

Message from the President and CEO

Co-innovating tomorrow™



While cultivating Yokogawa's strengths, we will strive tenaciously to implement organizational and business reforms, and advance steadily in our efforts to contribute to society and achieve growth.

T. Nara

President and CEO

Progress with Accelerate Growth 2023 (AG2023) medium-term business plan and the current situation

Q Two years have passed since the launch of the Accelerate Growth 2023 "AG2023" medium-term business plan. What is your assessment of the current situation?

Under AG2023 medium-term business plan, we established three subsegments under our Industrial Automation and Control Business that are structured on an industry basis, in line with our customers' businesses. Classified as the Energy & Sustainability, Materials, and Life businesses, these subsegments encompass the regional offices, which are our points of direct contact with customers, thus revitalizing our approach to industries that we previously were not addressing fully. This has led to a substantial increase in orders. In each region, we have seen an increase in proposals by our regional subsidiaries targeting industries, such as

functional chemicals, food, pharmaceuticals, and water, that previously had been covered mainly in Japan. Orders have grown significantly, not only for project-based business, but also for products (industrial instruments and sensors).

It took some time to get back on track after restructuring, but we have succeeded in building an organization that is better able to grow our businesses through global cooperation. We will continue to strengthen this global cooperation and work to put in place measures to optimize our business processes.

Q What specific measures are being taken to foster global cooperation and optimize business processes?

We are pursuing four transformation projects. ■ The first project involves structural reform, targeting our organizational structure and management system. The previously mentioned shift to an industry business subsegment structure is one such initiative of this project.

The second project is for the transformation of business processes. We are optimizing operations by standardizing individual business processes and enhancing connections between them. In parallel, we are also moving forward with plans to switch over to a new enterprise resource planning (ERP) system. The third project involves the deployment of a new customer relationship management (CRM) system. We previously used separate marketing, sales, and service systems at each of our regional offices, and these were optimized for each region. Now, our customer information is managed centrally using an integrated global system that is connected to each of our business processes. This has enabled us to provide consistent services, from inquiries and quotations all the way to post installation customer support. The fourth transformation project concerns human resources, our most important asset. It comprises the development of human resources data infrastructure and the unification of HR systems. By enabling the visualization of human resources data, we will be better able to ascertain the capabilities of our personnel around the world, secure the necessary talent, and optimize the assignment of people to positions across the entire group. To this end, we must also clarify the roles and responsibilities of each of our employees. Until now, the HR organization looked after all aspects of HR management and watched over human resources as a whole, but we will create a framework to reflect the perspectives of business execution organization into these processes.

Our initiatives to achieve these four transformation projects represent, if you like, a transition from the previous locally optimized state to one of overall optimization. To this end, starting with the planning of a "grand design," we are steadily taking the steps needed to establish a strong foundation for sustained growth.

For the details, see the review of the four basic strategies on page 52.



Q The operating income ratio in the previous fiscal year (FY 2022) was 9.7%, almost reaching the AG2023 target of 10%. Is this an indication that the AG2023 initiatives are bearing fruit?

Overall, our earning power is still too weak. Sales certainly increased, but excluding the impact of exchange rates, sales were actually at about the same level as last year. That being said, it's also true that these results were not only due to the tailwind provided by exchange rates. In a tough business environment with persistently high logistics costs, rising energy prices, parts procurement difficulties, and rising prices for same, the dedicated efforts of our employees at each site to build up sales and control costs have contributed greatly to boosting profit.

Our overall earning power is gradually getting stronger, but there is a growing awareness within the Group that we must become more profitable. By boosting efficiency and transforming mindsets through the four aforementioned transformation projects, we hope to achieve a level of profitability that compares favorably with that of our global competitors.

Q What do you think is the greatest challenge in boosting profitability?

The SG&A expense ratio is key. Our outside directors, too, are always very strict on this point. Reducing the SG&A ratio is not simply a matter of cost-cutting. It's vital that we steadily grow sales while ensuring efficiency. For this reason, we need to raise the level of productivity of each individual employee.

To achieve this, it's crucial to eliminate waste within the Group and review the intrinsic value of our work. This includes, for example, our business processes, working styles, the allocation of human resources, and our product portfolio. By using less capital to generate the maximum possible net sales and profit, we will improve capital efficiency. Again, it is necessary to change how we operate. For example, while it may be true that our customers are pleased with our efforts to respond to each request with a custom-made response, there have been cases where both the customer and Yokogawa have subsequently had to devote more time, money, and effort to maintenance and software modification, something that would not have been necessary if standard specifications had been used. It could be concluded that both we and our customers would benefit from using standard specifications, wherever possible. Of course, each project has unique circumstances. We must always make a conscious effort to optimize value for ourselves and our customers, while maintaining a balanced perspective. Even if we understand this at a theoretical level, on an individual and practical level, it tends to get buried under particulars. We must work steadily to overcome each challenge, one at a time. As a first step, I hope to make all employees firmly conscious of the value of the work that they perform. It is important to share the information that our employees need to make decisions on their own and take timely action. At present, however, I think that there are bottlenecks here and there that are hindering the flow of information around the Group. I regard this as one of our challenges. The term "capital efficiency" may sound somewhat overblown, but we are considering from a wide range of perspectives how to encourage our employees to act autonomously and combine their strengths in a way that would allow us to improve productivity.

Q What progress has been achieved with AG2023's "Expansion of value provided" strategy, and what do you perceive as the challenges?

We have pursued a broad range of initiatives and achieved results. One of these initiatives has been the establishment of Yokogawa Digital Corporation. This company provides services ranging from consulting to system implementation and maintenance, leveraging digital technology to present solutions to customers' business challenges and management issues. The consulting side of their business is still small in scale, but they are also able to offer products and other solutions and propose comprehensive service solutions covering a wide range of processes over the entire life cycle of a facility. We intend to leverage this strength to provide greater value to our customers.

Yokogawa holds workshops with a wide range of customers regarding their vision for where they wish to be in the next ten or twenty years and develops approaches for the concrete execution of strategies that will achieve customers' goals. Of course, our customers place great faith in Yokogawa's ability to propose solutions. However, I think what is needed even more than that is the ability to implement and make these proposals a reality. In terms of our capability to come up with proposals, our human resources, including younger professionals, are developing. At the same time, I am aware that there are challenges in terms of our capacity for implementing proposals in such areas as DX and IT. We will continue to strengthen and secure the human resources needed to cover the DX and IT fields.

Looking back on the initiatives we have undertaken over the past two years, I am conscious of the need to further accelerate our efforts to grow the Life business and transform our business models, and I recognize this as a challenge. Regarding the transformation of business models, we are targeting growth through new business models, mainly cloud-based recurring, subscription in the DX domain. We anticipate that these business models will be applied in fields, such as energy management, predictive equipment maintenance, and security. We have conducted numerous proof-of-concept (PoC) trials over the past two years, and are finally beginning to see some results. In fiscal year 2023, the final year under AG2023, we hope to achieve business results and lay the foundation that will lead to further growth in the future.

Q Tell us about the progress and results of the growth investments to expand value provision.

Under AG2023, we set aside ¥70 billion for investment in growth. Over the past two years, we have invested around ¥25 billion in M&A, alliances, and the like. Some may see this as a lack of progress, but we are constantly going through long and short lists of potential partners to identify M&A and alliance targets. Companies that have joined the Group over the past two years include PXiSE Energy Solutions, LLC and Dublix Technology ApS in the renewable energy field, Insilico Biotechnology AG in the biotech field, Fluence Analytics, Inc., which possesses proprietary chemical process technologies in the IA business, and Votiva Singapore Pte, Ltd. in the DX domain. We are still in the process of establishing the foundation and setting up the sales networks needed to expand these businesses, and it will take some time before we can reap the benefits. Looking ahead, we hope to accelerate the scaling up of our business, including the expansion of our customer base, through M&A and other means.

In this context, we are looking forward to seeing results from our SynCrest Inc. joint venture with Otsuka Chemical Co., Ltd. SynCrest is engaged in the CRDMO*¹ business in the medical field, focusing on middle-molecule pharmaceuticals. The combination of Otsuka Chemical's cutting-edge continuous production flow synthesis technology, middle-molecular drug manufacturing technology, and GMP*² management know-how with Yokogawa's measurement and control technologies is expected to significantly improve productivity and facilitate the provision of products and services.



*1 CRDMO: Contract Research, Development, and Manufacturing Organization

*2 GMP: Good Manufacturing Practice. Standards for manufacturing and quality control for the production of safe and effective pharmaceuticals and foods. Each country has its own rules and guidelines.

Initiatives and Challenges in the Pursuit of the Medium- to Long-Term Vision

Q Yokogawa is working to provide value based on the System of Systems concept, but it is difficult to grasp what this actually entails. How, in this sense, does Yokogawa aim to provide value to customers and society?

System of Systems is not just a huge collection of connected systems; rather, it is a system of independently operated and managed systems that work together to achieve a purpose that cannot be achieved by any one system. A smart city is a good example. All the elements that make up a smart city –from its energy systems and other infrastructure to the companies conducting economic activities, their employees, consumers, and households – influence each other. The overall optimization of a smart city not only improves efficiency, but also results in the creation of new lifestyles and new types of value. As society moves toward this model, Yokogawa will be able to demonstrate its strengths.

One concrete example of our initiatives is the cooperation between industries at an industrial complex located in the Goi and Soga districts of Ichihara City in Chiba Prefecture. In this initiative, Yokogawa is working with nine companies that do business in the energy, petrochemicals, chemicals, steel, materials, and other industries. This concerns the introduction of an inter-industry operative energy management system that will reduce CO₂ emissions, and we are considering its commercialization by the year 2030. We are also considering other measures that will be needed to accomplish the goal of making this complex carbon neutral by 2050. In the past, sustainability initiatives were mainly implemented at the individual plant or company level. By cooperating to achieve overall optimization across multiple companies and communities, we hope to generate substantial value for society as a whole. That is our vision for the future. It is Yokogawa's role to connect this all together, utilizing CO₂ emissions, utility usage, and other kinds of data from our customers to propose mechanisms that will achieve overall optimization.

This work is absolutely vital in order to achieve carbon neutrality for society as a whole. However, developing this into a business and figuring out how to put a price on the value that is provided is not easy. It might be possible to form an organization such as a cooperative and for each member company to pay a portion of the operating costs, or a leading company in a community or industry cluster could organize and manage this work, but these approaches become increasingly difficult to implement as the scale increases. We are trying to find the best way forward through a process of trial and error.

Q You explained that it is not easy to realize the System of Systems concept. So why is Yokogawa taking on this challenge in such a difficult domain?

Yokogawa's businesses target mission-critical operations that must not be interrupted under any circumstance, and the systems and products that we provide must therefore be extraordinarily safe and reliable. Our strength lies in the trust-based relationships that we have built up with our customers through the continual, long-term provision of products and services that meet their needs. By taking instead a path of least resistance and picking easy objectives that anyone could accomplish, we would end up in a highly competitive "red ocean market" in which there is little chance of getting ahead. In that sense, we regard the challenge of the System of Systems concept as our mission, precisely because of its difficulty.



Q You mentioned Yokogawa's trust-based relationships with customers as a strength in your provision of value through the System of Systems concept. Why do you think your customers choose Yokogawa?

Yokogawa has an excellent reputation among our customers for the trustworthiness of our products, our project delivery capabilities, and our service systems. Our customers also value our perseverance in bringing all jobs to completion. Our customers operate in mission-critical domains and therefore use extremely stringent criteria to evaluate suppliers. There was a time when Yokogawa, too, had difficulty gaining a response from the companies that it approached. This required numerous visits, as well as the evaluation and testing of our products from various perspectives, before a company finally recognized us and agreed to give us a trial. Even after adopting our products, our customers are always observing our attitude and response. We understand that the trust we enjoy today is based on our long track record of success in numerous projects over the years and our ability to deliver products, solutions, and services that elicit a very positive response from our customers.

Q Unlike the conventional Industrial Automation and Control Business, the System of Systems domain will require a wide variety of solutions and technological capabilities, including in the IT field. In this regard, how do you think Yokogawa is positioned?

We do not have sufficient IT capabilities or personnel with expertise in this area, and recognize this is as a challenge. However, we intend to integrate whatever is needed to create value for our customers, so it will not actually be necessary for Yokogawa to have all capabilities in-house. Of course, it would be preferable to be able to use our own products for all core applications, but it is not practically possible to develop everything internally. We handle robotics, for example, but do not develop our own robots. In other words, we have the ability to work with robots and integrate them in our solutions. In addition to our own AI products, we are flexible about using other companies' AI. We take a similar approach with IT and security. We form partnerships with IT companies that have strengths in a particular region and domain and collaborate with them to provide whatever solutions are required. With this approach, our customers can feel secure. Looking ahead, we hope that Yokogawa will be recognized for its ability to put together and manage projects, including in the IT domain.

Q How do you intend to build the strong workforce that will be needed to achieve your medium- to long-term vision?

Right at the start of this interview, I mentioned our four transformation projects. Forward progress with our initiatives cannot be achieved without the individual efforts of all our employees. Our people, therefore, are our most important resource, and without having a system in place that will enable them to grow and make full use of their abilities, the company will not be able to grow.

It is obvious that we need specialists in fields like IT. At the same time, personnel who are capable of keeping things moving ahead based on a broad, high-level understanding beginning with the customer perspective—generalists or concierge-type human resources—are also crucial to Yokogawa's businesses. These are personnel who, for example, are able to comprehend a customer issue, assign an appropriate specialist, observe the situation and determine the appropriate course of action, monitor every aspect of the business, and link everything together and get it moving.



They are people who are imaginative and can make proactive proposals to customers. We have not been able to effectively utilize such valuable personnel because we have lacked organizational flexibility. Moreover, an insufficient ability to visualize HR information meant that we could not provide adequate opportunities for them to gain experience or systematically develop their skills. Now, as one of our four transformation projects, we are making maintenance for an HR system that includes mechanisms for the visualization of human resource data and the optimal assignment of talent. In order to develop personnel who have the comprehensive and high-level perspective that I have just described, we need to provide opportunities for them to get many kinds of experience, rather than working at a single job in a single place. This is something we must engage in as an organization. We will discover a diverse range of talent across the Yokogawa Group, and through the growth of these individuals enable the entire Group to sustain its growth. We are already undertaking a wide range of initiatives. For example, we have significantly boosted human resources mobility through the introduction of an Open Job Posting System. I feel that we are making gradual progress toward greater organizational flexibility.

Contributing to Sustainability through Our Business

Q Sustainability is a key issue for companies. For Yokogawa, it also seems to be a business opportunity. What is the status of initiatives in this area?

We are starting to see some great results. For example, in the Dutch port of Rotterdam, Yokogawa is in charge of optimizing operations as a system and product integrator for Europe's largest green hydrogen project, being undertaken by Shell. In this project, our job is to integrate the systems and equipment related to plant control. This is one example of the overall optimization that is possible through the System of Systems concept that we have been discussing. We also are providing an integrated control system for the largest commercial green hydrogen project in Australia, and are undertaking an increasing number of renewable energy projects. Moreover, the company has conducted a field test of a Yokogawa AI-based autonomous control system that successfully controlled the operation of a distillation column at an ENEOS Materials Corporation chemical plant for an entire year. For operations that previously had necessitated manual control procedures, this solution was successful not only in maintaining quality and reducing workload, but also in reducing steam consumption and CO₂ emissions by 40%, making a significant contribution to this customer's sustainability management.

In another example, with water shortages becoming an increasingly serious issue globally, we have succeeded in optimizing operations at a water recycling facility in California. We are now receiving inquiries and requests for consultation from companies all over the world that have heard about this project. We also are providing systems to seawater desalination facilities in the Middle East, and each of these projects is making an important contribution to sustainability—not only providing a source of water, but also reducing the energy consumed by desalination plants and substantially cutting their CO₂ emissions.

In other areas of our business, a silicon resonant pressure sensor developed by Yokogawa has been adopted for use in tsunami detection by the Nankai Trough Seafloor Observation Network for Earthquakes and Tsunamis (N-net). This too may be characterized as a contribution to sustainability.

As the world population continues to grow, it is vital to maintain the supply of energy and resources. At the same time, it is also necessary to reduce CO₂ emissions. Achieving this represents a huge challenge, both for society and our customers. For

example, our customers in the energy industry are endeavoring to meet the continuing need for fossil fuels while at the same time transitioning to green energy sources. Yokogawa is contributing in a variety of ways, such as working with its customers to boost productivity and reduce their CO₂ emissions, as in the case just described, and we will have numerous similar opportunities in the future. We are proud to be recognized by our customers as a long-term partner.

Message to Stakeholders

Q We now understand what Yokogawa is doing to accomplish its vision for the future. In closing, do you have any messages for Yokogawa's shareholders and other stakeholders?

At Yokogawa, we strive to respond to the trust placed in us by all our stakeholders, including shareholders, customers, business partners, members of the local community, society, and employees. We endeavor to achieve sustainable growth and maximize corporate value over the medium to long term. We also think it is important to boost engagement. We consider it vital to encourage understanding of our initiatives through information disclosure, including through corporate briefings, dialogue sessions with shareholders and investors, and other forums. We receive a wide range of assessments and opinions from investors, as well as expressions of hope and anticipation, and we think it is crucial that we respond to these by, first and foremost, achieving solid results each fiscal year.

The words of one investor, some time ago, left a deep impression in my mind: "It is the passion of your employees that will make your vision for the company a reality. I'll be watching your approach as President: how you arouse and motivate this passion and how you captain the Yokogawa vessel." Human resources are key. We are now working hard to put mechanisms in place that will enable our people to play an active role, and through these mechanisms, we would like to create a climate that will allow each and every employee to realize his or her full potential.

