2013), consolidated net sales amounted to ¥388.5 billion, up ¥40.6 billion year on year. This was mainly due to a ¥40.6 billion increase in sales for the industrial automation and control business, which can primarily be attributed to the expansion of the Group's energy related business in emerging and resource-rich countries and the continued weakness of the yen. Operating income increased ¥7.5 billion to ¥25.9 billion thanks to the increase in sales, continued initiatives to strengthen the Group's finances, and the weakness of the yen. Ordinary income was also up ¥7.7 billion to ¥25.7 billion, due to the increased operating income. The Group recorded net income of ¥12.3 billion, down ¥2.3 billion from the previous fiscal year, when there was a surge in extraordinary income from the sale of idle assets. An additional factor impacting net income was the recording of business structure improvement expenses in fiscal year 2013.

Sales in markets other than Japan rose year on year due to an upswing in energy-related investments, mainly in emerging markets and resource-rich countries. As a result, the percentage of total net sales generated outside Japan continued to increase. Markets where sales grew substantially include Asia and Europe.

Analysis of Capital and Assets

1.

Fund Raising and Liquidity Management

The Group's raising of funds through short- and long-term loans is guided by the principles of security, efficiency, and cost effectiveness. The Group also ensures the security of its finances and the efficiency of its fund raising through a ¥50.0 billion committed credit line. At the end of fiscal year 2013, the committed credit line balance was ¥0.7 billion.

In fiscal year 2013, the Group took funds that had been raised through loans as well as cash flows from operating activities and allocated them to working capital and capital expenditure. Maturing long-term loans totaling ¥26.7 billion were repaid using cash equivalents on hand and by taking out new long-term loans.

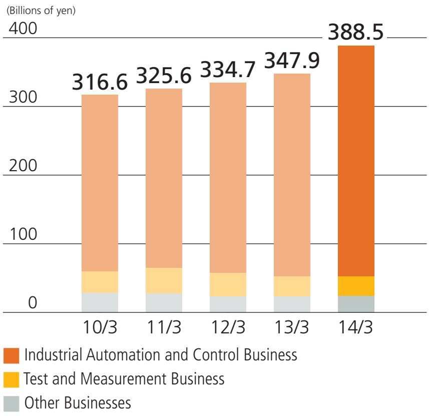
2.

Condition of Assets, Liabilities, and Net Assets

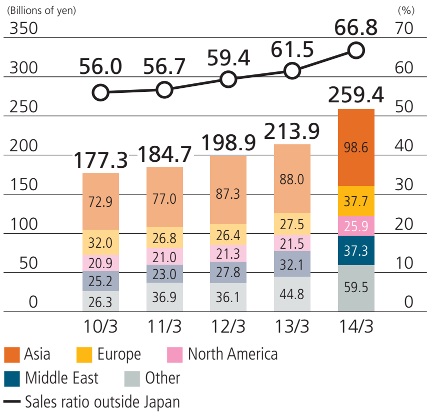
Total assets as of the end of fiscal year 2013 were ¥398.9 billion, up ¥19.0 billion from the end of the previous fiscal year. This largely was the result of a ¥14.4 billion increase in trade notes and accounts receivable and a ¥4.4 billion increase in investment securities.

Total liabilities were ¥206.8 billion, down ¥0.7 billion from the end of the previous fiscal year. While trade notes and accounts payable, other payables, income taxes payable, advances received, and other current liabilities were up ¥3.2 billion, ¥1.3 billion, ¥1.5 billion, ¥6.1 billion, and ¥3.1 billion,

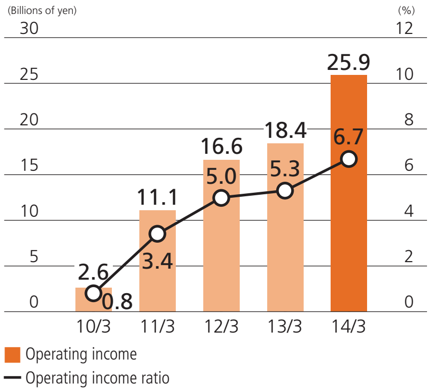
Net sales



Sales outside Japan by geographic area / Sales ratio outside Japan



Operating income / Operating income ratio



respectively, the overall decline in total liabilities was largely attributable to a ¥17.2 billion yen decrease in short-term loans payable and long-term debt. Net assets stood at ¥192.2 billion, up ¥19.8 billion from the end of the previous fiscal year. This was mainly due to increases in retained earnings, net unrealized gain on available-for-sale securities, and foreign currency translation adjustments of ¥9.5 billion, ¥3.0 billion, and ¥6.2 billion, respectively. As a result, the shareholders' equity ratio rose 2.6 percentage points from the previous fiscal year-end, to 46.9%.

3.

Cash Flows

Net cash provided by operating activities in fiscal year 2013 totaled ¥30.1 billion. Following income of ¥21.8 billion before income taxes and minority interests, this is a consequence of such positive factors as ¥13.6 billion in depreciation and amortization and ¥3.4 billion in business structure improvement expenses, as well as such negative factors as an increase of ¥2.6 billion in trade notes and accounts receivable and an outflow of ¥6.9 billion for corporate income taxes and other items. Net cash used in investing activities was ¥13.9 billion, a year-on-year increase of ¥6.4 billion. While streamlining of Group investments is ongoing, this increase reflects our R&D investments in growth fields. As a result, net free cash flow provided ¥16.2 billion, up ¥6.3 billion from the previous fiscal year. Moreover, net cash used in financing activities totaled ¥21.6 billion, due primarily to the repayment of long-term debt.

Risks Relating to the Group's Business

As described in the Group's statutory annual financial report filed as stipulated by the Financial Instruments and Exchange Act, the risks described below may impact its business and accounting conditions, and therefore could have a significant effect on investor decision making. These risks include forward-looking statements that are based on judgments made by the Group at the end of fiscal year 2013. Further, the risks include items that will not necessarily affect investment decisions. However, based on an awareness of these risks, the Group maintains the necessary risk management structure and works to avoid risk occurrence as well as to minimize the impact of a risk should it occur.

1.

Risks Relating to the Business Environment

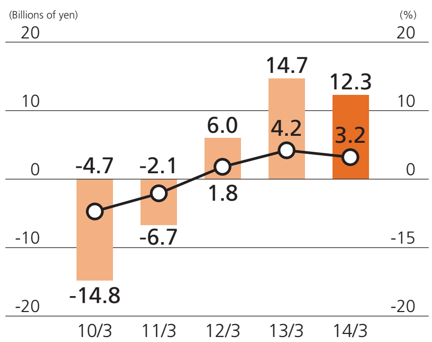
a. Economic conditions

The Group mainly conducts its business activities in Japan, Asia, Europe, North America, and the Middle East. Economic trends in these markets could adversely affect its business results and financial condition.

b. International factors

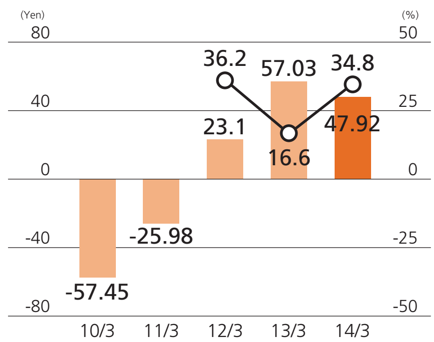
The Group's sales and production operations are truly international in scope, as is indicated by the fact that sales generated in all markets other than Japan currently account for approximately 67% of consolidated sales. Therefore, factors in these markets such as economic trends; exchange rate fluctuations; changes to laws and regulations relating to

Net income (loss) / Net income (loss) ratio



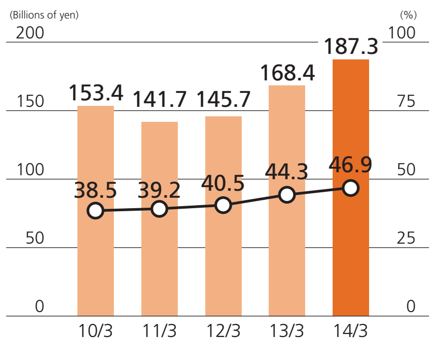
Net income (loss)
Net income (loss) ratio

Earnings per share / Price earnings ratio



Earnings per share
Price earnings ratio

Shareholders' equity / Shareholders' equity ratio



Shareholders' equity
Shareholders' equity ratio

investment, trade, competition, taxation, or foreign exchange; differences in commercial practices or labor standards that may have cultural or religious origins; terrorist attacks, wars, natural disasters, or other unanticipated incidents; or political, social, or other elements could adversely affect its business results and financial condition.

c. Laws and regulations

The Group observes the laws and regulations of each country in which it operates. Changes in laws and regulations or the enactment of new laws that cannot be anticipated could adversely affect its business results and financial condition. In addition, any increase in costs required to achieve compliance with environmental protection-related legislation could adversely affect its business results and financial condition. Moreover, such legislation could impact its overall business activities, including R&D and production.

d. Fluctuations in currency exchange rates and interest rates

The Group carries out measures to ameliorate the risk of exchange rate fluctuations. However, due to their impact on the prices and costs of products and services with transactions denominated in foreign currencies, fluctuations in currency exchange rates may adversely affect its business results and financial condition. The Group also carries out measures to ameliorate the risk of interest rate fluctuations. However, fluctuations in interest rates could still adversely affect its business results and financial condition.

e. Changes in the value of assets owned

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

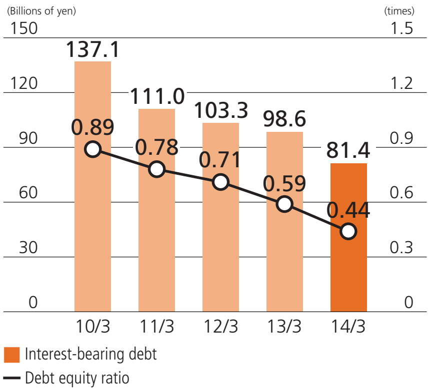
2.

Risks Relating to Business Activities

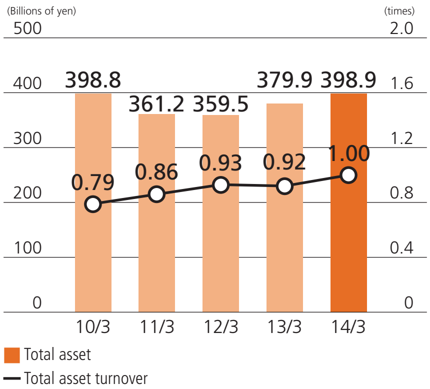
a. Industrial automation and control business

The industrial automation and control business is mainly expected to grow outside Japan in the medium to long term due to increased demand for energy in emerging and resource-rich countries. To increase its share of the global market and bolster sales and income, the Group has focused its resources on this business and strengthened systems related to R&D, production, sales, engineering, and service. As a result, the percentage of net sales on a consolidated basis accounted for by the industrial automation and control business has grown in recent years. Consequently, trends related to the demand for plant construction and upgrades, which affect orders and sales in this business, could adversely affect its business results and financial condition.

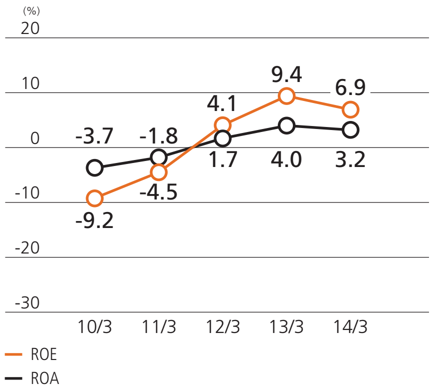
Interest-bearing debt / Debt equity ratio



Total asset / Total asset turnover



ROE / ROA



b. Securing and training human resources

The Group's growth is supported by its talented and capable personnel. The technical personnel that support its leading-edge technology in the fields of measurement, control, and information, and who assure high levels of product quality, are particularly important. Further, in the industrial automation and control business, the need to secure and train personnel with the project management and engineering capabilities required to work in the international market is an ongoing issue. If the Group is unable to address this issue satisfactorily, this could adversely affect its business results and financial condition.

c. Product quality

The Group provides its customers highly reliable products and services based on technologies and expertise that have been built up over many years and a rigorous quality control system. If by any chance a defect should occur in one of its products or services, and if this defect causes any damage, then this could adversely affect the Group's business results and financial condition, and could also impact its overall business activities.

d. R&D activities

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

3.
Other Risks

a. Intellectual property

In order to maintain its competitive advantages, the Group accumulates differentiated technologies and expertise relating to the products and services that it develops, and strives to protect these intellectual property assets. However, if the intellectual property is infringed upon by a third party and therefore the Group is unable to make an expected profit, it could adversely affect its business results and financial condition. Moreover, the Group has established systems and conducts training to ensure that it does not infringe upon the intellectual property rights of other companies. However, if due to a difference in viewpoint or some other reason the Group infringes on the intellectual property rights of another company, there is a risk that it will be subsequently disadvantaged by its inability to use important technology and/or may be held liable for compensation, which could adversely affect its business results and financial condition.

b. Information security

Through its business activities, the Group acquires personal or otherwise confidential information on its customers and trading partners. It therefore establishes systems to manage this information and provides employees training on information security. However, in the event that information is leaked or abused due to some unforeseen circumstance, there is a risk the Group will be held liable for compensation or the corporate image will be drastically tarnished, which could adversely affect its business results and financial condition.

c. Natural disasters, etc.

A natural disaster such as an earthquake, fire, or flood; the outbreak of war; a terrorist attack; an attack via a computer virus; or a disruption in the supply chain caused by any of the aforementioned factors that makes it difficult to procure electronic parts or other materials could impact the Group's overall business activities, including its production activities. In addition, while the Group has appropriate measures in place for responding to the outbreak of diseases such as new influenza strains, these diseases could have an impact on its overall business results and financial condition.

Consolidated Balance Sheet

Yokogawa Electric Corporation and its Consolidated Subsidiaries

March 31, 2014

	Millions of yen		Thousands of US dollars (Note 1)
	2014	2013	2014
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 10 and 16)	¥ 55,857	¥ 58,826	$ 542,726
Receivables (Notes 5 and 16)			
Trade notes and accounts	135,054	120,679	1,312,220
Other	3,296	5,174	32,025
Less: Allowance for doubtful accounts	(3,919)	(3,829)	(38,074)
Net receivables	134,431	122,024	1,306,171
Inventories (Notes 6 and 7)	34,445	34,798	334,680
Deferred tax assets (Note 13)	3,761	2,607	36,541
Other	11,489	8,435	111,630
Total current assets	239,983	226,690	2,331,748
Property, Plant and Equipment (Notes 8 and 9):			
Land	16,699	16,176	162,255
Buildings and structures—net	47,987	47,836	466,260
Machinery, equipment and vehicles—net	7,703	7,297	74,849
Tools, furniture and fixtures—net	7,076	7,213	68,752
Construction in progress	3,058	1,135	29,712
Lease assets—net (Note 15)	94	151	898
Total property, plant and equipment	82,617	79,808	802,726
Investments and Other Assets:			
Investment securities (Notes 4, 10 and 16)	33,982	29,911	330,176
Investments in and advances to unconsolidated subsidiaries and affiliated companies	6,279	5,963	61,008
Goodwill	1,650	1,604	16,033
Software	19,316	20,796	187,678
Other Intangible assets	5,279	4,686	51,296
Deferred tax assets (Note 13)	2,168	2,692	21,064
Other	8,094	8,329	78,642
Less: Allowance for doubtful accounts	(447)	(547)	(4,343)
Total investments and other assets	76,321	73,434	741,554
Total Assets	¥398,921	¥379,932	$3,876,028

See notes to consolidated financial statements.

	Millions of yen		Thousands of US dollars (Note 1)
	2014	2013	2014
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term loans payable (Notes 10, 16 and 18)	¥ 7,065	¥ 7,946	$ 68,646
Current portion of long-term debt (Notes 10 and 16)	12,261	26,379	119,127
Payables (Notes 10 and 16)			
Trade notes and accounts	32,462	29,240	315,408
Other	10,265	8,980	99,741
Income taxes payable (Note 16)	4,666	3,133	45,333
Accrued expenses	27,116	26,999	263,464
Advance received	28,582	22,462	277,710
Other (Note 13)	13,417	9,832	130,370
Total current liabilities	135,834	134,971	1,319,799
Long-term Liabilities:			
Long-term debt (Notes 10, 16 and 18)	62,176	64,441	604,122
Liability for retirement benefits (Note 11)	2,896	2,873	28,136
Other (Note 13)	5,909	5,251	57,412
Total long-term liabilities	70,981	72,565	689,670
Equity (Notes 12 and 21):			
Common stock, authorized, 600,000,000 shares; issued, 268,624,510 shares in 2014 and 2013	43,401	43,401	421,697
Capital surplus	50,345	50,345	489,160
Retained earnings	100,470	90,961	976,201
Treasury stock, 11,085,537 shares in 2014 and 11,080,045 shares in 2013	(11,015)	(11,007)	(107,025)
Accumulated other comprehensive income			
Net unrealized gain on available-for-sale securities	8,591	5,576	83,472
Deferred (loss) gain on derivatives under hedge accounting	(80)	116	(781)
Defined retirement benefit plans	(511)	(838)	(4,969)
Foreign currency translation adjustments	(3,945)	(10,164)	(38,331)
Total	4,055	(5,310)	39,391
Minority interests	4,850	4,006	47,135
Total equity	192,106	172,396	1,866,559
Total Liabilities and Equity	¥398,921	¥379,932	$3,876,028

Consolidated Statement of Income

Yokogawa Electric Corporation and its Consolidated Subsidiaries
Year Ended March 31, 2014

	Millions of yen		Thousands of US dollars (Note 1)
	2014	2013	2014
Net Sales	¥388,463	¥347,900	$3,774,419
Cost of Sales (Notes 14 and 20)	229,256	206,645	2,227,519
Gross profit	159,207	141,255	1,546,900
Selling, General and Administrative Expenses (Note 14 and 20)	133,314	122,845	1,295,315
Operating income	25,893	18,410	251,585
Other Income (Expenses):			
Interest and dividend income	2,075	1,991	20,160
Interest expense	(2,102)	(2,210)	(20,423)
Loss on valuation of investment securities	(7)	(21)	(70)
Net gain on sale of investment securities and investment in affiliated companies (Note 4)	16	109	158
Compensation received	46	759	445
Foreign exchange gain—net	1,000	372	9,715
Net (loss) gain on disposal of property, plant and equipment (Note 20)	(253)	3,756	(2,454)
Loss on impairment of long-lived assets (Note 9)	(284)	(1,350)	(2,755)
Equity in earnings of affiliates	74	247	715
Restructuring costs (Note 19)	(3,402)		(33,051)
Other	(1,305)	(1,567)	(12,688)
Other (expenses) income—net	(4,142)	2,086	(40,248)
Income before Income Taxes and Minority Interests	21,751	20,496	211,337
Income Taxes (Note 13):			
Current	8,276	4,854	80,416
Deferred	(410)	108	(3,985)
Total income taxes	7,866	4,962	76,431
Net Income before Minority Interests	13,885	15,534	134,906
Minority Interests in Net Income	1,543	846	14,989
Net Income	¥ 12,342	¥ 14,688	$ 119,917

	Yen		US dollars (Note 1)
Per Share of Common Stock (Note 22):			
Basic net income	¥ 47.92	¥ 57.03	$ 0.47
Cash dividends applicable to the year	¥ 12	¥ 10	$ 0.12

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Yokogawa Electric Corporation and its Consolidated Subsidiaries

Year Ended March 31, 2014

	Millions of yen		Thousands of US dollars (Note 1)
	2014	2013	2014
Net Income before Minority Interests	¥13,885	¥15,534	$134,906
Other Comprehensive Income (Note 21):			
Net unrealized gain on available-for-sale securities	3,030	3,100	29,443
Deferred (loss) gain on derivatives under hedge accounting	(196)	107	(1,912)
Defined retirement benefit plans	22	(160)	217
Foreign currency translation adjustments	6,440	8,147	62,572
Share of other comprehensive income in affiliates	27	30	261
Total other comprehensive income	9,323	11,224	90,581
Comprehensive Income	¥23,208	¥26,758	$225,487
Total Comprehensive Income Attributable to:			
Owners of the parent	¥21,401	¥25,430	$207,939
Minority interests	1,807	1,328	17,548

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Yokogawa Electric Corporation and its Consolidated Subsidiaries

Year Ended March 31, 2014

Millions of yen

						Accumulated other comprehensive income						
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Deferred (loss) gain on derivatives under hedge accounting	Defined retirement benefit plans	Foreign currency translation adjustments	Total	Minority interests	Total equity
Balance, April 1, 2012	257,546,323	¥43,401	¥50,345	¥ 79,002	¥(11,006)	¥2,483	¥ 9	¥(678)	¥(17,865)	¥(16,051)	¥3,883	¥149,574
Net income				14,688								14,688
Cash dividends, ¥10 per share				(2,575)								(2,575)
Purchase of treasury stock	(2,068)				(1)							(1)
Disposal of treasury stock	210		(0)		0							0
Other				(154)								(154)
Net change in the year						3,093	107	(160)	7,701	10,741	123	10,864
Balance, March 31, 2013	257,544,465	43,401	50,345	90,961	(11,007)	5,576	116	(838)	(10,164)	(5,310)	4,006	172,396
Net income				12,342								12,342
Cash dividends, ¥11 per share				(2,833)								(2,833)
Purchase of treasury stock	(5,622)				(8)							(8)
Disposal of treasury stock	130		0		0							0
Other				0								0
Net change in the year						3,015	(196)	327	6,219	9,365	844	10,209
Balance, March 31, 2014	257,538,973	¥43,401	¥50,345	¥100,470	¥(11,015)	¥8,591	¥ (80)	¥(511)	¥ (3,945)	¥ 4,055	¥4,850	¥192,106

Thousands of US dollars (Note 1)

					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gain on available-for-sale securities	Deferred (loss) gain on derivatives under hedge accounting	Defined retirement benefit plans	Foreign currency translation adjustments	Total	Minority interests	Total equity
Balance, April 1, 2013	$421,697	$489,159	$883,798	$(106,950)	$54,179	$ 1,131	$(8,138)	$(98,755)	$(51,583)	$38,930	$1,675,051
Net income			119,917								119,917
Cash dividends, ¥11 per share			(27,526)								(27,526)
Purchase of treasury stock				(77)							(77)
Disposal of treasury stock		1		2							3
Other			12								12
Net change in the year					29,293	(1,912)	3,169	60,424	90,974	8,205	99,179
Balance, March 31, 2014	$421,697	$489,160	$976,201	$(107,025)	$83,472	$ (781)	$(4,969)	$(38,331)	$ 39,391	$47,135	$1,866,559

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Yokogawa Electric Corporation and its Consolidated Subsidiaries
Year Ended March 31, 2014

	Millions of yen		Thousands of US dollars (Note 1)
	2014	2013	2014
Operating Activities:			
Income before income taxes and minority interests	¥ 21,751	¥20,496	$ 211,337
Adjustments for:			
Income taxes paid	(6,908)	(5,754)	(67,117)
Depreciation and amortization	13,552	13,496	131,674
Equity in earnings of affiliates	(74)	(247)	(715)
Loss on impairment of long-lived assets	284	1,350	2,755
Net loss (gain) on disposal of property, plant and equipment	253	(3,756)	2,454
Net gain on sale of investment securities and investment in affiliated companies	(16)	(109)	(158)
Restructuring costs	3,402		33,051
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	(2,585)	1,578	(25,117)
Decrease in inventories	1,955	3,104	18,996
Increase (decrease) in trade notes and accounts payable	174	(5,227)	1,695
(Decrease) increase in allowance for doubtful accounts	(307)	81	(2,984)
Other assets and liabilities	34	(2,574)	327
Other—net	(1,408)	(5,005)	(13,668)
Total adjustments	8,356	(3,063)	81,193
Net cash provided by operating activities	30,107	17,433	292,530
Investing Activities:			
Purchase of property, plant and equipment	(8,574)	(7,344)	(83,311)
Proceeds from sale of property, plant and equipment	444	4,397	4,315
Acquisition of intangible assets	(5,026)	(5,169)	(48,832)
Proceeds from sale of investment securities	26	531	257
Payments for purchase of shares of subsidiaries	(826)	(580)	(8,024)
Other—net	71	663	685
Net cash used in investing activities	(13,885)	(7,502)	(134,910)
Financing Activities:			
Net decrease in short-term loans payable	(1,373)	(3,174)	(13,343)
Proceeds from long-term debt	10,000	2,000	97,163
Repayments of long-term debt	(26,610)	(3,919)	(258,546)
Purchase of treasury stock	(8)	(1)	(77)
Cash dividends paid	(2,833)	(2,451)	(27,526)
Cash dividends paid to minority shareholders	(697)	(355)	(6,773)
Other—net	(75)	(134)	(735)
Net cash used in financing activities	(21,596)	(8,034)	(209,837)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	2,405	3,537	23,371
Net (Decrease) Increase in Cash and Cash Equivalents	(2,969)	5,434	(28,846)
Decrease in Cash and Cash Equivalents Resulting from Change in Scope of Consolidation		(38)	
Cash and Cash Equivalents, Beginning of Year	58,826	53,430	571,572
Cash and Cash Equivalents, End of Year	¥ 55,857	¥58,826	$ 542,726

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Yokogawa Electric Corporation and its Consolidated Subsidiaries

Year Ended March 31, 2014

1.

Basis of Presentation of the Consolidated Financial Statements

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. Certain comparative figures of the previous year have been reclassified to conform with the classification used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yokogawa Electric Corporation (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into US dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥102.92 to $1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into US dollars at that or any other rate.

2.

Summary of Significant Accounting Policies

a. Consolidation—The consolidated financial statements as of March 31, 2014 include the accounts of the Company and its 81 significant (83 in 2013) subsidiaries (together, the “Group”).

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

Investments in 1 (1 in 2013) unconsolidated subsidiary and 3 (3 in 2013) affiliated companies are accounted for by the equity method. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

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

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (PITF) No. 18 “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” PITF No. 18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items, should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: a) amortization of goodwill; b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; c) expensing capitalized development costs of R&D; d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of cost model accounting; and e) exclusion of any minority interests from net income.

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

d. Inventories—Inventories are stated at the lower of cost or the net selling value, Cost is mainly determined by the specific identification method for finished goods and work in process, and by the average method for merchandise, raw materials and supplies.

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

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

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

f. Property, Plant and Equipment—Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation of property, plant and equipment is mainly calculated by the straight-line method over their estimated useful lives.

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

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

h. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

i. Retirement and Pension Plans—The Company and most of its consolidated subsidiaries have defined contribution plans, and some other consolidated subsidiaries have defined benefit plans for employees.

Actuarial gains or losses are amortized on a straight-line basis over the average remaining years of service of the employees (mainly 10 years) from the following year in which they arise.

Prior service cost is amortized on a straight-line basis over the average remaining years of service (mainly 10 years).

Effective April 1, 2000, the Company adopted a new accounting standard for defined benefit plans. Under the new standard, liability for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of plan assets less unrecognized actuarial gains or losses and unrecognized prior service costs.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits". This replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, together with other related practical guidance, and other partial amendments from time to time through 2009.
i) Under the revised accounting standard, actuarial gains or losses and prior service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
ii) The revised accounting standard does not change how to recognize actuarial gains or losses and prior service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and prior service costs that have arisen in the current period and are not yet recognized in profit or loss are included in other comprehensive income and actuarial gains or losses and prior service costs that were recognized in other comprehensive income in prior periods and are recognized in profit or loss in the current period shall be treated as reclassification adjustments.
iii) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (i) and (ii) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (iii) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted for annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (i) and (ii) above, effective March 31, 2014. As a result, liability for retirement benefits of ¥2,896 million ($28,136 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, increased by ¥304 million ($2,951 thousand).

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

k. Bonuses to Directors and Audit & Supervisory Board Members—Bonuses to directors and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

l. Construction Contracts—Construction revenue and construction costs are recognized based on the percentage-of-completion method if the outcome of the construction contract can be estimated reliably.

When total contract revenue, total contract costs and costs incurred at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably.

If the outcome of a project cannot be reliably estimated, the completed-contract method shall be applied.

When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

m. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Company and some domestic subsidiaries file their tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned subsidiaries in Japan.

n. Foreign Currency Transactions—Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the exchange rate as of that date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

o. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated subsidiaries outside Japan are translated into Japanese yen at the prevailing exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated subsidiaries outside Japan are translated into yen at the average exchange rate.

p. Derivatives and Hedging Activities—The Company and certain consolidated subsidiaries use a variety of derivative financial instruments, including foreign currency forward contracts, currency options, and interest rate swaps, as a means of hedging foreign currency and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) All derivatives other than those which qualify for hedge accounting: these are measured at fair value, and gains or losses are recognized in the consolidated statement of income. b) Derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of high correlation between the hedging instruments and the hedged items, gains or losses are deferred until maturity of the hedged transactions. These amounts are shown as "Deferred gain on derivative under hedge accounting" under accumulated other comprehensive income in a separate component of equity.

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

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

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

3.

Change in Presentation

Prior to April 1, 2014, the "Advance received" was included in "Other" under the current liabilities section of the consolidated balance sheet. As this amount increased significantly in the fiscal year ended March 31, 2014, it is disclosed separately in the current liabilities section of the consolidated balance sheet as of March 31, 2014. The amount included in "Other "as of March 31, 2013, was ¥22,462 million.

4.

Investment Securities

Investment securities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Current:			
Government and municipal bonds		¥ 0	
Non-current:			
Equity securities and other	¥33,982	29,911	$330,176

The cost and aggregate fair values of investment securities at March 31, 2014 and 2013 were as follows:

	Millions of yen			
March 31, 2014	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 11,403	¥ 10,815	¥ 48	¥ 22,170
Other				
Held-to-maturity				

March 31, 2013				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 11,384	¥ 6,848	¥ 143	¥ 18,089
Other	9		1	8
Held-to-maturity	0			0

	Thousands of US dollars			
March 31, 2014	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$110,799	$105,074	$ 468	$215,405
Other				
Held-to-maturity				

The information for available-for-sale securities sold during the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		
2014	Proceeds	Realized gain	Realized loss
Available-for-sale:			
Equity securities	¥ 26	¥ 16	

	Millions of yen		
2013	Proceeds	Realized gain	Realized loss
Available-for-sale:			
Equity securities	¥189	¥ 81	

	Thousands of US dollars		
2014	Proceeds	Realized gain	Realized loss
Available-for-sale:			
Equity securities	$257	$158	

5.
Transfer of Receivables

The Company and certain consolidated subsidiaries transferred their trade notes and accounts receivable-trade before maturity based on an asset transfer agreement. The balance of those receivables whose settlement date had not been reached as of March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Notes and accounts receivable-trade	¥12,419	¥13,189	$120,670
(with recourse, included in above)	(409)	(609)	(3,978)

6.
Inventories

Inventories at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Merchandise and finished goods	¥15,687	¥15,860	$152,417
Work in process	8,497	7,525	82,565
Raw materials and supplies	10,261	11,413	99,698
Total	¥34,445	¥34,798	$334,680

7.
Expected Loss on Construction Contracts

The Group recognizes an expected loss on construction contracts when it is probable that total contract costs will exceed total contract revenue. The inventory and the expected loss on construction contracts are not offset but are separately presented in the consolidated balance sheet.

The balance of inventories relating to the expected loss on construction contracts for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Merchandise and finished goods	¥ 765	¥1,507	$ 7,430
Work in process	655	761	6,368
Total	¥1,420	¥2,268	$13,798

8.

Property, Plant and Equipment

Accumulated depreciation on property, plant and equipment as of March 31, 2014 and 2013 were ¥143,447 million (US$1,393,771 thousand) and ¥141,423 million, respectively.

9.

Long-lived Assets

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2014 and 2013. As a result, impairment losses of ¥284 million (US$2,755 thousand) and ¥1,350 million, were recognized for 2014 and 2013, respectively. The main components of the impairment losses on long-lived assets for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Land	¥128		$1,241
Buildings and structures	154	¥1,223	1,497
Machinery, equipment and vehicles		53	
Tools, furniture and fixtures		45	
Other	2	29	17
Total	¥284	¥1,350	$2,755

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

For the year ended March 31, 2014, of the ¥284 million (US$2,755 thousand) impairment loss, ¥272 million (US$2,649 thousand) is due to the impairment of idle assets whose future use has not been decided.

For the year ended March 31 2013, of the ¥1,350 million impairment loss, ¥1,065 million that is associated with the impairment loss of the discontinued operation of the test and measurement business is included in restructuring costs in the consolidated statement of income.

10.

Short-term Loans and Long-term Debt

Short-term bank loans at March 31, 2014 and 2013 included bank overdrafts. The annual average interest rates on the short-term bank loans were 2.033% and 2.219% for the years ended March 31, 2014 and 2013, respectively.

Long-term debt as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Loans from banks and other financial institutions	¥74,342	¥90,653	$722,326
Obligations under finance leases	95	167	923
	74,437	90,820	723,249
Less: Current portion	12,261	26,379	119,127
	¥62,176	¥64,441	$604,122

Annual maturities of long-term loans (excluding finance leases) from banks and other financial institutions, at March 31, 2014 were as follows:

Year ending March 31	Millions of yen	Thousands of US dollars
2015	¥12,222	$118,749
2016	21,223	206,204
2017	4,722	45,881
2018	10,134	98,461
2019	222	2,153
2020 and thereafter	25,819	250,878
Total	¥74,342	$772,326

The annual average interest rate on long-term loans (excluding current portion) from banks was 2.309% for the year ended March 31, 2014.

Collateral and secured debt at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Collateral:			
Deposits	¥ 13	¥ 13	$ 122
Investment securities	5	5	51
Assets in consolidated subsidiaries outside Japan*	4,604	5,223	44,738
Total	¥4,622	¥5,241	$44,911

*"Assets in consolidated subsidiaries outside Japan" represent the aggregate amount of accounts receivable and other assets of such subsidiaries.

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Secured debt:			
Trade notes and accounts payable	¥4	¥21	$37

The Group's interest-bearing debt includes financial covenants which require the Company to maintain certain levels of equity and operating income on a consolidated basis. The balance of such debt as of March 31, 2014 and 2013 was ¥32,720 million (US$317,921 thousand) and ¥48,000 million respectively.

11.

Retirement and Pension Plans

The Company and most of its consolidated subsidiaries have defined contribution plans, while some other subsidiaries have defined benefit plans. In certain circumstances, additional payments are made upon the retirement of employees.

Year ended March 31, 2014:

a) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of US dollars
Balance at beginning of year	¥8,175	$79,426
Current service cost	422	4,103
Interest cost	237	2,301
Actuarial gain	(303)	(2,944)
Benefits paid	(972)	(9,447)
Others	849	8,256
Balance at end of year	¥8,408	$81,695

b) The changes in plan assets for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of US dollars
Balance at beginning of year	¥4,954	$48,134
Expected return on plan assets	249	2,421
Actuarial gain	84	818
Contributions from the employer	466	4,529
Benefits paid	(770)	(7,482)
Others	529	5,139
Balance at end of year	¥5,512	$53,559

c) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2014, were as follows:

	Millions of yen	Thousands of US dollars
Funded defined benefit obligation	¥ 8,408	$ 81,695
Plan assets	(5,512)	(53,559)
	2,896	28,136
Unfunded defined benefit obligation		
Net liability for defined benefit obligation	¥ 2,896	$ 28,136

	Millions of yen	Thousands of US dollars
Liability for retirement benefits	¥2,896	$28,136
Net liability for defined benefit obligation	¥2,896	$28,136

d) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of US dollars
Service cost	¥ 422	$ 4,103
Interest cost	237	2,301
Expected return on plan assets	(249)	(2,421)
Amortization of actuarial loss	100	969
Additional payment	710	6,894
Contribution to defined contribution plan	5,375	52,229
Others	537	5,217
Net periodic benefit costs	¥7,132	$69,292

e) Other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of yen	Thousands of US dollars
Actuarial loss	¥100	$969

f) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of yen	Thousands of US dollars
Unrecognized actuarial loss	¥(1,275)	$(12,388)

g) Plan assets as of March 31, 2014

(1) Components of plan assets
Plan assets consisted of the followings:

Equity investments	43%
Debt investments	24%
Cash and cash equivalents	27%
Others	6%
Total	100%

(2) Method of determining the expected rate of return on plan assets
The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

h) Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	4.30%
Expected rate of return on plan assets	5.71%

i) Payment to defined contribution plans amounted to ¥5,375 million ($52,229 thousand).

j) Multi employer benefit plan
In addition, a consolidated subsidiary has also joined an employed pension fund. The subsidiary deemed it necessary to contribute ¥85 million ($828 thousand) to this fund.

The items related to the pension fund accounted for under the projected benefit obligations were as follows:
(1) Funded status of the entire program

	Millions of yen	Thousands of US dollars
Pension fund assets	¥281,339	$2,733,571
Projected benefit obligations used for actuarial calculations	290,987	2,827,318
Difference	¥ (9,648)	$ (93,747)

(2) The subsidiary's share as a percentage of total projected benefit obligations held by the pension fund

	From April 1, 2013 to March 31, 2014
	0.79%

(3) Supplemental information
The above difference of ¥9,648 million ($93,747 thousand) is the net of ¥12,320 million ($119,708 thousand) deficit in projected pension financing and a ¥21,968 million ($213,455 thousand) balance for unamortized prior service costs. The balance of unamortized prior service costs attributable to the Company will be amortized on a straight-line basis for the period of 20 years.

Year ended March 31, 2013:

k) The liability (asset) for retirement benefits at March 31, 2013, consisted of the following:

	Millions of yen
Projected benefit obligation	¥ 8,175
Fair value of plan assets	(4,954)
Unfunded projected benefit	3,221
Unrecognized actuarial loss	(325)
Unrecognized prior service cost	(23)
Net liability	¥ 2,873

l) The components of net periodic benefit costs were as follows:

	Millions of yen
Service cost	¥ 718
Interest cost	183
Expected return on plan assets	(181)
Amortization of actuarial gain	79
Amortization of prior service cost	1
Additional retirement benefit and other	218
Contribution to defined benefit plan	5,308
Change from defined benefit plan to defined contribution plan	52
Net periodic benefit costs	¥6,378

m) Assumptions for the year ended March 31, 2013 were as follows:

Discount rate	2.0-3.9%
Expected rate of return on plan assets	0.0-7.0%
Amortization period of prior service cost	Mainly 10 years
Recognition period of actuarial gain / loss	Mainly 10 years

n) Multi employer benefit plan

In addition, a consolidated subsidiary has also joined an employed pension fund.

The pension fund items accounted for under projected benefit obligations were as follows:

(1) Funded status of the entire program

	Millions of yen
Pension fund assets	¥254,797
Projected benefit obligations used for actuarial calculations	299,366
Difference	¥(44,569)

(2) The subsidiary's share as a percentage of total projected benefit obligations held by the pension fund

	From April 1, 2012 to March 31, 2013
	0.75%

(3) Supplemental information

The above difference of ¥44,569 million is the net of ¥42,914 million deficit in projected pension financing, a ¥13,193 million balance for unamortized prior service costs and ¥11,538 of asset valuation. The balance of unamortized prior service costs attributable to the Company will be amortized on a straight-line basis for the period of 20 years.

12.
Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13.

Income Taxes

The tax effects of significant temporary differences and tax loss carry-forwards that resulted in deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Deferred tax assets:			
Liability for retirement benefits	¥ 452	¥ 382	$ 4,395
Tax loss carry-forwards	44,253	40,905	429,979
Impairment loss on investment securities	2,542	2,545	24,701
Provision for bonuses	2,938	3,292	28,542
Write-down of inventories	1,853	2,593	18,005
Impairment loss on investments in consolidated subsidiaries	2,507	3,093	24,361
Other	9,945	7,653	96,625
Less: Valuation allowance	(58,120)	(54,608)	(564,713)
Total	¥ 6,370	¥ 5,855	$ 61,895
Deferred tax liabilities:			
Property, plant and equipment	¥ (783)	¥ (810)	$ (7,610)
Undistributed earnings of consolidated subsidiaries outside Japan	(204)	(211)	(1,979)
Net realized gain on available-for-sale securities	(2,081)	(1,045)	(20,221)
Other	(642)	(661)	(6,236)
Total	¥ (3,710)	¥ (2,727)	$ (36,046)
Net deferred tax assets	¥ 2,660	¥ 3,128	$ 25,849

Net deferred tax assets are included in the following accounts in the accompanying consolidated balance sheet:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Current assets—Deferred tax assets	¥ 3,761	¥ 2,607	$ 36,541
Investments and other assets—Deferred tax assets	2,168	2,692	21,064
Current liabilities—Other	(86)	(122)	(837)
Long-term liabilities—Other	(3,183)	(2,049)	(30,919)
Net deferred tax assets	¥ 2,660	¥ 3,128	$ 25,849

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2014 and 2013 was as follows:

	2014	2013
Normal effective statutory tax rate	38.0%	38.0%
Permanent differences		
Expenses not deductible for income tax purposes	3.0	2.9
Dividend income and other non-taxable income	(0.2)	(1.3)
Equity in earnings of affiliates	(0.1)	(0.5)
Changes in valuation allowance	14.4	5.7
Lower income tax rates applicable to certain consolidated subsidiaries outside Japan	(22.4)	(18.2)
Effect of consolidated tax return in Japan	3.5	1.8
Refund	(0.4)	(1.3)
Other—net	0.4	(2.9)
Actual effective tax rate	36.2%	24.2%

14.
Research and Development Costs

Research and development costs were ¥25,824 million (US$250,917 thousand) and ¥25,477 million for the years ended March 31, 2014 and 2013, respectively and were included in the cost of sales and selling, general and administrative expenses in the consolidated statement of income.

15.
Leases

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

The minimum rental commitments under non-cancelable operating leases at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Due within one year	¥2,071	¥1,942	$20,124
Due after one year	3,677	3,916	35,724
	¥5,748	¥5,858	$55,848

16.
Financial Instruments and Related Disclosures

1. Information regarding financial instruments

a) Group policy on financial instruments

Based on the Group's capital expenditure program for the industrial automation and control business and the test and measurement business, the Group uses financial instruments such as bank loans to get necessary funding. Cash surpluses are invested in low risk financial assets. Short-term bank loans are used to fund ongoing operations. Derivatives are used to manage exposure to financial risks as described in Note 17 and are not used for speculative purposes.

b) Nature of the financial instruments and risk management

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Those securities are mainly issued by the Group's customers and suppliers, and are managed by regularly monitoring market value and the financial position of the issuers.

Investment securities are exposed to the risk of market price fluctuations. The Group reviews its holdings of these securities, whose issuers are mainly its customers and suppliers, by regularly checking their market value and the financial position of the issuers.

Payment terms of payables such as trade notes and trade accounts are less than one year.

Long-term debts are used for capital expenditures and investments. In order to manage exposure to market risks from fluctuations in interest rates, the Group principally uses fixed rate contracts; otherwise, interest swap contracts are used for variable rate loans.

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by foreign currency forward contracts and range forward options.

Basic policies on derivative transactions are set out in the Group's internal guidelines. The guidelines prescribe a control policy, designate authorized departments, specify the purpose of the transactions, define the basis for selecting financial institutions, and specify the reporting route.

The fair value of financial instruments is based on the quoted price in an active market. If the quoted price is not available, other valid valuation techniques are used.

2. Fair value of financial instruments

The carrying amounts in the consolidated balance sheet, fair value, and unrealized gain (loss) as of March 31, 2014 and 2013 were as follows.

Financial instruments, whose fair value is extremely difficult to measure, are not included. Please refer to item of Note 16 (2) b on financial instruments whose fair value cannot be reliably determined.

	Millions of yen		
	2014		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and cash equivalents	¥ 55,857	¥ 55,857	
(2) Receivables—trade notes and trade accounts	135,054		
Less: Allowance for doubtful accounts	(3,919)		
	131,135	131,135	
(3) Investment securities	22,170	22,170	
Total	¥209,162	¥209,162	
(1) Short-term loans payable	¥ 7,065	¥ 7,065	
(2) Payables—trade notes and trade accounts	32,462	32,462	
(3) Payables—other	10,265	10,265	
(4) Income taxes payable	4,666	4,666	
(5) Long-term debt	74,437	74,515	¥ (78)
Total	¥128,895	¥128,973	¥ (78)
Derivatives	¥ (189)	¥ (189)	

	Millions of yen		
	2013		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and cash equivalents	¥ 58,826	¥ 58,826	
(2) Receivables—trade notes and trade accounts	120,679		
Less: Allowance for doubtful accounts	(3,829)		
	116,850	116,850	
(3) Investment securities	18,097	18,097	
Total	¥193,773	¥193,773	
(1) Short-term loans payable	¥ 7,946	¥ 7,946	
(2) Payables—trade notes and trade accounts	29,240	29,240	
(3) Payables—other	8,980	8,980	
(4) Income taxes payable	3,133	3,133	
(5) Long-term debt	90,820	91,310	¥(490)
Total	¥140,119	¥140,609	¥(490)
Derivatives	¥ (184)	¥ (184)	

	Thousands of US dollars		
	2014		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and cash equivalents	$ 542,726	$ 542,726	
(2) Receivables—trade notes and trade accounts	1,312,220		
Less: Allowance for doubtful accounts	(38,074)		
	1,274,146	1,274,146	
(3) Investment securities	215,405	215,405	
Total	$2,032,277	$2,032,277	
(1) Short-term loans payable	$ 68,646	$ 68,646	
(2) Payables—trade notes and trade accounts	315,408	315,408	
(3) Payables—other	99,741	99,741	
(4) Income taxes payable	45,333	45,333	
(5) Long-term debt	723,249	724,010	$(761)
Total	$1,252,377	$1,253,138	$(761)
Derivatives	$ (1,824)	$ (1,824)	

Notes: (a) Fair value measurement of financial instruments

Cash and cash equivalents, trade notes and accounts receivable:

The carrying values of cash and cash equivalents, trade notes and accounts receivable less an allowance for doubtful accounts, approximate fair value because of their short maturities.

Investment securities:

The fair value of equity instruments is measured at the quoted equity market price, and the fair value of debt instruments is measured at the quoted price obtained from the respective financial institution. Information on the fair value of each class of investment securities is included in Note 3.

Short-term loans payable, trade notes and accounts payable, other payable and income taxes payable:

The carrying values of short-term loans payable, trade notes and accounts payable, other payable and income taxes payable approximate fair value because of their short maturities.

Long-term debt:

The fair value of long-term debt is determined by discounting cash flows related to the debt at the Group's assumed corporate borrowing rate. Long-term debt is included in the following accounts in the accompanying consolidated balance sheet: current portion of long-term debt and long-term debt.

Derivatives:

Information on the fair value of derivatives is included in Note 17.

(b) Financial instruments whose fair value cannot be reliably determined

	Carrying amount		
	Millions of yen		Thousands of US dollars
	March 31, 2014	March 31, 2013	March 31, 2014
Unlisted equity securities	¥18,091	¥17,777	$175,779

Maturity analysis for financial assets and securities with contractual maturities

March 31, 2014	Millions of yen		Thousands of US dollars	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Cash and cash equivalents	¥ 55,857		$ 542,726	
Receivables—trade notes and accounts	134,861	¥193	1,310,340	$1,880
Total	¥190,718	¥193	$1,853,066	$1,880

17.
Derivatives

Derivative transactions are used to manage foreign exchange risk and the risk of market rate fluctuations that occur in the normal course of business. The Group does not use derivatives for speculative purposes or for highly leveraged transactions.

1. Derivative transactions to which hedge accounting was not applied at March 31, 2014 and 2013

	Millions of yen			
	2014			
	Contract amount			
	Total	Due over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Selling contracts				
US dollar	¥ 6,529		¥(10)	¥(10)
Other	54		(0)	(0)
Buying contracts				
US dollar	1,534		(45)	(45)
Other	3,720		(2)	(2)
Currency options				
Selling contracts				
CALL				
US dollar	1,503		2	2
(Option premium)	(—)			
Buying contracts				
PUT				
US dollar	751			
(Option premium)	(—)			
Currency swaps	7,671		(26)	(26)
Total	¥21,762		¥(81)	¥(81)

	Millions of yen			
	2013			
	Contract amount			
	Total	Due over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Selling contracts				
US dollar	¥ 7,124		¥(151)	¥(151)
Other	126		0	0
Buying contracts				
US dollar	1,693		32	32
Other	1,094		(24)	(24)
Currency options				
Selling contracts				
CALL				
US dollar	4,608			
(Option premium)	(—)			
Buying contracts				
PUT				
US dollar	2,304		(20)	(20)
(Option premium)	(—)			
Currency swaps	8,351	8,351	(177)	(177)
Total	¥25,300	¥8,351	¥(340)	¥(340)

	Thousands of US dollars			
	2014			
	Contract amount			
	Total	Due over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Selling contracts				
US dollar	$ 63,442		$ (96)	$ (96)
Other	528		(2)	(2)
Buying contracts				
US dollar	14,910		(433)	(433)
Other	36,142		(22)	(22)
Currency options				
Selling contracts				
CALL				
US dollar	14,599		18	18
(Option premium)	(—)			
Buying contracts				
PUT				
US dollar	7,299			
(Option premium)	(—)			
Currency swaps	74,523		(251)	(251)
Total	$211,443		$(786)	$(786)

2. Derivative transactions to which hedge accounting was applied at March 31, 2014 and 2013

		Millions of yen		
		2014		
		Contract amount		
	Hedged item	Total	Due over one year	Fair value
Forward exchange contracts				
Selling contracts				
US dollar		¥ 396		¥ 4
Others		7		(1)
Buying contracts				
US dollar	Payables	¥ 4,972		¥(111)
Interest rate swaps				
Pay fixed/Receive floating	Long-term debt	¥39,000	¥31,000	Note b

		Millions of yen		
		2013		
		Contract amount		
	Hedged item	Total	Due over one year	Fair value
Forward exchange contracts				
Buying contracts				
US dollar	Payables	¥ 4,642		¥156
Interest rate swaps				
Pay fixed/Receive floating	Long-term debt	¥55,000	¥29,000	Note b

	Hedged item	Thousands of US dollars		
		2014		
		Contract amount		
		Total	Due over one year	Fair value
Forward exchange contracts				
Selling contracts				
US dollar		$ 3,851		$ 43
Others		66		(6)
Buying contracts				
US dollar	Payables	$ 48,310		$(1,081)
Interest rate swaps				
Pay fixed/Receive floating	Long-term debt	$378,935	$301,205	Note b

Notes: (a) The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not re-measured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.
(b) The fair value of such interest rate swaps is included in that of hedged items disclosed in Note 16.

The fair value of derivative transactions is measured at the quoted price obtained from the respective financial institution. The contract or notional amounts of the derivatives shown in the above table do not represent the amounts exchanged by the parties and are not a measure of the Group's exposure to credit or market risk.

Currency options are zero cost options.

18.

Commitment Line Agreements

The Company has commitment line agreements with financial institutions in order to obtain funds for stable and efficient operation.
The commitment line of credit as of March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Total commitment line of credit	¥50,000	¥50,000	$485,814
Outstanding borrowings	(720)		(7,000)
Unused credit line	¥49,280	¥50,000	$478,814

19.

Restructuring Related Expenses

Restructuring costs amounting to ¥3,402 million (US$33,051 thousand) for the year ended March 31, 2014 consisted of the compensation paybable to employees transferred from the Company to its subsidiaries.

20.

Other Notes to Consolidated Statement of Income

1. Provision for contract loss
Provision for contract loss was ¥1,185 million (US$11,509 thousand) and ¥269 million for the years ended March 31, 2014 and 2013, respectively and was included in the cost of sales in the consolidated statement of income.

2. Selling, general and administrative expenses

The major components of selling, general and administrative expenses were as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Salaries	¥58,138	¥52,237	$564,884
Net periodic retirement benefit costs	4,739	4,007	46,046
Provision for bonuses	2,971	3,196	28,866
Research and development costs	25,113	24,744	244,002

3. Net (loss) gain on disposal of property, plant and equipment

The net loss on disposal of property, plant and equipment was as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Buildings and structures	¥(209)	¥ (19)	$(2,032)
Machinery, equipment and vehicles	(48)	123	(465)
Tools, furniture and fixtures	(36)	2	(353)
Land	51	3,723	494
Other Intangible asset	(11)	(68)	(98)
Other		(5)	
Total	¥(253)	¥3,756	$(2,454)

21.

Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of US dollars
	2014	2013	2014
Net unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 4,075	¥ 3,670	$ 39,595
Reclassification adjustments to profit or loss	(9)	(88)	(88)
Amount before income tax effect	4,066	3,582	39,507
Income tax effect	(1,036)	(482)	(10,064)
Total	¥ 3,030	¥ 3,100	$ 29,443
Deferred (loss) gain on derivatives under hedge accounting:			
Gains arising during the year	¥ (184)	¥ 69	$ (1,785)
Reclassification adjustments to profit or loss	(72)	74	(699)
Amount before income tax effect	(256)	143	(2,484)
Income tax effect	60	(36)	572
Total	¥ (196)	¥ 107	$ (1,912)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (66)	¥(318)	$ (642)
Reclassification adjustments to profit or loss	99	68	969
Amount before income tax effect	33	(250)	327
Income tax effect	(11)	90	(110)
Total	¥ 22	¥ (160)	$ 217
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 6,456	¥ 8,159	$ 62,732
Reclassification adjustments to profit or loss	(50)		(491)
Amount before income tax effect	6,406	8,159	62,241
Income tax effect	34	(12)	331
Total	¥ 6,440	¥ 8,147	$ 62,572
Share of other comprehensive income in affiliates:			
Gains arising during the year	¥ 27	¥30	$ 261
Total	¥ 27	¥30	$ 261
Total other comprehensive income	¥ 9,323	¥11,224	$ 90,581

22.
Per Share Information

Basic net income per share (EPS) for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen	Thousands of shares	Yen	US dollars
	Net income	Weighted average shares	EPS	
2014				
Basic EPS				
Net income attributable to common shareholders	¥12,342	257,541	¥47.92	$0.47
2013				
Basic EPS				
Net income attributable to common shareholders	¥14,688	257,545	¥57.03	$0.61

Diluted net income per share is not disclosed because there were no dilutive securities in the years ended March 31, 2014 and 2013.

23.
Subsequent Events

Appropriations of retained earnings

The Board of Directors proposed the following appropriations of retained earnings, at March 31, 2014, which is subject to approval at the general meeting of the shareholders of the Company to be held on June 25, 2014:

	Millions of yen	Thousands of US dollars
Year-end cash dividends, ¥6 (US$0.06) per share	¥1,545	$15,014

24.
Segment Information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information", an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group operates in three business segments: industrial automation and control, test and measurement, and other businesses.

The industrial automation and control business offers comprehensive solutions including field instruments such as flow meters, differential pressure/pressure transmitters, and process analyzers; control systems and programmable controllers; various types of software that enhance productivity; and services that minimize plant lifecycle costs.

The test and measurement business offers waveform measuring instruments, optical communications measuring instruments, signal generators, and electric voltage, current, and power measuring instruments; LCD drivers; and confocal scanners for observation of live cells.

The other businesses segment mainly offers cockpit flat-panel displays, engine meters, and other instruments for aviation use; marine navigation equipment such as gyrocompasses and autopilot systems; and meteorological/hydrological monitoring system equipment.

2. Accounting methods for each reportable segment's sales, income (loss), assets, and other items

The accounting policies for each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

The aggregate of the income or loss for each reportable segment corresponds to the operating income or loss in the consolidated statement of income.

The assets of a reportable segment consist of receivables-trade notes and trade accounts, inventory, property, plant and equipment, and intangible assets.

3. Information about sales and operating income (loss), assets and other items

	Millions of yen				
	2014				
	Reportable segment				
	Industrial automation and control	Test and measurement	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥336,330	¥27,804	¥24,329		¥388,463
Intersegment sales	289	6,536	844	¥(7,669)	
Total sales	336,619	34,340	25,173	(7,669)	388,463
Segment income (loss)	24,224	1,018	651		25,893
Segment assets	227,451	19,966	30,944		278,361
Depreciation and amortization	11,739	993	820		13,552
Impairment loss	215	37	32		284
Increase in property, plant and equipment and intangible assets	12,100	1,051	856		14,007
Amortization of goodwill	139	1			140
Goodwill	1,532	118			1,650

	Millions of yen				
	2013				
	Reportable segment				
	Industrial automation and control	Test and measurement	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥295,696	¥28,977	¥23,227		¥347,900
Intersegment sales	1,042	6,039	738	(7,819)	
Total sales	296,738	35,016	23,965	(7,819)	347,900
Segment income (loss)	18,011	(226)	625		18,410
Segment assets	208,431	25,050	28,773	117	262,371
Depreciation and amortization	11,476	1,314	706		13,496
Impairment loss	966	305	79		1,350
Increase in property, plant and equipment and intangible assets	11,224	1,408	837		13,469
Amortization of goodwill	126				126
Goodwill	1,604				1,604

	Thousands of US dollars				
	2014				
	Reportable segment				
	Industrial automation and control	Test and measurement	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$3,267,877	$270,156	$236,386		$3,774,419
Intersegment sales	2,812	63,510	8,200	$(74,522)	
Total sales	3,270,689	333,666	244,586	(74,522)	3,774,419
Segment income (loss)	235,370	9,893	6,322		251,585
Segment assets	2,209,974	193,994	300,665		2,704,633
Depreciation and amortization	114,058	9,649	7,967		131,674
Impairment loss	2,091	356	308		2,755
Increase in property, plant and equipment and intangible assets	117,569	10,208	8,314		136,091
Amortization of goodwill	1,351	15			1,366
Goodwill	14,884	1,149			16,033

4. Information about geographical areas

a. Sales

	Millions of yen						
	2014						
	Japan	Asia	Europe	North America	Middle East	Other	Total
Sales	¥129,080	¥98,613	¥38,912	¥25,856	¥37,315	¥58,687	¥388,463

	Millions of yen						
	2013						
	Japan	Asia	Europe	North America	Middle East	Other	Total
Sales	¥133,997	¥87,992	¥27,522	¥21,500	¥32,142	¥44,747	¥347,900

	Thousands of US dollars						
	2014						
	Japan	Asia	Europe	North America	Middle East	Other	Total
Sales	$1,254,174	$958,149	$378,081	$251,225	$362,566	$570,224	$3,774,419

Note: Sales are categorized in each country or area based on the location of end users.

b. Property, Plant and Equipment

Millions of yen						
2014						
Japan	Asia	Europe	North America	Middle East	Other	Total
¥55,917	¥14,320	¥7,873	¥2,607	¥1,397	¥503	¥82,617

Millions of yen						
2013						
Japan	Asia	Europe	North America	Middle East	Other	Total
¥55,451	¥13,844	¥6,345	¥2,327	¥1,352	¥489	¥79,808

Thousands of US dollars						
2014						
Japan	Asia	Europe	North America	Middle East	Other	Total
$543,307	$139,134	$76,498	$25,333	$13,574	$4,880	$802,726

5. Information about major customers

No customer accounts for 10% or more of total sales of the Group.

Deloitte

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Shinagawa Intercity
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Yokogawa Electric Corporation:

We have audited the accompanying consolidated balance sheet of Yokogawa Electric Corporation and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yokogawa Electric Corporation and its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 25, 2014

Member of
Deloitte Touche Tohmatsu Limited

Subsidiaries and Affiliates

As of March 31, 2014

North America

United States
Yokogawa Corporation of America
Yokogawa USA, Inc.
Yokogawa Nuclear Solutions, LLC
Soteica Visual Mesa, LLC

Canada
Yokogawa Canada, Inc.

Mexico
Yokogawa de Mexico, S.A. de C.V.
Yokogawa Engineering Services de Mexico, S.A. de C.V.

South America

Brazil
Yokogawa America do Sul Ltda.
Yokogawa Service Ltda.

Europe

Netherlands
Yokogawa Europe B.V.
Yokogawa Europe Solutions B.V.
Yokogawa Europe Branches B.V.
Yokogawa Process Analyzers Europe B.V.
Yokogawa Africa Holding B.V.

Austria
Yokogawa GesmbH, Central East Europe

Belgium
Yokogawa Belgium N.V./S.A.

France
Yokogawa France S.A.S.

Germany
Yokogawa Deutschland GmbH
Rota Yokogawa GmbH & Co. KG

Hungary
Yokogawa Hungaria Kft.

Italy
Yokogawa Italia S.r.l.

Spain
Yokogawa Iberia S.A.

United Kingdom
Yokogawa United Kingdom Limited
Yokogawa Marex Limited

Russia
Yokogawa Electric CIS Ltd.
Yokogawa Electric Sakhalin Ltd.

Kazakhstan
Yokogawa Electric Kazakhstan Ltd.

Ukraine
Yokogawa Electric Ukraine Ltd.

Middle East

Bahrain
Yokogawa Middle East & Africa B.S.C. (c)
Yokogawa Engineering Bahrain SPC

Saudi Arabia
Yokogawa Saudi Arabia Ltd.
Yokogawa Services Saudi Arabia Ltd.

United Arab Emirates
Yokogawa Engineering Middle East & Africa FZE

Africa

South Africa
Yokogawa South Africa (Pty) Ltd.
Yokogawa Anglophone Africa Regions (Pty) Ltd.

Nigeria
Yokogawa Services Solutions Nigeria Ltd.
Yokogawa Nigeria Ltd.

Oceania

Australia
Yokogawa Australia Pty. Ltd.

New Zealand
Yokogawa New Zealand Ltd.

Asia

Singapore
Yokogawa Electric International Pte. Ltd.
Yokogawa Engineering Asia Pte. Ltd.
Yokogawa Electric Asia Pte. Ltd.
Plant Electrical Instrumentation Pte. Ltd.

Indonesia
P.T. Yokogawa Indonesia
P.T. Yokogawa Manufacturing Batam

Malaysia
Yokogawa Electric (Malaysia) Sdn. Bhd.
Yokogawa Kontrol (Malaysia) Sdn. Bhd.
Yokogawa Industrial Safety Systems Sdn. Bhd.

Philippines
Yokogawa Philippines Inc.

Thailand
Yokogawa (Thailand) Ltd.

Vietnam
Yokogawa Vietnam Company Ltd.

India
Yokogawa India Ltd.
Yokogawa IA Technologies India Private Limited

China
Yokogawa China Co., Ltd.
Yokogawa Electric China Co., Ltd.
Yokogawa Sichuan Instrument Co., Ltd.
Suzhou Yokogawa Meter Company
Yokogawa Shanghai Instrumentation Co., Ltd.
Yokogawa Shanghai Trading Co., Ltd.
Yokogawa Process Control (Shanghai) Co., Ltd.
Yokogawa Information Systems (Dalian) Corporation
Yokogawa Software Engineering (WUXI) Co., Ltd.
Yokogawa System Integration & Procurement (Wuxi) Co., Ltd.
Yokogawa China Investment Co., Ltd.

Korea
Yokogawa Electric Korea Co., Ltd.
Yokogawa Electronics Manufacturing Korea Co., Ltd.

Taiwan
Yokogawa Taiwan Corporation

Subsidiaries and affiliates in Japan
Yokogawa Solution Service Corporation
Yokogawa Meters & Instruments Corporation
Omega Simulation Co., Ltd.
YDC Corporation
Yokogawa & Co., Ltd.
Yokogawa Denshikiki Co., Ltd.
Yokogawa Digital Computer Corporation
Yokogawa Foundry Corporation
Yokogawa Manufacturing Corporation
Yokogawa Medical Solutions Corporation
Yokogawa Pionics Co., Ltd.
Yokogawa Rental & Lease Corporation

Corporate Data / Investor Information

As of March 31, 2014

● Corporate Data

Corporate Name:
Yokogawa Electric Corporation

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

Founded:
September 1, 1915

Incorporated:
December 1, 1920

Paid-in Capital:
43,401 million yen

Number of Employees:
19,837 (consolidated)
2,958 (non-consolidated)

Subsidiaries and Affiliates:
70 Overseas 15 Japan

● Investor Information

Number of Shares Authorized:
600,000,000

Number of Shares of Common Stock Issued:
268,624,510

Number of Shareholders:
22,898

Stock Exchange Listing:
Tokyo Stock Exchange

Administrator of the Register of Shareholders:
Mizuho Trust & Banking Co., Ltd.
1-2-1 Yaesu, Chuo-ku, Tokyo 103-8670, Japan

Annual Shareholders Meeting:
The annual general meeting of shareholders of the Company is held in June.

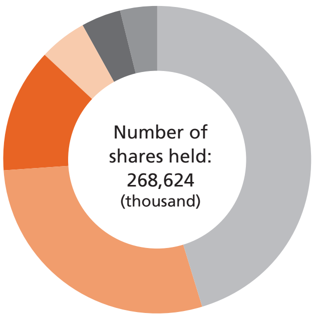
Accounting Auditors:
Deloitte Touche Tohmatsu LLC

Major Shareholders (Top 10)

Shareholders	Number of shares held (shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	29,997,400	11.17
The Dai-Ichi Life Insurance Company, Limited	15,697,000	5.84
Japan Trustee Services Bank, Ltd. (trust account)	15,048,200	5.60
Nippon Life Insurance Company	13,884,615	5.17
Retirement Benefit Trust in Mizuho Trust & Banking Co., Ltd. (Mizuho Bank, Ltd. account); Trust & Custody Services Bank, Ltd. as a Trustee of Retrust	11,261,000	4.19
Yokogawa Electric Employee Shareholding Program	8,415,596	3.13
Japan Trustee Services Bank, Ltd. (trust account 9)	6,492,600	2.42
J.P. Morgan Chase Bank 385078	3,872,500	1.44
Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,521,236	1.31
BNP Paribas Securities (Japan), Limited.	3,393,385	1.26

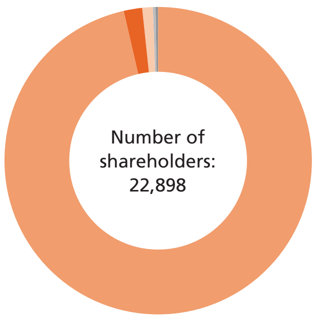
Note: In addition to the above, the Company holds 11,085,537 shares of treasury stock.

Shareholding by Category



Financial Institutions	122,196	(45.48%)
Foreign Investors	76,755	(28.57%)
Individual Investors	34,834	(12.96%)
Others	13,375	(4.97%)
Treasury Stock	11,085	(4.13%)
Securities Companies	10,377	(3.86%)

Shareholders by Category



Individual Investors	22,114	(96.57%)
Foreign Investors	407	(1.77%)
Others	275	(1.20%)
Financial Institutions	63	(0.27%)
Securities Companies	38	(0.16%)
Treasury Stock	1	(0.00%)

Yokogawa Electric Corporation

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