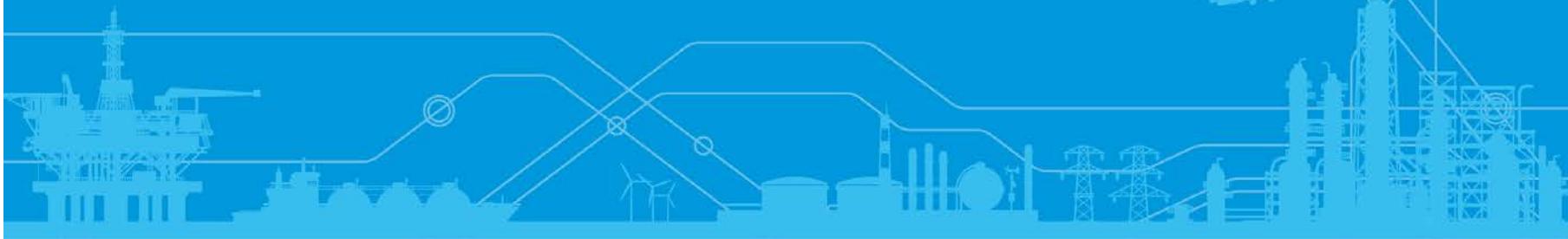


*Transformation 2017*

Yokogawa Electric Corporation

# New Mid-term Business Plan Fiscal Years 2015-2017



**May 12, 2015**

**Takashi Nishijima**

President and Chief Executive Officer

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# Review of Evolution 2015

# Review of Evolution 2015

## Business plan for FY15

✓ We expect to hit the sales target thanks in part to the weak yen, but have fallen short with profits. Further restructuring is necessary.

While growing the IA and control business

|                                 | Evolution 2015 targets for FY15 | New FY15 targets |
|---------------------------------|---------------------------------|------------------|
| Sales                           | ¥400 billion                    | ¥413 billion     |
| Operating income                | ¥40 billion                     | ¥33 billion      |
| Operating income-to-sales ratio | 10%                             | 8%               |
| EPS                             | ¥100 or more                    | ¥74              |

Put the company in a strong financial position

✓ We expect to achieve these targets and be in a strong financial position for next growth phase

|                      |     |              |
|----------------------|-----|--------------|
| Equity ratio         | 50% | 55% or more  |
| Debt-to-equity ratio | 40% | 30% or lower |

Exchange rate: 1\$=80yen

Exchange rate: 1\$=110yen

✓ Must speed up our transformation to outpace market change and accelerate growth

# Review of Evolution 2015

At a turning point :

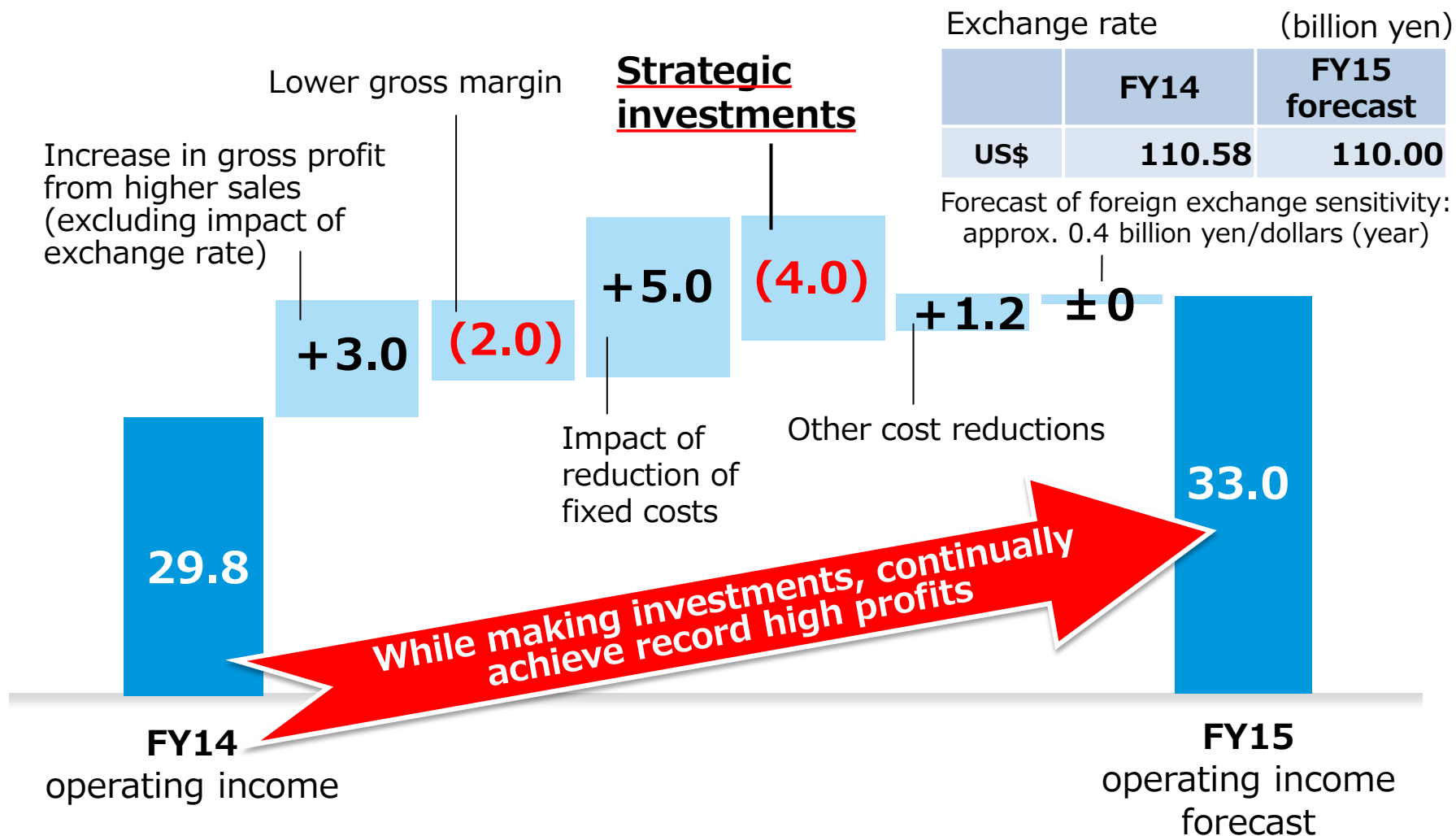
Need for transformation into a highly efficient company

**The plan to make quick strategic investments 4 billion yen**  
explains the decrease  
from 40 billion yen to 33 billion yen.

## Main targets for strategic investment (control business)

- 1 Expansion of lifecycle service business**  
⇒ Enhancement of services outside Japan  
(People, products, knowledge)
- 2 Expansion of advanced solution business**  
⇒ Develop and strengthen human resources  
Develop software packages, alliances
- 3 Development and strengthening of new businesses**  
⇒ Product development and alliances in target industries
- 4 Development of infrastructure**

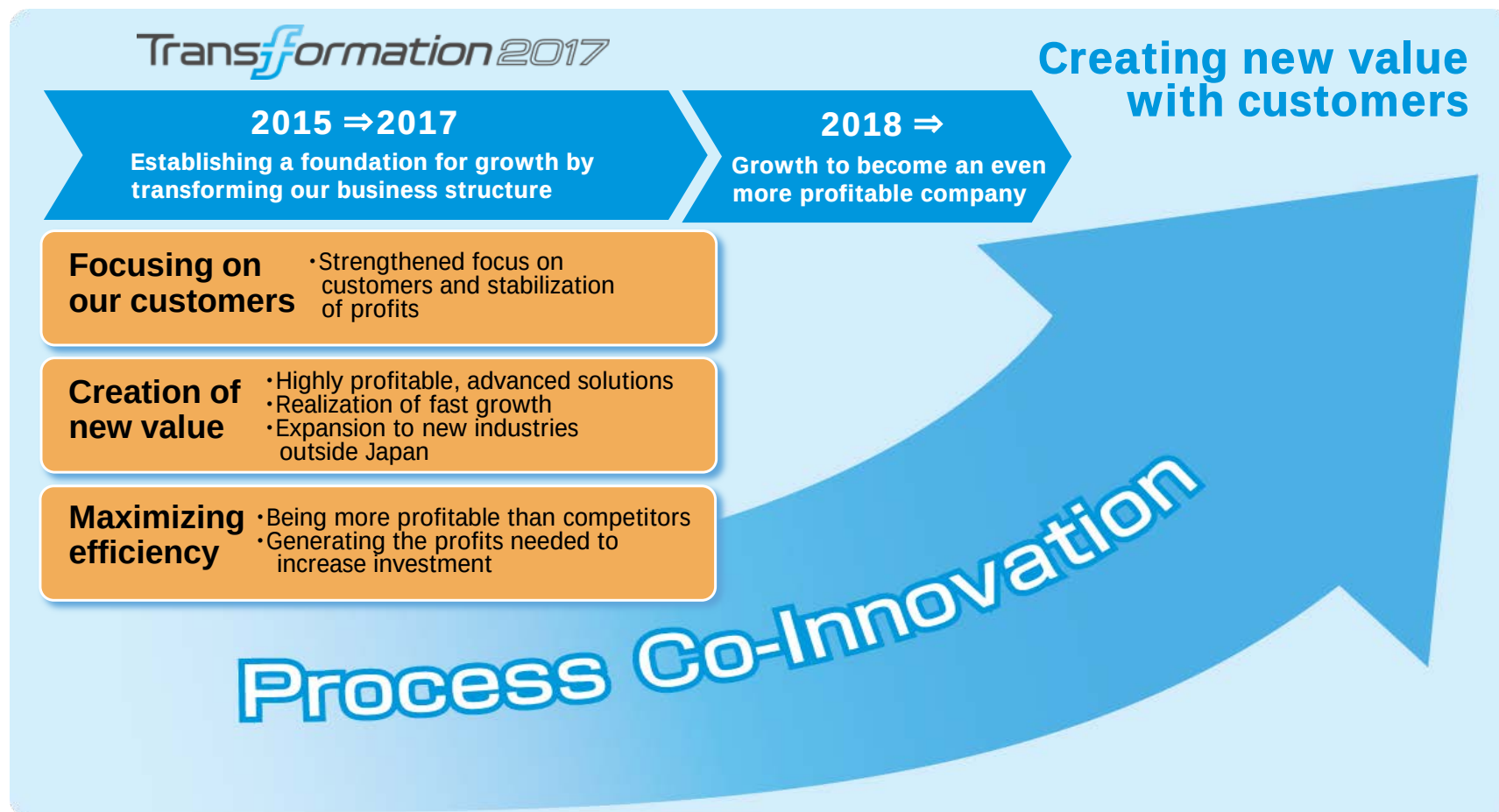
# Analysis of operating income (FY14/FY15)



# Long-term Business Framework & New Mid-term Business Plan Transformation 2017 (TF2017)

# Role of TF2017 in long-term business framework

## Structural reforms that prepare the way for growth



# Process co-innovation, core competencies

## Process Co-Innovation

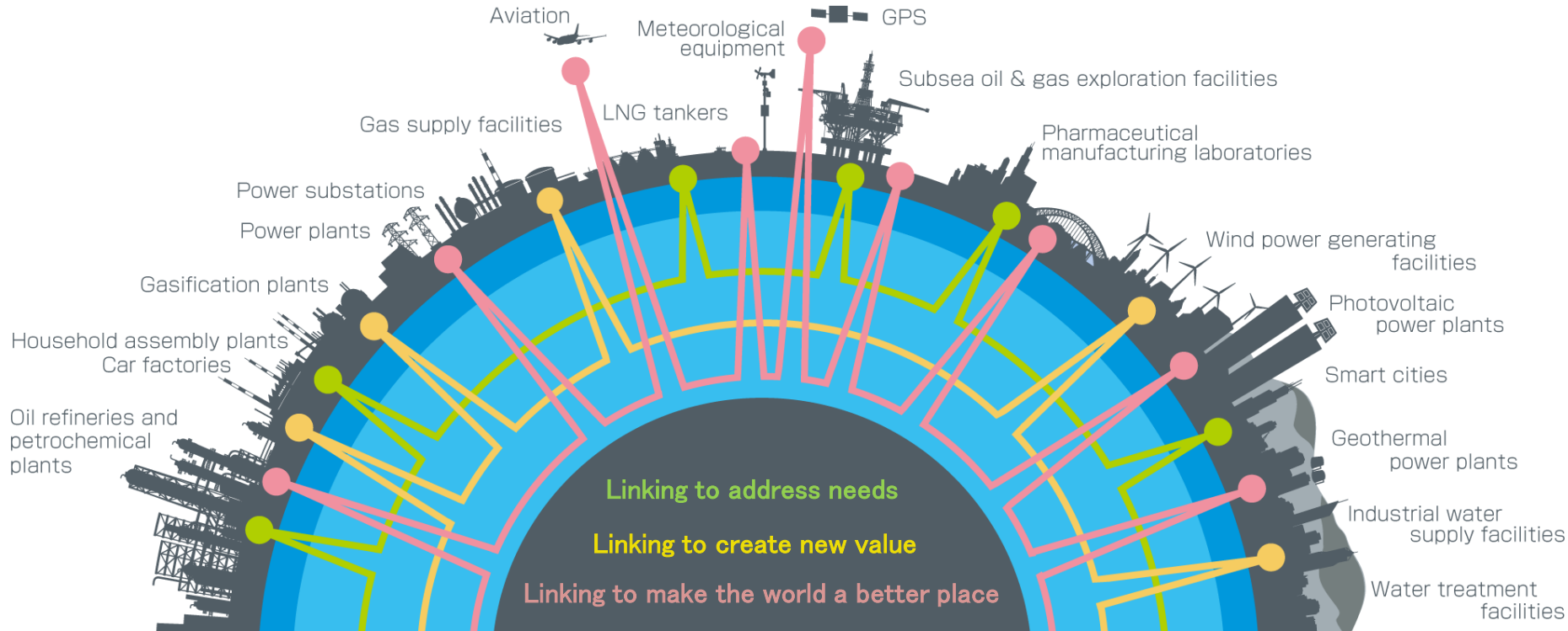
**This is a concept for a future automation business that will utilize all of Yokogawa's measurement, control, and information technologies. According to this concept, process optimization goes beyond production processes to address all material and information flows within and between companies, including both value and supply chains.**

**This concept will encompass the entire range of Yokogawa solutions and will entail a commitment to working with clients to create new value on their behalf.**

## Core competencies

|                    |                                                                                    |                                                                          |                                                                        |
|--------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------|
| To be strengthened | Co-creating value by identifying and resolving customer issues                     |                                                                          |                                                                        |
|                    | Creating new standards to optimize and streamline processes                        | Connecting field data to management actions                              |                                                                        |
| Fundamental        | Creating extremely reliable products and solutions to support industry and society | Operating highly complex, mission-critical systems in extreme conditions | Performing precise, on-site measurements, both online and in real-time |

# Process co-innovation: image

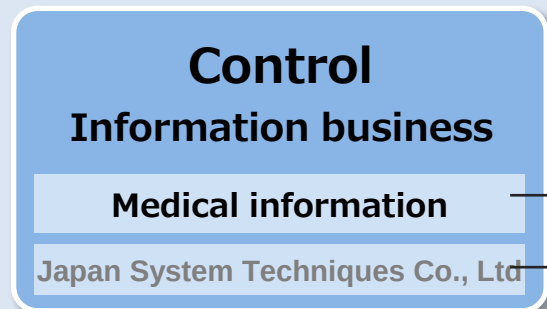


**Yokogawa: solutions without borders,  
for all kinds of manufacturing processes and infrastructure**

# Completion of structural reforms

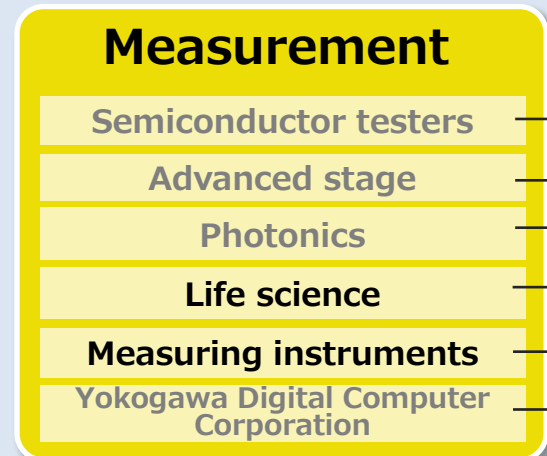
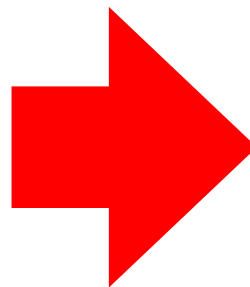
End of March 2008

focus on  
control business



Spin-off

Transfer



Transfer/Withdrawal

Transfer/Withdrawal

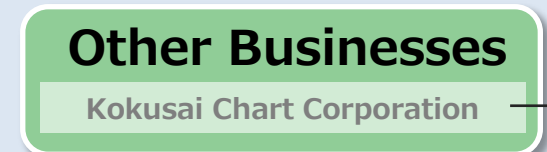
Withdrawal

Withdrawal from MEG\*business

\*MEG= Magnetoencephalograph

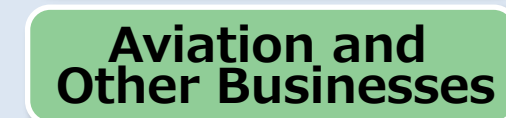
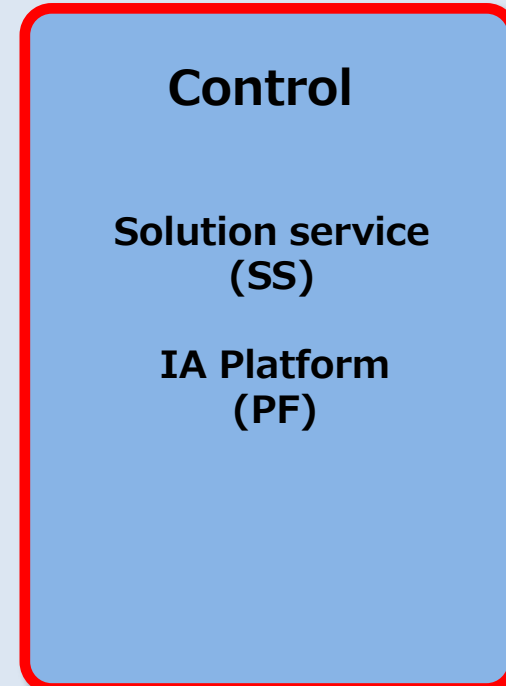
Spin-off

Transfer



Transfer

Now



# TF2017: three reforms

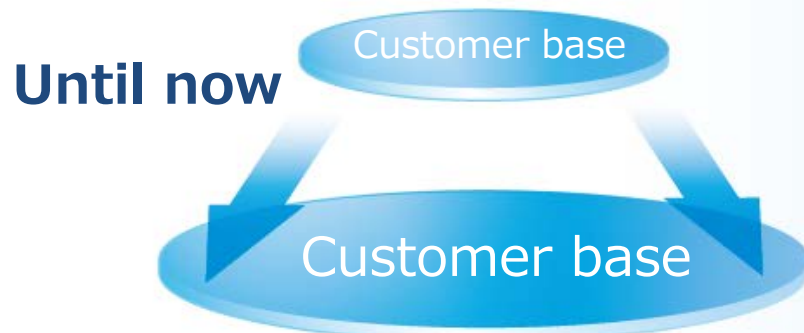
## Transformation 2017

While focusing on the control business,

- ① **transform** from being product-centered to **being focused on the customer**
- ② **transform** to **create new value** by taking advantage of ICT
- ③ **transform** by **becoming more efficient than ever**  
(ROE 11%, with top priority on ROIC of control business)

# The three reforms ① Focusing on customers

Based on our leading position in the Japan market



**From now**



**① 56 countries, 86 affiliates**

⇒ % of sales generated outside Japan has tripled over the past 20 years

**② Over 25,000 DCSs installed**

⇒ Number of systems installed outside Japan has increased 6 times over the past 20 years

**③ No. 1 DCS supplier** in petrochemical industry and LNG supply chain

**Focus on products**  
⇒ **Focus on customers**

**Provide products**  
⇒ **Provide value**

**Value creation with customers**

# The three reforms ② Creating new value

Connecting production control and management



Improving efficiency and optimizing processes across companies, business fields, and industries



Development of ICT

Our strengths

## Alliances

Cisco Systems, Inc.  
Tokyo Electron Limited  
Mitsui Chemicals, Inc.  
Murata Manufacturing Co., Ltd.  
Microsoft Japan Co., Ltd.  
Sotetica Visual MESA  
McAfee, Inc.

# The three reforms ③ Maximizing efficiency management

Greatly improve profitability by globally optimizing operations to reduce costs and emphasizing ROE in company management

11% or more

ROE

6% or more

ROA

Expansion of business and improvement of efficiency (control)

ROIC

Expansion of scale

ROS

Revenue/  
invested capital

Business  
KPIs

Re-examination of  
non business assets

Financial strategy,  
capital policy

Financial leverage  
Optimum capital structure

Operating  
CF

Investment  
(CAPEX & OPEX)

Continual  
investment

Strategic  
investment

Finances

Return to shareholders

Investment for growth

# 2017 Business strategy

- Industrial automation and control business
- Test and measurement business
- Aviation and other businesses -

# IA & control business – Market opportunities –

**Further development of resource and energy sector**

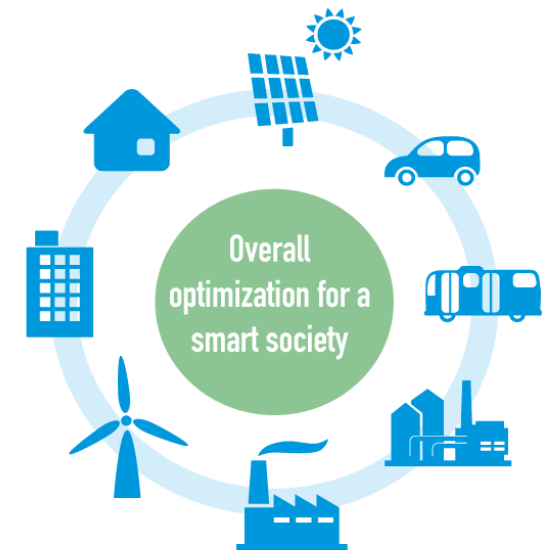
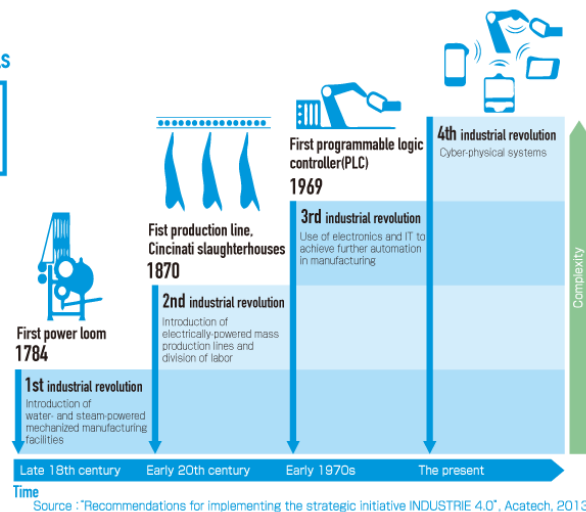
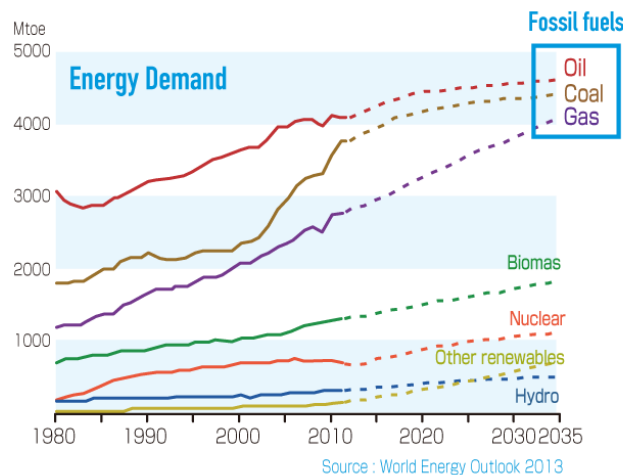
**1**

**Innovation of industrial structure by integration of devices (“things”) and information**  
⇒(IoT)

**2**

**Smartization of society⇒(ICT)**

**3**

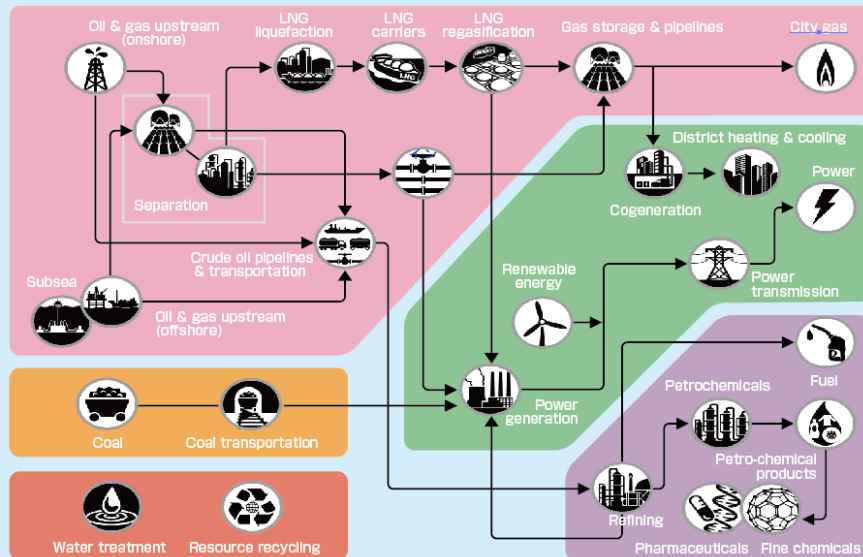


# IA & control business – Two basic strategies –

## The global No.1 company in IA

Top share of the market

### Customer base-driven expansion throughout energy supply chain



### Expand into new industries

Leveraging our strength in the Japan market

Starting in Asia,  
expand business  
operations worldwide

# IA & control business – Target industries –

## 1 Oil & gas

( Upstream, midstream, downstream )

**Especially midstream**

→ Pipelines, FLNG/LNG tankers



## 2 Power

For DCSs, this is the largest and the highest-growth market



## 3 Chemical

Use knowhow acquired in Japan to achieve global growth



# IA & control business

## – Business expansion measures –

Control

### Business expansion in target industries (energy supply chain)

- (1) Expand lifecycle service business
- (2) Expand advanced solution business
- (3) Enhance platform product functions
- (4) Develop and expand new businesses:
  - Upstream/midstream
  - HSE + maintenance
  - Analytical x solution

\*HSE: Health, safety and environment

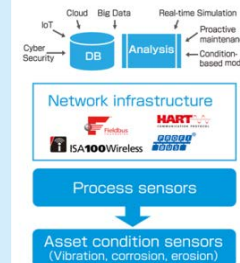
#### Upstream/ Midstream

Utilize our strengths to penetrate oil & gas upstream market with our strength



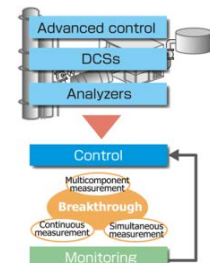
#### HSE + Maintenance

Utilize all plant information to achieve optimization



#### Analytical x Solution

Real-time monitoring of processes and analysis of data for optimal control



### Business expansion in new industries

- (1) Enter new industries through consulting business
- (2) Develop expertise in Asia



# Business strategy

## – Measurement / aviation and other –

### Measuring instruments

Focus on power measuring instruments, optical communications measuring instruments, and fields that have good synergy with our control business

### Life science

Consolidate our leading position in the drug discovery support system market

Develop new applications for confocal scanner units

Improve profitability



Measurement

Incubate new businesses

**CV7000** high-throughput cytological discovery system



### Aviation and other

Expand aircraft business

Expand marine navigation business

Increase profits



Flat panel displays

Aviation and Other



Gyrocompasses

# 2017 Business Plan

# Mid-term business plan

## Aim for record high operating income and ROS each year.

| Business plan                  | FY14               | FY17        | % increase  |
|--------------------------------|--------------------|-------------|-------------|
| ROE (%)                        | 8.6                | 11 or more  | 2.4 or more |
| ROA (%)                        | 3.8                | 6 or more   | 2.2 or more |
| Sales (billion yen)            | 405.8              | 440.0       | 8.4         |
| Operating income (billion yen) | record - high 29.8 | 45.0        | 51.0        |
| ROS (%)                        | record - high 7.3  | 10.2        | 2.9         |
| EPS (yen)                      | 66.9               | 100 or more | 49 or more  |

Exchange rate: 1\$=110 yen

\* After start of consolidated accounting

# Business plan by segment

(Billion ¥)

| Sales            | FY14  | FY17  | Difference | CAGR |
|------------------|-------|-------|------------|------|
| Control          | 358.0 | 390.0 | + 32.0     | 2.9% |
| Measurement      | 23.8  | 26.0  | +2.2       | 3.0% |
| Aviation & Other | 24.0  | 24.0  | ±0         | —    |
| Total            | 405.8 | 440.0 | + 34.2     | 2.8% |

Exchange rate:1\$=110 yen

(Billion ¥)

| Operating income | FY14 | FY17 | Difference |
|------------------|------|------|------------|
| Control          | 27.1 | 42.0 | + 14.9     |
| Measurement      | 1.6  | 2.0  | + 0.4      |
| Aviation & Other | 1.1  | 1.0  | (0.1)      |
| Total            | 29.8 | 45.0 | + 152      |

Exchange rate:1\$=110yen

The FY14 operating income figure for Aviation & Other includes 300 million yen in gross profit earned by a property-related business.

\* The Other Businesses business segment was renamed "Aviation and Other Businesses" on April 1.

# Policies on investment/costs

- R&D, investment for growth, HR, cost structure optimization -

# R&D, investment for growth, HR

## Investment in R&D

- Add more value and create new business.

Maintain R&D investment at current levels and achieve an **R&D-to-sales ratio of 6%**.

## Investment for growth

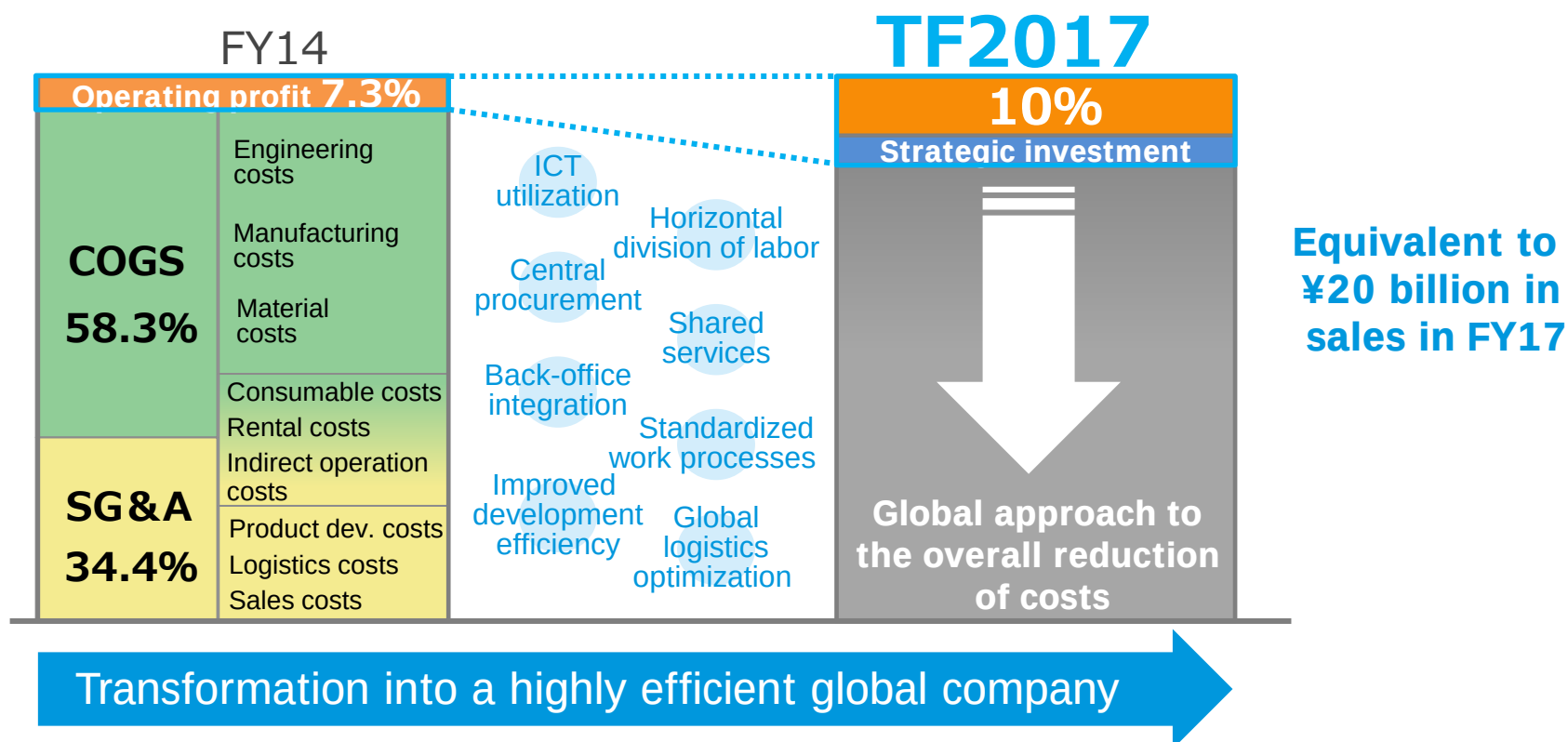
- To expand in target industries, **set aside 50 billion yen for strategic investment and M&A over the next three years.**
- Regular capital investment will be kept at an amount that is sufficient to cover capital depreciation.

## HR

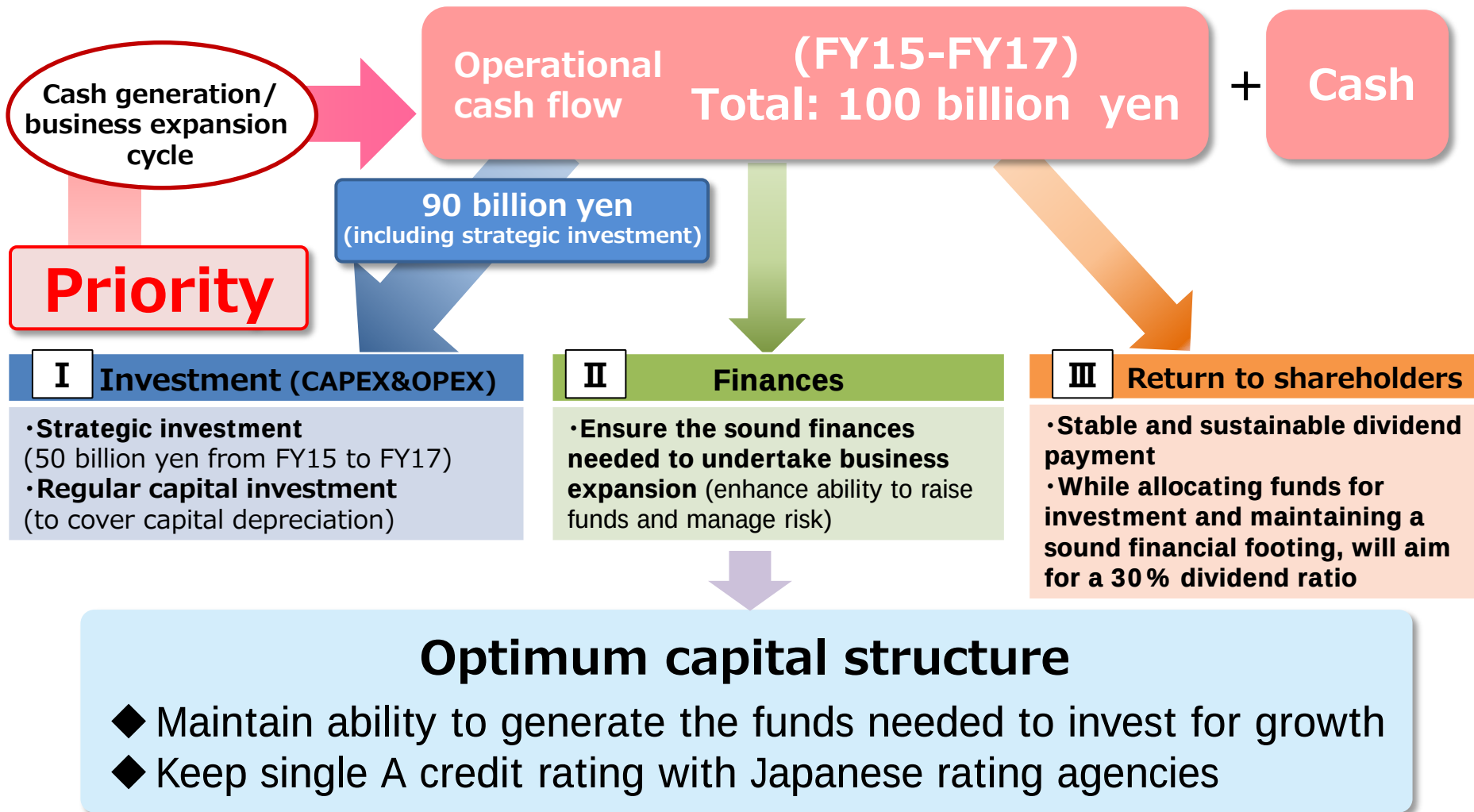
- **Keep size of global workforce at around 20,000** and increase proportion of employees who are based outside Japan.

# Cost structure optimization

Establish an organization that reports directly to the president and undertakes global cross-organizational projects that will reduce costs by 20 billion yen.



# Financial strategy, capital policy



# Enhancing corporate governance

| Year | Action                                                                                                                                                                                                        | Directors |         |           | Auditors |         | Officers |                            |
|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|---------|-----------|----------|---------|----------|----------------------------|
|      |                                                                                                                                                                                                               | in        | outside | Outside % | in       | outside |          | (doubling as board member) |
| 2003 | Introduced outside directors                                                                                                                                                                                  | 7         | 1       | 13%       | 2        | 2       | 24       | 6                          |
| 2004 | Abolished retirement bonuses for directors                                                                                                                                                                    | 7         | 1       | 13%       | 2        | 3       | 24       | 6                          |
| 2005 |                                                                                                                                                                                                               | 7         | 1       | 13%       | 2        | 3       | 26       | 6                          |
| 2006 | Introduced one year tenure system for directors and revised articles of incorporation to reduce number of directors (25⇒15)                                                                                   | 9         | 1       | 10%       | 2        | 3       | 27       | 7                          |
| 2007 | Increased number of outside directors<br>Introduced takeover defense measures                                                                                                                                 | 8         | 2       | 20%       | 2        | 3       | 29       | 5                          |
| 2008 |                                                                                                                                                                                                               | 7         | 2       | 22%       | 2        | 3       | 28       | 5                          |
| 2009 | Increased number of outside directors<br>Renewed takeover defense measures                                                                                                                                    | 7         | 3       | 30%       | 2        | 3       | 15       | 5                          |
| 2010 |                                                                                                                                                                                                               | 5         | 3       | 38%       | 2        | 3       | 14       | 3                          |
| 2011 | Renewed takeover defense measures<br>Sold shares of a listed affiliate                                                                                                                                        | 4         | 3       | 43%       | 2        | 3       | 15       | 2                          |
| 2012 |                                                                                                                                                                                                               | 4         | 3       | 43%       | 2        | 3       | 14       | 3                          |
| 2013 |                                                                                                                                                                                                               | 4         | 3       | 43%       | 2        | 3       | 12       | 1                          |
| 2014 | Established Nomination and Compensation Committee (voluntary advisory body)<br>Discontinuation (non-renewal) of takeover defense measures<br>Introduced standards to ensure independence of outside directors | 6         | 3       | 33%       | 2        | 3       | 12       | 3                          |
| 2015 | Established Nomination Advisory Committee and Compensation Advisory Committee (voluntary advisory bodies)<br>Considering outside evaluation of Board of Directors                                             | 6         | 3       | 33%       | 2        | 3       | 11       | 3                          |

# Closing

With gratitude to all for the support received over  
the past 100 years

**100<sup>th</sup> anniversary commemorative dividend: 5 yen**  
**(to be added to interim dividend)**



Expect great things from *Transformation 2017*

# Disclaimer

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The information pertaining to our business plans and forecasts that has been provided in this presentation and at analyst meetings contains forward-looking statements that are based on our management's current knowledge and require the making of assumptions about future events. As such, it cannot be guaranteed that these statements will not differ materially from actual results.

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