

Round-Table Discussion
with Outside Directors

Shiro Sugata

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Akira Uchida

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Kuniko Urano

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Takuya Hirano

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Laying a solid foundation for the next medium-term
business plan and making the most of Yokogawa's
strengths to achieve sustainable growth

Evaluation of the medium-term business plan at the two-year point

Fiscal year 2022 was the second year of the Accelerate Growth 2023 medium-term business plan. What is your assessment of the initiatives undertaken over the past two years?

The two-year period during which our three business
subsegments and four basic strategies began to
operate toward the long-term goals for 2030

Shiro Sugata Under the current medium-term business plan, Yokogawa has restructured from a conventional product/function-based organization to an industry-based organization, and has divided the industrial automation and control business segment into Energy & Sustainability, Materials, and Life business subsegments. The orders received in each business are trending upwards, and the achievement of our goals for business expansion and a speedier shift to a solutions business is now in sight. I think this has been our greatest achievement over the past two years. I think that a certain level of achievement can be seen toward the next medium-term business plan starting in 2024.

Akira Uchida I also feel that the three subsegments created through Yokogawa's restructuring of its organization have begun to function effectively over the past two years. Next, however, there is a need for greater clarity regarding the profit responsibilities of these three subsegments so that each can truly function as a strategic business unit (SBU).

To create strategies for the launch of new businesses under the medium-term business plan, we used an Ansoff Matrix that contrasts new and old markets, with new and old products and technologies.

Initially, many new markets and technologies were considered, but as these discussions became more focused, they gradually turned toward the exploitation of new fields where Yokogawa has some degree of strength. I regard this as a very positive thing. I do, however, have the impression that we should identify our priorities and reduce the number of key themes.


Kuniko Urano I was appointed to the position of outside director right when the current medium-term business plan was being launched. As Mr. Sugata and Mr. Uchida have mentioned, the division of the industrial automation and control business into three subsegments has really led to expansion of our addressable markets, and I am very happy with this approach.

One of the key points of the medium-term business plan has been the establishment of a long-term vision for 2030 and the implementation of a back-casting approach based on this vision. The process of sowing and reaping is not limited to three-year initiatives, and it is excellent that Yokogawa has been able to share with all officers and employees its long-term vision for 2030.


Mr. Sugata Business results are improving, but I would like to point out that this is partly attributable to fluctuations in foreign exchange rates. In this sense, profitability remains an issue.

Ms. Urano Employees and the management team are all firmly aware of the profitability issue, and Yokogawa's challenges in this area are clear, although we may have to wait until the next medium-term business plan to address them. I believe that the targets and issues defined during this two-year period were quite correct. However, regarding steps for implementation to be taken from now on— and this links back to what Mr. Uchida just mentioned about the need to identify priorities — it will be necessary to discuss where we should focus our efforts.

Mr. Uchida Under the medium-term business plan, we set forth four basic strategies that were linked to the expansion of value provided, profitability and growth in value provision, and strengthening the corporate base. At first, our efforts centered on a company-wide approach, but recently, each business division has become able to develop its own initiatives in line with the four basic strategies. The approach set forth in the medium-term business plan has penetrated throughout the organization, leading to the evolution of new initiatives.

Ms. Urano The four transformation projects,  in particular, despite a difficult birth, have succeeded in identifying issues, setting targets, and creating a common understanding of how to approach these issues among all officers and employees across the Group. Each project is making steady progress, albeit with some differences in pace, and I look forward to seeing them come to fruition.



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

Takuya Hirano A year has passed since I was appointed to the position of outside director. It's been a really exciting year at Yokogawa. Looking back on the past year, I am impressed by the fact that, despite the change in strategies and approach, Yokogawa has kept and upheld what it has stood for— its DNA. This is Yokogawa's spirit of taking care of its customers. I think that Yokogawa's backbone and essential strength lie in its attitude of steadfastly doing its best for its customers and not running away from difficulties. This is also what differentiates it.

I have the same impression as Mr. Sugata, Mr. Uchida, and Ms. Urano regarding the efforts that are being made under

the medium-term business plan. In other words, I feel that the company has clearly defined the categories and domains for its strategies, is targeting these in its business activities, and is beginning to see results.

Yujiro Goto The company I previously worked at used a variety of Yokogawa equipment and systems, and my work



Concerns and issues

You have all noted that the medium-term business plan is generally progressing smoothly. Please tell us your views on Yokogawa's position and the challenges it needs to face to remain globally competitive.

Balancing speed and tenacity Achieving targets requires both a readiness to change course and the tenacity to succeed

Mr. Hirano With its logical approach and emphasis on harmony, Yokogawa has the strength to move ahead with its businesses, but going forward, I think it will be crucial for the company to take challenges in areas, such as speed, agility, and risk-taking.

Yokogawa's global competitors move very quickly and implement corporate acquisitions on a dynamic scale. In addition to its logical and harmonious approach, the company needs to move faster and take risks.

Mr. Uchida The issues on how to go forward with a new business can be divided into three phases: refining an idea into a specific implementation plan, decision-making after the plan is finalized, and implementing those decisions to produce results. In terms of speed, I feel that, in Yokogawa's case, too much time is taken in the first and third phases.

In the first phase, there are cases when the process of collecting and analyzing information takes too much time, or it is difficult to come to a clear conclusion. For example, it is vital to establish industry contacts in a business that requires new technology to determine which companies to partner with. As mentioned earlier, narrowing down our list of priority themes is also essential.

Regarding the third phase, things do not always proceed as planned. For situations like this, it's necessary to have a plan B.

Ms. Urano To be able to move quickly, one must make select and focus. Yokogawa has a culture of tackling every job with sincerity, which is one of its strengths. On the other hand, however, they are not good at letting things go, even if it is a lower-priority work.

directly involved them. I was impressed by the way that Yokogawa's representatives came down onto the factory site and worked earnestly with us to resolve issues. I formed the impression that Yokogawa is a company that looks after its customers and builds relationships with them that are based on trust.

This year, as an outside director, I have reaffirmed my impression that the great aspects of Yokogawa and its hands-on approach, which I remember from my previous positions, are still inherited today. At the same time, in terms of corporate governance, the Group is pursuing highly advanced global initiatives, and I hope to see its continued transformation. I look forward to being involved in the management of Yokogawa.

It will not be possible for Yokogawa to move quickly, unless the management team and the top managers at each site are able to select where to focus their efforts. This is especially true because Yokogawa is in a position to expand into so many businesses through its customers and supply chains.

Mr. Hirano Everyone needs to decide matters swiftly and take action quickly. By clarifying ownership within the Group and ensuring that people are empowered and held accountable, I believe it will be possible to increase speed and agility within the Group and have an impact.

Mr. Sugata Collaboration and alliances with other companies are effective ways to exploit new markets. Looking back on Yokogawa's history, one realizes how necessary it is to take the initiative with collaborations and alliances.

Mr. Uchida The success rate for new businesses is generally low, but it's important to ensure that these new ventures enjoy some degree of success once they complete the research phase and enter the development stage. It's also important to be very tenacious when engaging in new businesses, to make sure they succeed. Resources must be focused on crucial projects, and that will help things move along more quickly.

Mr. Sugata I feel the same way as Mr. Uchida regarding the importance of tenacity. M&A projects, for example, require tenacity to succeed.

Nonetheless, in many cases, they do not progress as planned. Moving quickly is not enough. When things aren't going to plan, it's necessary to consider how to put a project back on track, as originally envisaged. I think a solid, deliberate, and tenacious effort is required to succeed in these projects and keep them on track.

Mr. Hirano "Connectedness" is ever more important in this world. Technologies and businesses are growing more

connected in various ways. In that sense, nurturing businesses that involve other companies could be the key to future growth. This could lead to the formation of even larger markets and enable Yokogawa to create solutions in more markets and increase its market share.



Mr. Sugata Some of us have already described how Yokogawa is continuing to grow thanks to the division of the industrial automation and control business into three subsegments. This type of matrix-based business structure is generally easy to understand and organize, but attention is needed, as it can occasionally lead to confusion in the chain of command and delays in making decisions and taking action. Institutional design is a crucial factor in making sure things move quickly.

Ms. Urano I think there are few companies that could simultaneously pursue the four transformation projects I just mentioned. These four transformation projects are brilliant, in that they encompass all important aspects of foundation-building, including standardization and visualization. However, it is not enough simply to create a framework or a receptacle: what Yokogawa adds or puts into that is also important. I still vividly remember President Nara pointing out that Yokogawa's strength lies in its knowledge and insights (domain knowledge) in specialist fields and industries. I think that carefully analyzing how this domain knowledge has been acquired, accumulated, and inherited as part of our corporate DNA, as well as finding ways to recreate it, will give Yokogawa greater strength.

I would like to see employees who have worked hard to pioneer markets encourage their younger colleagues to boldly take the plunge and experience acquiring domain knowledge for themselves.

Mr. Sugata The four transformation projects involve the introduction and renewal of IT systems, but I think the key point here is what the company hopes to ultimately achieve through these projects. The introduction of new systems tends to attract attention, but attention is needed to ensure that a project does not simply end with the smooth operation of a system that is just a means to an end.

Mr. Goto Yokogawa's customers are also acutely aware of the trend towards digital transformation (DX), over and beyond the introduction of IT systems. Even though they may be aware of the need for change, I feel that some may have grown anxious and have been fumbling around for solutions.

In this context, Yokogawa's customers have great trust in Yokogawa's consulting capabilities. I think that proposals

that go beyond plant automation and enhance efficiency by incorporating this technology into enterprise systems would be extremely attractive to them.

At the same time, Yokogawa's ability to demonstrate its presence and attractiveness in comparison to its competitors is a crucial point.

Mr. Sugata I feel that the 2022 establishment of Yokogawa Digital Corporation, the DX consulting company for the manufacturing industry, is symbolic in terms of Yokogawa's future business development. Expansion of the problem-solving business, with the addition of a control systems consulting function, will enable Yokogawa to transcend its classification as a manufacturing industry company. Taken to the limit, expansion into any business field could become a possibility, and demand could be limitless.

However, as Ms. Urano has pointed out, it's necessary to pay careful attention to how we narrow down our targets and determine a clear direction.

Mr. Goto Our customers' business cultures are not always the same as ours. It's vital to proceed with an understanding of this and find a way to provide solutions, without imposition, that will genuinely delight our customers. To provide technologies and services that our customers can really get excited about, we need to consider how to narrow down our themes. This might involve taking a different route from other companies or using some unique approach and narrowing our focus.

Mr. Hirano We need to change the quality of Yokogawa's internal capabilities and mindset. More people within the company will need to collaborate. I also hope that the definition of success will be refined in the long-term business framework. Toward that end, an appropriate environment must be created for this, and people must be empowered.

Mr. Uchida I said the same thing last year, but I think we need to find a more efficient way to use research and development funds. I think it is necessary to leave the maintenance and improvement of existing products to the manufacturing departments, as far as possible, and use our original research and development activities to steadily create new things that will lead to increased sales. One aspect of this is the need to encourage the fusion of technologies and interactions between people. I believe that this will also give rise to innovation.

Mr. Hirano Yokogawa has technologies that we can all feel proud of, but further innovations are needed, together with a boost in productivity. For example, we need innovations that make full use of a variety of edge technologies, such as cloud computing and AI, that will not only make customers feel secure, but also delight and inspire them. In terms of productivity, I believe that Group company employees need to go beyond the scope of cost control and work to enhance their businesses and enhance internal operations, while staying aware of the impact that the output of their work has.

Yokogawa's strengths and direction

You mentioned Yokogawa's advantages when commenting about the issues we face. At the risk of repetition, please tell us about your views on Yokogawa's strengths and how they should be enhanced.

A one-stop business model and the hardware capabilities that underpin it The warmhearted organization and human resources that are Yokogawa's greatest strengths

Mr. Uchida As everyone has already pointed out, Yokogawa's greatest strength from a customer perspective lies in its capability as a one-stop provider of products, services, and solutions, including after-sales services. This is not something that an IT company can do, and I think it's important that we further develop this strength.

Mr. Sugata Yokogawa's strength as a one-stop value provider is based on its extremely reliable hardware products and technologies. Some of us have commented on Yokogawa's broad business expansion, including a consulting function. Yokogawa's strength lies in the fact that even these new businesses are built on its hardware capabilities. It's vital that the company does not lose this point, but rather strengthens it as it grows.

Mr. Uchida Yokogawa's strong customer base in the oil and gas industries faces headwinds due to the trend toward decarbonization. At first sight, this may appear as a vulnerability, but it is also a huge opportunity. Customers will surely increase their appetite for investment in renewable and new energy sources, not to mention energy conservation, in order to transform their own businesses. By accurately grasping this and building an even stronger track record, the company is in a position to strengthen its Energy & Sustainability business. I think this represents one of Yokogawa's strengths.



Mr. Sugata Taking a long-term perspective that considers the prospect of global warming, there is little doubt that the demand for oil and gas will decline and the demand for other energy sources, such as renewable energy and nuclear energy, will increase. It is crucial that we accurately comprehend this changes in demand.

At the same time, there is increasing mention of the formation of economic blocs due to geopolitics. At the risk of being called overly optimistic, I believe that, over the long

term, countries will inevitably adopt a more global perspective, complementing each other in terms of energy, materials, and products, and offering mutual assistance. I think we need to keep this general trend in mind.



Ms. Urano The other day, I had the opportunity to talk with some of Yokogawa's future leaders. I was impressed by their openness and frankness. They are able to approach customers, be welcomed by them, initiate communications, and build teams. In addition, they have an extremely high level of engineering expertise. I believe that people like them are Yokogawa's true strength.

Mr. Goto I agree. Various types of training are being implemented within the Group, and various experiences of challenges are being shared among employees. I feel that our employees are growing through this. That's not to say that everyone grows in a uniform way. Not everyone is a "typical model" employee, and Yokogawa has a diverse range of people, each with their own individual characteristics and idiosyncrasies.

Based on my experience of having worked for a company that used Yokogawa's products and services, I feel that Yokogawa has a diverse range of human resources, from people with a strong obsession for their work to specialists with exceptional expertise. I think this enables them to communicate honestly with each other, stimulating and motivating each other through their work together.

Ms. Urano I hope to see Yokogawa steadily create an environment where the employees who will lead the Group in the future can continue to stretch themselves, take on greater responsibilities, and make bold moves. I think that increasing the number of such employees is the only way for Yokogawa to leverage the strengths of its businesses and frameworks.

Mr. Hirano As I just mentioned, Yokogawa's strength lies in its warmhearted organization and the personnel who develop their careers in this organization. Yokogawa has formed a corporate culture in which the company takes care of and nurtures its employees, and is devoted to its customers. The time will come, however, when it will no longer be enough for the company to simply respond to whatever requests its

customers make. Human resources will be needed who can make proposals on new ways to create value to customers who may be content with the status quo.

This will sometimes require employees to involve other departments or even other companies for operations that

were previously carried out by their department alone. If this approach is taken with the strategies, innovations, and M&A that all of you have been commenting on, this could have a major and dynamic impact.

Aspirations as outside directors

To conclude, we would like to hear about your aspirations as outside directors and your hopes for Yokogawa's employees.

Committed to raising corporate value Serving as a check, catalyst, and evaluator of the executive team, as it formulates the next medium-term business plan

Mr. Goto If each individual employee understands, accepts, and shares Yokogawa's goals, this will lead to expectations for the future. As an outside director, I hope to contribute to this by ensuring the creation of an appropriate environment and the transformation of mindsets.

Mr. Hirano In my position as an outside director, I hope to maintain a clear view of the external environment as well as a firm understanding of Yokogawa's internal operations, and clearly and openly expressing opinions that will raise the Group's total corporate value.

I realize that this sounds like something of a cliché, but trust and honesty are vital. These qualities will ensure that the company's businesses are properly administrated and managed. I'm eager to tackle with passion to work vigorously to enable Yokogawa to pursue its businesses with speed and energy.

Ms. Urano I believe that Yokogawa is truly a rare company that is able to make a direct contribution through all of its business in dealing with prominent issues, such as ESG management and the achievement of a sustainable society. I, therefore, hope to see all employees pursue the current strategies and initiatives with confidence, without being too swayed by terms like ESG management and sustainable management.

As for myself, I will keep looking for ways to contribute. In my management role as an outside director, I will be committed to ensuring that everyone can achieve results by ensuring that they are aware of the need for speed in moving things forward and have a sense of ownership for the initiatives that they undertake.

Mr. Uchida I hope to contribute by leveraging the insights and know-how gained from my previous career experience to nurture the development of new businesses for Yokogawa.

At the same time, Yokogawa is presently considering changes in its institutional design that will improve the effectiveness of the Board of Directors and the quality of its execution. I have direct experience in the formulation of Corporate Governance Code, and hope to use the insights that I have gained to make a contribution in this area.

Mr. Sugata As an outside director, I hope to serve as a check and as a catalyst to enable the executive team to take more appropriate and efficient action as they work toward their targets. Yokogawa's outside directors have experience in a wide range of industries. I think that we can give the executive team new ideas and provide a fresh perspective by telling different ways of thinking and perspectives. I refer to this as our catalytic function. As outside directors, we have an important role to play as a check and a catalyst.

Another role of the outside directors is evaluation. I prefer to use the term "evaluation" rather than "supervision." I believe the current medium-term business plan should be thoroughly evaluated and summarized when formulating the next medium-term business plan.

Of course, the role of an outside director does not end after just one year. I hope to make preparations and take action to help Yokogawa grow through the next fiscal year and beyond.

