

Name of Listed Company: Yokogawa Electric Corporation

(URL: <http://www.yokogawa.com>) (Stock code: 6841, listed in TSE 1st section)

Name and Position of the Representative:

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Yokogawa Draws Up Transformation 2017, a New Mid-term Business Plan Three reforms for growth

Yokogawa Electric Corporation announces that it has drawn up Transformation 2017 (“TF2017”), a new mid-term business plan for growth, and will begin its implementation in fiscal year 2015.

In fiscal year 2011, Yokogawa drew up the Evolution 2015 mid-term business plan with the goal of becoming the global No.1 company in the industrial automation and control business, and based on this plan has striven to improve its profitability and financial strength by implementing growth strategies centering on the industrial automation and control business. As a result of the measures that have been undertaken to date, Yokogawa has already achieved the sales target for fiscal year 2015 and generated record high operating income in the fiscal year under review, and is in a stronger financial position. However, the current level of profitability is not yet satisfactory and needs to be raised. In addition, as industries change and restructure worldwide in response to the IT revolution, we are seeing changes in our business environment and emerging new opportunities.

Under these circumstances, Yokogawa’s management has chosen to draw up the TF2017 mid-term business plan and will immediately begin its implementation. Based on this plan we will make investments to prepare for anticipated changes and set the stage for growth, and will improve profitability by restructuring our business to focus on customers, create new value, and maximize efficiency. TF2017 supersedes the Evolution 2015 plan.

The TF2017 plan is for a three-year period that will conclude with the end of fiscal year 2017, and is part of a long-term business framework that states Yokogawa’s goals for the next 10 years. Our efforts during the three-year period addressed by TF2017 will lay the foundation for future growth.

To ensure future growth, Yokogawa is committed to becoming more profitable. The specific targets for fiscal year 2017, the final year of the TF2017 plan, are to have a return on equity (ROE) of 11% or more and earnings per share (EPS) of 100 yen or more.

1. Consolidated business targets for fiscal year 2017

Item	Target
Sales	440 billion yen
Operating income	45 billion yen
Operating income-to-sales ratio	10.2%
EPS	100 yen or more
ROE	11% or more
ROA	6% or more

Assumed exchange rate for the mid-term business plan : US1\$=JPY110

2. Long-term business framework

The long-term business framework sets out a vision for Yokogawa's business (the direction in which it will head), states what the company's core competencies (strengths that will allow it to achieve this vision) are, and specifies what businesses it will target.

Vision statement

Through "process co-innovation," Yokogawa creates new value with its clients for a brighter future.

Process co-innovation is a concept for an automation business that will utilize all of Yokogawa's measurement, control, and information technologies. According to this concept, Yokogawa will seek not only to optimize production processes but also the flow of material and information within and between companies, including their 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

As the strengths of the Yokogawa Group, three core competencies such as the development, manufacturing, and engineering of highly reliable products have been defined that support both industry and society. In addition, three competencies that will need to be strengthened have been identified; these include the identification of issues and creation of value with customers.

Target businesses

Yokogawa will target businesses in industries that can be categorized as follows: industries that Yokogawa is already strong in, and industries where growth is anticipated and Yokogawa can leverage its strengths. The first group consists of the resource, energy, and material industries, and the second group consists of life sciences, health care, and the food value-chain-related industry.

3. TF2017 plan

The TF2017 plan will continue to focus on the industrial automation and control business and will address the three long-term society and market trends of the growing consumption of energy resources, the industrial

changes that are resulting from the increasing integration of devices (“things”) and information, and the increasing use of “smart” digital technologies in communities. Accordingly, we will restructure our business to improve our capabilities in the following three areas, and will thereby improve our profitability:

Focusing on customers

Yokogawa will shift from being product-centered to being customer-centered, and will always approach its business from the customer viewpoint.

Creating new value

Leveraging its strengths and taking advantage of advances in information and communication technology (ICT), Yokogawa will work with its customers to create new value by, for example, giving management greater access to field data and improving efficiency and optimizing processes across entire companies, business fields, and industries.

Maximizing efficiency

By globally optimizing its various functions and operations, Yokogawa will bring down its costs and become a more profitably and efficiently run organization.

3.1 Strategies for each business segment

(1) Industrial automation and control business

<Key strategies>

(i) Customer base-driven expansion throughout energy supply chain.

We will target the entire energy supply chain, from upstream to downstream, and will utilize our solid customer base in the oil, chemical, and power industries.

(ii) Expand into new industries.

By entering new industries to develop new customers and finding new ways in which to create value, we will build a solid foundation for future business growth.

<Target industries>

(i) In the oil and gas industries, which enjoy good prospects for growth in the mid- to long-term and where Yokogawa has a solid customer base, we will strengthen our sales activities to target midstream applications such as pipelines, FLNG vessels, and LNG tankers.

(ii) The power plant control system market is large and stable. To boost sales, we will make full use of our global resources and pick up the pace of our marketing activities.

(iii) Yokogawa is a leading supplier to the chemical industry, and has an especially strong position in the Japan market. We will make use of our expertise in this field to expand our business globally, with a special emphasis on emerging markets.

<Business expansion measures >

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

a) Expand lifecycle service business

- b) Expand advanced solution business
- c) Enhance platform product functions
- d) Develop and expand new businesses

- Upstream/midstream

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

- HSE (Health, safety and environment) + maintenance

- Utilize all plant information to achieve optimization

- Analytical × solution

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

(ii) Business expansion in new industries

- a) Enter new industries through consulting business
- b) Develop expertise in Asia

Through these strategies, Yokogawa will aim to become the global No.1 company in this segment in the mid-to long-term.

(2) Test and measurement business

In the test and measurement business segment, we will focus on power measuring instruments, optical communications measuring instruments, and fields that have good synergy with our industrial automation and control businesses, and will seek to pursue steady growth and stable profits. In the life science business, we will consolidate our leading position in the drug discovery support system market, and will strengthen the confocal scanner business by embracing new technologies.

(3) Aviation and other businesses

We will focus on civil aviation, marine navigation, and environmental businesses that enjoy good prospects for global growth.

3.2 Investment and costs

(1) Research and development

We will improve efficiency by concentrating R&D on the industrial automation & control and life-science fields and seeking to add more value and create new businesses through our R&D activities. While holding down R&D costs for the Group as a whole, we will devote additional resources to the R&D of new technologies and aim to achieve a 6% R&D cost to sales ratio.

(2) Investment for growth

We will set aside about 50 billion yen for strategic investments over the next three years, mainly for M&A, and will actively invest to expand our business in target industries. Regular capital investment will be kept at a level that is sufficient to replace depreciated capital.

(3) Human resources

While keeping the size of the Group's workforce at around 20,000, we will seek to increase the proportion of employees who are based outside Japan. At the same time, we will develop the capability of our personnel to

propose solutions, create a global HR system and transform work styles, and promote diversity.

(4) Optimizing the cost structure

An organization that exclusively focuses on cost issues will be set up that reports directly to the President. This organization will undertake global cross-organizational projects that will achieve a 20 billion yen reduction in costs by optimizing our cost structure.

3.3 Financial strategies, capital policies, and earnings distribution

The TF2017 plan targets a return on equity (ROE) of 11% or more by the end of fiscal year 2017. We will accomplish this in a sustainable fashion by increasing earnings and maximizing our return on assets (ROA). As a means to achieving this, we will utilize return on invested capital (ROIC) to evaluate the performance of each business. Each Yokogawa organization and function will establish its own key performance indicators (KPIs) for improving ROIC. In this way, Yokogawa will not only improve its ability to generate earnings, but also will increase its investment efficiency, asset usage efficiency, and ability to generate cash.

Over the next three years, we aim to achieve a 100 billion yen cumulative net cash inflow from operating activities. Yokogawa will prioritize investment for growth, and will allocate 90 billion yen to this. This amount includes strategic investments that we will undertake to maximize shareholder value. Our distribution of earnings to shareholders will be done in a manner that is consistent with the need to keep the company on a sound financial footing. Based on the principle that growth in earnings enables stable and rising dividends, our target dividend payout ratio will be 30%.

With an optimal capital structure, Yokogawa will be able to invest for growth, retain the ability to raise sufficient funds, and maintain its A rating with Japanese agencies.

Reference

Business plan for each segment in fiscal year 2017

	Sales	Operating income
IA and control business	390 billion yen	42 billion yen
Test and measurement business	26 billion yen	2 billion yen
Aviation and other businesses	24 billion yen	1 billion yen
Total	440 billion yen	45 billion yen