The Group has established a corporate philosophy, the Yokogawa Philosophy, and Standards of Business Conduct for the Yokogawa Group that apply to the entire Group, and strives to have appropriate relationships with all stakeholders as well as aims for sustainable corporate growth and increased corporate value over the medium to long term. In addition, based on the philosophy that “a company is a public entity of society,” the Group positions answering the trust of all stakeholders, including shareholders, customers, business partners, society, and employees, via sound and sustainable growth, as the basic mission of its corporate management.

In order to maximize its corporate value, the Group believes that efforts such as thorough compliance, appropriate risk management, and information disclosure in order to ensure constructive dialogue with shareholders and other stakeholders are important. The Group formulates and discloses these Yokogawa Corporate Governance Guidelines which serve as the basic policy for continually working on corporate governance in line with the above views.


### Enhancing Corporate Governance

<table>
<thead>
<tr>
<th>Year</th>
<th>President</th>
<th>Outside directors</th>
<th>Voluntary advisory body</th>
<th>Compensation system</th>
<th>Systems and policies</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Shuzo Kaimori</td>
<td>2009: 3 directors 2015: 4 directors</td>
<td></td>
<td>2016 Introduced a restricted stock compensation plan (RS)</td>
<td>2011 Renewed takeover defense measures</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Takashi Nishijima</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>Hitoshi Nara</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **2004**: Abolished retirement bonuses for directors
- **2006**: Revised articles of incorporation to reduce number of directors (25→15)
- **2007**: Introduced one year tenure system for directors
- **2011**: Renewed takeover defense measures
- **2014**: Discontinued (abolished) takeover defense measures
- **2015**: Established the Company’s Independence Standards
- **2015**: Conducted outside evaluation of the Board of Directors*

*Once every three years. Self-evaluation in other years.
Composition of the management team (As of July 1, 2019)

Directors

Audit & Supervisory Board Members

Officers

Examples of agenda items at the Board of Directors in FY2018

Principal activities at the Board of Directors in Fiscal Year 2018

Advisory Committee Members (As of July 1, 2019)

Nomination Advisory Committee

Compensation Advisory Committee
Management Team (As of July 1, 2019)

Directors

01
Takashi Nishijima
Chairman
Date of Birth: Aug. 12, 1957
Number of years since appointment as a director: 8 years

02
Hitoshi Nara
President and Chief Executive Officer
Date of Birth: Jan. 13, 1963
Number of years since appointment as a director: 8 years

03
Junichi Anabuki
Director, Executive Vice President
Head of Corporate Administrative Headquarters
Date of Birth: Nov. 18, 1963
Number of years since appointment as a director: 8 years

04
Dai Yu
Director, Senior Vice President
Head of Digital Enterprise Business Headquarters
Date of Birth: Feb. 25, 1963

05
Noritaka Uji
Outside Director, Chairman of the Board
Date of Birth: Mar. 27, 1949
Number of years since appointment as an outside director: 3 years

06
Nobuo Seki
Outside Director
Date of Birth: Sep. 21, 1944
Number of years since appointment as an outside director: 5 years

07
Shiro Sugata
Outside Director
Date of Birth: Nov. 27, 1949
Number of years since appointment as an outside director: 3 years

08
Akira Uchida
Outside Director
Date of Birth: Oct. 4, 1953
Number of years since appointment as an outside director: 5 years

09
Koichi Chuo
Audit & Supervisory Board Member
Date of Birth: Sep. 26, 1954
Number of years since appointment as a member of the Audit & Supervisory Board: 3 years

10
Kouji Maemura
Audit & Supervisory Board Member
Date of Birth: May 21, 1956
Number of years since appointment as a member of the Audit & Supervisory Board: 2 years

11
Zenichi Shishido
Outside Member, Audit & Supervisory Board
Date of Birth: Aug. 28, 1956
Number of years since appointment as a member of the Audit & Supervisory Board: 7 years

12
Yasuko Takayama
Outside Member, Audit & Supervisory Board
Date of Birth: Mar. 8, 1958
Number of years since appointment as a member of the Audit & Supervisory Board: 5 years

13
Makoto Ohsawa
Outside Member, Audit & Supervisory Board
Date of Birth: Feb. 20, 1958
Number of years since appointment as a member of the Audit & Supervisory Board: 2 years

Audit & Supervisory Board Members

04 Newly elected

05 Newly elected

07 Newly elected

08 Newly elected

13 Newly elected
Attendace in Fiscal Year 2018

<table>
<thead>
<tr>
<th>Name</th>
<th>Attendance at Board of Directors meetings</th>
<th>Attendance at Audit &amp; Supervisory Board meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shuzo Kaihori</td>
<td>100% (4/4)</td>
<td></td>
</tr>
<tr>
<td>Takashi Nishijima</td>
<td>100% (15/15)</td>
<td></td>
</tr>
<tr>
<td>Satoru Kurosou</td>
<td>100% (15/15)</td>
<td></td>
</tr>
<tr>
<td>Hitoshi Nara</td>
<td>100% (15/15)</td>
<td></td>
</tr>
<tr>
<td>Masatoshi Nakahara</td>
<td>100% (15/15)</td>
<td></td>
</tr>
<tr>
<td>Junichi Anabuki</td>
<td>100% (15/15)</td>
<td></td>
</tr>
<tr>
<td>Mitsudo Urano</td>
<td>100% (15/15)</td>
<td></td>
</tr>
<tr>
<td>Noritaka Uji</td>
<td>100% (15/15)</td>
<td></td>
</tr>
<tr>
<td>Nobuo Seki</td>
<td>100% (15/15)</td>
<td></td>
</tr>
<tr>
<td>Shiro Sugata</td>
<td>100% (15/15)</td>
<td></td>
</tr>
</tbody>
</table>

Introducing a New Director

I am Dai Yu, Senior Vice President, Head of Digital Enterprise Business Headquarters (DE BHQ), and recently joined the Board of Directors.

I received a Ph.D. in Industry Automation from a Chinese university and pursued a career in petrochemical industry. Before joining Yokogawa, I used to work at Shell Nanha PJT and Shell Chemicals Asia Pacific & Middle East Headquarters, during which time I gained the impression that Yokogawa is a global leader in the IA and measurement industry with high-quality products and services, particularly impressed by the excellence of Yokogawa’s industrial solutions, its attitude and capability to create values together with its customers.

I am currently in charge of the DE BHQ, which can make the most of this experience and knowledge of my background. In order to achieve TF2020 targets, the DE BHQ aims to co-innovate with its customers to achieve a digital transformation for customers using the total solutions and services. We also manage and develop a global solution portfolio for the control business in cooperation with related CMUs and all RHQs, aiming to grow our solution business and enable global activities in a wider range of industries.

As a person in charge of management, I promise to be agile in the response to business trends, transform our business through TF2020, create new value through co-innovation with customers, maximize the value created by our customers’ business activities, achieve sustainable growth, and contribute to increasing YOKOGAWA’s corporate value.

Dai Yu
Director

Japan’s Corporate Governance Code was revised last year, further spurring governance reforms in Japanese corporations. The low-profitability of Japanese companies is evidence of the strong need for corporate governance reforms in Japan. Lack of transparency in corporate activities has led many to question whether the companies are managing their businesses properly to ensure that appropriate risks are taken and earnings are commensurate with capital. Yokogawa Electric Corporation has stayed ahead of this trend by increasing the number of outside directors and taking other steps to strengthen the effectiveness of the Board of Directors, while ensuring transparency, sound, and appropriate management practices. It is a great honor to be appointed as an outside director of this company, which has an outstanding track record with such initiatives, but I also feel the weight of a great responsibility.

Governance reform is an endless process, and even a pioneering company like Yokogawa is expected to constantly review its policies to meet the needs of the times and further enhance their effectiveness. And that, I think, is the role expected of outside directors.

I spent 44 years at Toray Industries, Inc., a basic materials company, working primarily in finance and accounting but also undertaking duties in such areas as new project planning, corporate planning, CSR, IR, PR, and advertising. In government conferences and economic organizations, I was given the opportunity to engage in discussions on the topic of corporate governance. I hope to play a role, however small, in contributing to the sustainable development of the Yokogawa Group by applying the expertise I have gained from my experience while remaining mindful of the importance of looking at things from a medium- to long-term perspective.

Akira Uchida
Director

Note 1: For Director Shuzo Kaihori and outside member of Audit & Supervisory Board Izumi Yamashita, we have described his attendance of the Board of Directors meetings and Audit & Supervisory Board meetings convened before he retired the position on June 26, 2018.

Note 2: For outside member of Audit & Supervisory Board Makoto Ohsawa, we have described his attendance of the Board of Directors meetings and Audit & Supervisory Board meetings convened since he assumed the position on June 26, 2018.
The Board of Directors, of which a meeting is held once a month in principle, is comprised of eight Directors including four independent Outside Directors, aiming to achieve sustainable growth and an increase in corporate value of the Group over the medium to long term as a decision-making body. To achieve these goals, the Board of Directors improves profit-earning capability and capital efficiency, and determines the general direction of the Group, including corporate strategies. Also, in addition to monitoring and supervising the execution of business by management, including Directors and officers, the Board of Directors develops provisions related to the execution of duties by Directors, and establishes a framework to take supervision responsibility related to the execution of business.

A non-executive Director shall, in principle, act as the Chairman of the Board of Directors in order to separate the execution and supervision of business, and the Chairman of the Board of Directors shall strive to conduct the meeting of the Board of Directors in a way which creates a place for holding free and open discussions and concrete debates. Currently, Mr. Noritaka Uji, Outside Director, chairs the Board of Directors.

With respect to subjects such as nomination of director candidates and audit & supervisory board member candidates, evaluation, appointment and dismissal of representative director and president, appointment and dismissal of officers, proposals for dismissal of directors and audit & supervisory board members, the Nomination Advisory Committee shall provide recommendation to the Board of Directors following deliberations made in accordance with the standard and procedure prescribed to ensure optimal placement for the Group’s sustainable growth and corporate governance from the perspective of all stakeholders.

The Nomination Advisory Committee shall be comprised of three or more Directors and a majority of members shall be independent Outside Directors. Currently, there are six members, comprising the Chairman, President and Chief Executive Officer, and four independent Outside Directors, and the role of chairperson is performed by the Chairman, Takashi Nishijima.

The Compensation Advisory Committee shall provide recommendation to the Board of Directors so that the compensation system and compensation for Directors and officers promote appropriate challenges targeting the Group’s growth, help to hire and retain excellent human resources, and which are suitable from the perspectives of all stakeholders.

The Compensation Advisory Committee shall be comprised of three or more Directors and a majority of members shall be independent Outside Directors. Currently, there are six members, comprising the Chairman, President and Chief Executive Officer, and four independent Outside Directors, and the role of chairperson is performed by Outside Director and chairman of the Board of Directors, Noritaka Uji.
Outside directors are the majority of the members of the Nomination Advisory Committee and the Compensation Advisory Committee.

To separate the execution and supervision of business, an outside director who is a non-executive director was appointed as the chairman of the Board of Directors.

Audit & Supervisory Board
Meetings in 2018

The Audit & Supervisory Board is comprised of five members in total, which consist of two standing members and three outside members, and its meeting is held once a month in principle. In order to ensure the Group’s sustainable growth and corporate soundness, the Audit & Supervisory Board shall make appropriate decisions and express its opinions from an independent and objective standpoint. Also, based on laws and regulations as well as the Auditing Standards for Audit & Supervisory Board Members and the Rules Governing the Audit & Supervisory Board, the Audit & Supervisory Board shall receive reports from each audit & supervisory board member on important matters related to audits, deliberate, and pass resolutions as necessary.

Audit & supervisory board members perform audit & supervisory board member audits in accordance with the annual audit plan that specifies priority audit items. Audit & supervisory board members attend meetings of the Board of Directors and the Management Board and other important meetings, and hold regular meetings with departments that are in charge of internal audits, legal affairs and business ethics which promotes the compliance framework, and exchange and share information about the activities of each, as well as proactively offer opinions.

In addition, the Audit & Supervisory Board members deepen mutual cooperation with the accounting auditor and exchange information with the accounting auditor regularly and as needed to improve the quality of audits by both sides and make the audits more efficient.

Management Board
Meetings in 2018

The Board of Directors delegates decision-making related to the execution of business to the Management Board to promote swift decision-making. The Management Board, of which a meeting is held once a month in principle, is comprised of the President and Chief Executive Officer and officers. In addition, matters for resolution to be made by the Management Board and other matters shall be reported to the Board of Directors.
**Board of Directors**

The Board of Directors shall be composed so as to be well balanced in knowledge, experience, and capabilities to effectively fulfill its roles and responsibilities, and it shall be constituted in such a manner as to achieve both diversity and appropriate size.

In line with the provisions of the Articles of Incorporation, the number of directors shall be no more than 15, and at least one-third of the directors shall be independent outside directors. In order to practice management backed by the trust of shareholders, the term of office for the directors of the Company is set as one year. At the Board of Directors, transparency and the speed of decision-making are improved through deliberations between directors who are well versed in the Company's business and outside directors who maintain a high degree of independence. In addition, audit & supervisory board members, including outside members of audit & supervisory board, shall work to enhance the management audit function by strictly auditing the legality and rationality of the work carried out by directors and the validity of their decision making processes.

To increase transparency in the appointment of outside directors and outside Audit & Supervisory Board members, the Board of Directors passed a resolution on the Company's Independence Standards in fiscal year 2014. Evaluation of the Board of Directors is performed every year in order to further enhance appropriateness of the execution of duties by directors and to improve efficiency through objective analysis and evaluation regarding the effectiveness of the Board of Directors.

**Evaluation of the Board of Directors**

Based on the evaluations of each director and audit & supervisory board member, each year the Board of Directors shall identify issues for further boosting the strengths and effectiveness of the Board of Directors. In addition to analysis and evaluations in order to clarify the points that should be emphasized when working on each issue and striving to enhance corporate governance, the overview of the outcomes shall be disclosed in a timely and proper manner.

**Status of response to issues identified in fiscal year 2017**

In fiscal year 2017, since setting agendas that need to be deliberated from the viewpoint of Outside Directors contributes to an increase in objectivity and transparency and further improvement in corporate governance in the oversight of business execution, implementation of prior deliberation to set the agenda for Board of Directors meetings was identified as an issue. In fiscal year 2018, based on this agenda setting practice, deliberations were conducted with progress of the entire Company's and each department's measures toward transformation in Transformation2020, a mid-term management plan, structure of selling, general and administrative expenses of the Company, and others set as agendas. In addition, deliberations were also conducted on management issues identified at the outside officers’ meeting in 2018, which were set as an agenda. The cycle in which contents of deliberations at Board of Directors meetings are fed back to the executive side and the Board of Directors confirms the progress has been implemented.

**Method of conducting the evaluation of the Board of Directors in fiscal year 2018**

In fiscal year 2018, because three years passed from the last implementation of the evaluation of the Board of Directors using third-party organizations, the evaluation of the Board of directors was conducted under the support of J-Eurus IR, a third-party organization, to maintain objectivity of the evaluation.

In the evaluation, the said company sat in on Board of Directors meetings and inspected the minutes, and then interviewed the Chairman of the Board of Directors. After that, the said company carried out a questionnaire survey of all Directors and Audit & Supervisory Board Members and interviewed all Directors and Audit & Supervisory Board Members based on results of the survey, and then analyzed the current status of the Board of Directors, summed up the findings and reported them to the Board of Directors. The Board of Directors went through the process of discussing the evaluation results, detection of issues and action plans in light of these findings.

**Summary of the fiscal year 2018 Board of Directors evaluation results**

The summary of results of the evaluation using the third-party organization is as follows:

- A high evaluation regarding composition and general operation of the Board of Directors was received.
- Discussions that drive transformation and encourage sound risk-taking have been held. Going forward, the Board of Directors is expected to conduct discussions more focused on important points by narrowing agendas and other means.
- Outside Directors’ statements from the viewpoint of management and the external viewpoint have largely contributed to discussions. Qualifications and composition of members have been highly praised, and such high-level qualifications and composition are expected to be maintained.

As a result of discussing results of the fiscal year 2018 evaluation after confirming, based on the status of response to issues identified in fiscal year 2017, that the Board of Directors has continued to strive to improve its effectiveness, we confirmed that the Board of Directors functions effectively.

**Future efforts for improvement**

As a result of discussing a future improvement plan with the fiscal year 2018 Board of Directors evaluation results and discussions at the outside officers’ meeting also taken into account, we have decided to implement prior deliberations to set the agenda for Board of Directors meetings as well as to continue to set reporting on progress of measures toward transformation in Transformation2020, a mid-term business plan, and oversee it at the Board of Directors in fiscal year 2019. Furthermore, we are also working to make effective use of time for deliberations to focus on discussions about important points, and improve the quality of discussions. In addition, to maintain the high-level qualifications and compositions of Outside Directors as well as Outside Audit & Supervisory Board Members, the Nomination Advisory Committee is also making efforts to deepen discussions on the process of electing replacements for Outside Directors and Outside Audit & Supervisory Board Members.

Going forward, we will continue to conduct an evaluation of the current status of the Board of Directors annually and strive to improve effectiveness of the Board of Directors.
total of seven independent officers who are registered with the Tokyo Stock Exchange (as of June 25, 2019).

**Audit & Supervisory Board**
The Audit & Supervisory Board shall be composed so as to be well balanced in knowledge, experience, and capabilities to effectively fulfill its roles and responsibilities, and it shall be constituted in such a manner as to achieve both diversity and appropriate size. It is particularly prescribed that the Audit & Supervisory Board shall appoint at least one audit & supervisory board member with sufficient knowledge of finance and accounting.

In line with the provisions in the Articles of Incorporation, the number of audit & supervisory board members shall be no more than five, and at least one-half of the audit & supervisory board members shall be independent outside audit & supervisory board members. The Audit & Supervisory Board shall be comprised entirely of all the audit & supervisory board members.

Based on its resolution, the Audit & Supervisory Board shall appoint at least one standing member of the Audit & Supervisory Board.

**Nomination Advisory Committee and Compensation Advisory Committee**
The Company has established both the Nomination Advisory Committee and the Compensation Advisory Committee as voluntary advisory bodies to give opinions in response to consultations from the Board of Directors regarding nominating Directors and determining compensation.

**<Nomination Advisory Committee>**
The Nomination Advisory Committee makes decisions on items set forth below.
1. Details of the agenda item to be discussed at a meeting of the Board of Directors concerning the appointment of officers or dismissal of officers or the Representative Director
2. Establishment, amendment or abolition of necessary basic policies, regulations, procedures, etc. to enable a decision by the committee regarding a matter stated in item (1).
3. Other matters that the committee recognizes as important in relation to the appointment of candidates, dismissal of officers or removal of the Representative Director stated in item (1).

**<Compensation Advisory Committee>**
The Compensation Advisory Committee makes decisions on items set forth below.
1. Policy in relation to decisions concerning the details of compensation, etc. for directors and executive officers
2. Details of compensation, etc. for each director and executive officer, individually
3. Establishment, amendment or abolition of necessary basic policies, regulations, procedures, etc. to enable a decision by the committee regarding a matter stated in item (2).
4. Other matters that the committee recognizes as important in relation to compensation, etc. pertaining to item (1) or item (2).

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**The policy and procedure for the appointment and dismissal of Directors, Audit & Supervisory Board Members and officers**

**Policy for nomination of Director and Audit & Supervisory Board Member candidates, and appointment of officers**
The Board of Directors shall be composed so as to be well balanced in knowledge, experience, and capabilities to effectively fulfill its roles and responsibilities, and it shall be constituted in such a manner as to achieve both diversity and appropriate size.

Under this premise, human resources that contribute to improvement of corporate governance are nominated as Director and Audit & Supervisory Board Member candidates. Furthermore, human resources that are familiar with the Group’s business and contribute to the appropriate execution of business and supervision of highly effective management and that have experience and knowledge required for formulation of management strategies are appointed at an increase in the Company’s corporate value over the medium to long term and contribute to right management decisions and supervision of highly effective management are nominated as Director candidates, while human resources that are familiar with the Group’s business and contribute to appropriate auditing of management of the Company and Group companies and that have knowledge on accounting, finance, legal affairs and corporate management and contribute to appropriate auditing of management are nominated as Audit & Supervisory Board Member candidates. Officers are appointed after confirmations of whether the candidate has sufficient experience, knowledge, etc. and whether he or she has an intention and attitude suitable for the management are made.

**Procedure for nomination of Director and Audit & Supervisory Board Member candidates, and appointment of officers**
With respect to nomination of Director candidates and Audit & Supervisory Board Member candidates as well as appointment of officers, the Company has established the Nomination Advisory Committee, which is a voluntary advisory body comprised of at least three Directors, of whom a majority are independent Outside Directors based on the resolution of the Board of Directors, in order to enhance the objectivity and transparency of the nomination and appointment.

Matters with respect to nomination of Director candidates and appointment of officers are resolved by the Board of Directors on the basis of recommendation from the Nomination Advisory Committee prepared through deliberations made in accordance with the prescribed standard and procedure for new appointment or reappointment. Matters with respect to nomination of Audit & Supervisory Board Member candidates are resolved by the Board of Directors on the basis of recommendation from the Nomination Advisory Committee prepared through deliberations made in accordance with the prescribed standard and procedure for new appointment and reappointment, upon having gained consent of the Audit & Supervisory Board.

**Policy and procedure for dismissal of Directors and Audit & Supervisory Board Members**
The Nomination Advisory Committee has prescribed the standard and procedure for dismissal of Directors and Audit & Supervisory Board Members. In reference to the deliberation and recommendation from the Nomination Advisory Committee based on the dismissal standard and procedure, the Board of Directors deliberates proposals of dismissal of the Directors and Audit & Supervisory Board Members.

**Policies and procedures for evaluation, new appointment, reappointment, and dismissal of President and Chief Executive Officer**
The Nomination Advisory Committee has also prescribed the standard and procedure for new appointment, reappointment, and dismissal of President and Chief Executive Officer. The evaluation of President and Chief Executive Officer is conducted every year and takes into account basic evaluation criteria that have a quantitative aspect including business performance. The Nomination Advisory Committee ensures objectivity, timeliness, and transparency of processes by recommendations on new appointment, reappointment and dismissal presented to the Board of Directors following deliberation based on the prescribed standard and procedure for new appointment, reappointment, and dismissal in reference to evaluation results and succession plan.

**Policy and procedure for dismissal of officers**
Dismissal of officers is also resolved by the Board of Directors based on the Nomination Advisory Committee’s recommendation and in reference to the prescribed standard and procedure.
Executive compensation and others

Method for determining executive compensation and others

The Company positions its executive compensation plan as an important item in corporate governance, and to increase the objectivity and transparency of Director compensation, has formed a Compensation Advisory Committee, which comprises three or more Directors, based on the resolution of the Board of Directors, with the majority being Outside Directors. This committee deliberates the plans for Director compensation, and reports the result to the Board of Directors as well as decides the amount of individual payments within the limit approved by the General Meeting of Shareholders (*)1. The Board of Directors also respects this report upon determining the plan. Audit & Supervisory Board Member compensation is also determined through discussions among Audit & Supervisory Board Members within the limit approved by the General Meeting of Shareholders (*)2.

(*)1 The annual limit for Director compensation was set at 1,600 million yen by resolution of the 2018 Annual General Meeting of Shareholders convened on June 26, 2018. This does not include employee salaries. The number of the Company’s Directors is no more than 15 in accordance with the provision of the Articles of Incorporation.

(*)2 The annual compensation limit for Audit & Supervisory Board members was set at 150 million yen by resolution of the 2004 Annual General Meeting of Shareholders convened on June 25, 2004. The number of the Company’s Audit & Supervisory Board members is no more than 5 in accordance with the provision of the Articles of Incorporation.

Position, authority and activities of the Compensation Advisory Committee

The Compensation Advisory Committee makes decisions on the items set forth below in order to ensure that the compensation system and compensation for Directors and Executive Officers promote the appropriate challenging attitude toward the Group’s growth, enables hiring and retention of excellent human talent, and fosters a perspective that is held in common with all stakeholders.

1. Policy in relation to decisions concerning the details of compensation, etc. for directors and executive officers
2. Details of compensation, etc. for each director and executive officer, individually
3. Establishment, amendment or abolition of necessary basic policies, regulations, procedures, etc. to enable a decision by the committee regarding a matter stated in item (2).
4. Other matters that the committee recognizes as important in relation to compensation, etc. pertaining to item (1) or item (2).

The Compensation Advisory Committee is currently comprised of six members, which consist of the Chairman, President and Chief Executive Officer, and four Outside Directors, and is chaired by Mr. Noritaka Uji, the Outside Director and Chairman of the Board of Directors.

In the fiscal year ended March 31, 2019, the committee conducted a total of four deliberations, examined appropriateness of performance indicators and formulas for the amounts of performance-linked compensation paid in July 2018 and July 2019 and of the total compensation amount in fiscal year 2019, confirmed the basic policy on executive compensation, and conducted other activities.

Approach to executive compensation

1. Basic policy of the Executive Compensation Plan
   a. Plan that promotes sustainable, medium- to long-term improvement in corporate value
   b. Plan that reflects the medium- to long-term management strategy and strongly motivates the achievement of medium- to long-term management objectives
   c. Plan that prevents bias toward short-term thinking
   d. Plan and monetary amounts that secure and maintain excellent human resources
   e. Plan that includes transparency, fairness, and rationality for stakeholders, decided through an appropriate process to ensure these factors

2. Composition of executive compensation
   Compensation for the Company’s Directors and officers is composed of (a) base compensation, which is fixed component, and (b) performance-linked component
   (b)-1 Annual incentives and (b)-2 medium- to long-term incentives, and levels of compensation are set through a comparison with companies from the same industry and of the same scale as well as in consideration of the Company’s financial conditions.

The specific composition of compensation for executives and officers shall be as follows in accordance with the executive categories.

(a) Base compensation
   With regard to base compensation, the amount is determined in accordance with the role and position as Directors and officers and paid.

(b) Performance-linked compensation
   The Company’s basic approach to the executive compensation plan is as follows.

<table>
<thead>
<tr>
<th>Executive categories</th>
<th>(a)Basic compensation</th>
<th>(b) performance-linked compensation</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (excluding Outside Directors and Non-executive Directors)</td>
<td>○</td>
<td>○</td>
<td>Executive compensation and employee salaries</td>
</tr>
<tr>
<td>Outside Directors and Non-executive Directors</td>
<td>○</td>
<td>-</td>
<td>Executive compensation</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board Members</td>
<td>○</td>
<td>-</td>
<td>Executive compensation</td>
</tr>
<tr>
<td>Outside Audit &amp; Supervisory Board Members</td>
<td>○</td>
<td>-</td>
<td>Executive compensation</td>
</tr>
<tr>
<td>Non-Director officers</td>
<td>○</td>
<td>○</td>
<td>Employee salaries</td>
</tr>
</tbody>
</table>

Note: The performance-linked compensation covers Directors and Non-Director officers and excludes Outside Directors. This is because variable compensation such as performance-linked compensation is not appropriate for Outside Directors and Audit & Supervisory Board Members, who maintain a position independent from the performance of duties, and as such only fixed compensation is paid, identically for non-executive Directors.
1. The ratio of performance-linked compensation in total compensation is higher.
2. The ratio of performance-linked compensation in total compensation is higher the higher the seniority of the Director, with the President and Chief Executive Officer’s ratio of performance-based compensation exceeding 50%.
3. The ratio for the share compensation in total compensation is higher than the average level for companies from the same industry and of the same scale.

(b)-1 Annual Incentive
Part of the performance-linked compensation, the annual incentive, is calculated and paid based on an evaluation of the entire company’s results and the individual’s results for the individual year. As 100% at the time of achievement of performance objectives, the amount paid is designed to vary in the range of 0% to 200%. Based on the idea that performance objectives that lead to an evaluation of the entire company’s results for the individual year in the annual incentive are significant indicators for the Group to measure sustained growth, the performance objectives have been set for “consolidated sales” and “consolidated return on sales (ROS).” Performance objectives and results in the fiscal year ended March 31, 2018, one of determinant factors for performance-linked compensation, are as follows:

<table>
<thead>
<tr>
<th>Performance objectives set for the fiscal year ended March 31, 2018</th>
<th>Results in the fiscal year ended March 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated sales</td>
<td>¥400 billion</td>
</tr>
<tr>
<td>Consolidated return on sales</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

Note: At the time of achievement for the business performance targets, the ratio of the base compensation to the annual incentive is designed to be 1:0.5 on average if the performance objectives are achieved, though the ratio varies according to the position. This ratio may vary in the range of 1:0 to 1:1, depending on the extent to which performance objectives are achieved.

The Company considers that performance objectives in medium- to long-term incentive are based on the linkage with the mid-term business plan. Among several business objectives set in TF2020, the Company has currently chosen “return on equity (ROE),” an indicator showing efficiency of management, for the performance objective based on the idea that it is a significant indicator in an increase in both corporate value and shareholder value. As aforementioned, the PSU Plan are made generally upon conclusion of a target period, largely in accordance with the conditions for achievement of performance objectives. Accordingly, at this point in time, which is during the period of TF2020, the Company will not determine whether or not to deliver the Company’s shares or make payment of cash, nor will the Company determine the number of the Company’s shares to deliver or the amount of cash to pay in the event of any delivery or payment thereof.

Furthermore, under the PSU Plan, the Company has established clawback provisions enabling it to demand uncompensated refund of all or part of compensation paid as the compensation amount pertaining to the PSU Plan, if a situation arises involving substantial amounting improprieties or significant losses.

Note: In the fiscal year of payment of the medium- to long-term incentive, the ratio of the base compensation to the annual incentive and the medium- to long-term incentive is designed to be 1:0.5 on average if the respective performance objectives for those incentives are achieved, though the ratio varies according to the position. This ratio may vary in the range of 1:0 to 1:1, depending on the extent to which the respective performance objectives for the annual incentive and the medium- to long-term incentive are achieved.

(b)-2 Mid- to Long-Term Incentive
With regard to medium- to long-term incentive, part of the performance-linked compensation, at the 142nd Annual General Meeting of Shareholders convened on June 26, 2018, the Company introduced the performance share unit plan (the “PSU Plan”), a performance-linked stock compensation plan, under which payment of the Company’s shares and cash is made in accordance with the extent to which the Company’s consolidated return on equity (consolidated ROE) target and other targets have been achieved in the final fiscal year of the period covered by the mid-term business plan. The current period covered by the PSU Plan is the period covered by “Transformation 2020” (“TF2020”), a three-year mid-term business plan for fiscal year 2018 through fiscal year 2020.

After the end of the period of TF2020, on the premise of performance objectives and other requirements established beforehand by the Company’s Board of Directors in TF2020, the Company will decide on the amount of compensation based on the medium- to long-term incentive for each respective Directors and officers who are eligible for the payment calculated by multiplying base amounts of stock compensation determined for each position of the eligible Directors and officers by coefficients established beforehand by the Company’s Board of Directors in accordance with the conditions for achievement of performance objectives (the “Payment Rate”), and deliver Company shares equivalent to the value for the amount corresponding to 60% of the compensation amount and pay cash equivalent to the value for the amount corresponding to 40%. The Payment Rate is as follows and designed to vary in the range of 0% to 100% in accordance with the extent to which performance objectives are achieved.

In addition, the amount of medium- to long-term incentive paid is designed so that 0.5 medium- to long-term incentive is added to 1 base amount compensation in principle when the Payment Rate is 100%.

<table>
<thead>
<tr>
<th>Actual ROE</th>
<th>Payment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 8%</td>
<td>0%</td>
</tr>
<tr>
<td>From 8% to less than 11%</td>
<td>(Actual ROE × 100 — 8) / 3 × 25%</td>
</tr>
<tr>
<td>From 11% to less than 14%</td>
<td>(50 + (Actual ROE × 100 — 11) / 3 × 50%)</td>
</tr>
<tr>
<td>14% or higher</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Basic compensation</th>
<th>Annual Incentive</th>
<th>Mid- to Long-Term Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.5 (0〜1)</td>
<td>0.5 (0〜0.5)</td>
</tr>
</tbody>
</table>

Note: In the fiscal year of payment of the medium- to long-term incentive, the ratio of the base compensation to the annual incentive and the medium- to long-term incentive is designed to be 1:0.5 on average if the respective performance objectives for those incentives are achieved, though the ratio varies according to the position. This ratio may vary in the range of 1:0 to 1:1, depending on the extent to which the respective performance objectives for the annual incentive and the medium- to long-term incentive are achieved.
Internal Control Systems
The Company has established the Yokogawa Group Internal Control System to ensure the reliability of financial statements and the validity of the decision-making process. As systems that ensure that directors comply with laws, ordinances, and the Articles of Incorporation of the Company, as well as a system required by a Ministry of Justice ordinance that ensures the appropriateness of corporate operations and the operations of the corporate group comprising the Company and its subsidiaries, the Company has the internal control system to ensure proper and efficient execution of the Group’s operations in place.

Moreover, as a part of the system to ensure the effectiveness of audits by Audit & Supervisory Board members, the Audit & Supervisory Board has now entered into an advisory agreement with attorneys.

As part of the Yokogawa Internal Control System, a supply chain management system is in place for overall business processes that include its relationship with customers and suppliers. For the procurement processes in the supply chain, Yokogawa Group’s “Group Purchasing Procurement Code” has been defined based on its Corporate Philosophy and Standards of Business Conduct, to ensure fair and equitable transactions. Yokogawa observes the local ordinances of the country and regions with whom we do business, began working on the issue of conflict minerals, and focuses on establishing a supply chain that considers environmental protection and human rights. In order to efficiently and effectively implement supply chain management of environmental and social issues, we are participating in committees of industry groups such as the Materials Committee of JEITA and working with other companies.

Risk Management
The Risk Management Policy has been set forth for the purpose of establishing a basis for the effective and efficient conduct of enterprise risk management by the Yokogawa Group. Based on this policy, the Risk Management Committee shall decide the significant risks which shall be managed preferentially as the Yokogawa Group and decide the monitoring method for its risks and report them to the Board of Directors. The president shall be responsible for supervising all matters in relation to the risk management as the chairperson of the Risk Management Committee.

Respective organizational units of the Yokogawa Group shall perform the identification and assessment of risks followed by the preparation and implementation of the countermeasures against risks. The department in charge of internal audit shall evaluate the effectiveness of the Yokogawa Group risk management process and reports important findings to the Board of Directors and the Audit & Supervisory Board members.

Crisis situations are to be responded to as set forth in the Group Policy for Crisis Management. As the head of the Crisis Management Committee, the president controls the communication of information and issuance of instructions in the event that the Group is in a crisis, and works to ensure safety and minimize economic losses.

Regarding information security, the Group’s policies on the handling and protection of confidential information are set forth in the Group Information Security Management Code.

Examples of Compliance Promotion Initiatives

- **Awareness Raising and Training Activities:** Over 200 group training programs and e-learning with approx. 8,500 employees participating
  In order to raise and inculcate awareness about compliance throughout the Group, the Company and Group companies in and outside Japan conducted compliance training again in fiscal year 2018. In addition, training corresponding to positions was conducted in Japan, taking opportunities such as promotion to managerial positions, appointment to positions outside Japan, and joining the Company.
  The Company and Group companies in Japan are also working to deepen understanding and increase awareness of compliance by holding a Compliance Week campaign annually, offering e-learning-based study programs for all employees, and soliciting compliance slogan entries from employees.

- **Compliance Awareness Surveys:** Over 95% response rate
  We annually conduct compliance awareness surveys for all employees in order to determine how prevalent compliance awareness is among employees and to improve promotion activities. Survey results are shared throughout the Group. In addition, we analyze the survey data by workplace and function, and use the results when formulating compliance measures in the subsequent fiscal year.

- **Compliance Hotlines:** 95% awareness rate
  To rapidly identify and address compliance issues, we have established compliance hotlines, which we actively encourage our employees to use. Specifically, in Japan we have established both an internal hotline and an external hotline that is operated by attorneys. These compliance hotlines maintain strict confidentiality in their operations and respond promptly to caller concerns.
Continuing to be a good citizen is our top priority. Not only complying with laws and regulations but also living up to the trust and expectations of society, we behave with a clear awareness of the need for compliance.

Moreover, we have established a department in charge of business ethics that is charged with the identification and resolution of issues pertaining to the compliance system. The Company is strongly promoting compliance management. It aims to be healthy and open, with both a culture that encourages and enforces proper ethical conduct and a system for preventing misconduct and scandals before they occur. In so doing, we will meet the expectations of investors and other stakeholders.
Corporate Governance

Having established the Yokogawa Group Code of Conduct in 1994, the Group is striving to ensure that business ethics are upheld and embraced throughout the Group. In recent years, over and above ensuring compliance with laws and regulations and rules, companies are urged to address compliance in a wider scope, for example, by respecting

Chapter 1: Basic Policy

1.1 (Realizing corporate philosophy)
We act in accordance with our corporate philosophy of “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.”

1.2 (Compliance with laws and regulations and cooperation with society)
(1) We observe the laws and regulations of each country and region, respect social norms and international guidelines, and act with high ethical standards.
(2) We respect the cultures and customs of each country and region.

1.3 (Respect for human rights)
(1) We support internationally recognized human rights standards and respect the dignity and human rights of all people.
(2) We strive to ensure that our business activities do not infringe on human rights, and if we discover such situations, we will respond quickly.

1.4 (Fair business practices)
(1) We do not engage in any form of corruption, such as the payment of bribes or kickbacks, and conduct our business in a fair and sincere manner, maintaining sound relationships with all stakeholders.
(2) We reject unjust and unlawful demands, and we do not engage in activities or organizations that pose a threat to the order and safety of civil society or foster criminal conduct.

1.5 (Contributing to society and the environment)
(1) We contribute to the realization of a sustainable society through our business activities, including developing and providing safe, socially useful products and service solutions for our customers.
(2) We understand that realizing a sustainable society is a common concern for all humankind and essential for the continued existence of the company, and act on our own initiative to address this challenge.

1.6 (Relationship of mutual trust with all our stakeholders)
We disclose information appropriately and fairly to all stakeholders, and build and foster trust-based relationships with them by maintaining a constructive dialogue.

Chapter 2: Standards of Conduct

2.1 (Relationship with customers)
(1) Providing safe, high-quality products and services
By providing safe, high-quality products and service solutions, we aim to build long-term partnerships with our customers and grow together with them.
(2) Accurately providing essential information
We accurately and appropriately provide essential information to ensure the safe and satisfactory use of our products and services by our customers.
(3) Customer entertainment and gifts
We neither offer nor receive gifts or money to/from customers or sales partners that are in violation of sound business practices and deviate from societal and international norms.

2.2 (Relationship with shareholders)
(1) Timely and appropriate information disclosure
We actively disclose necessary information to shareholders in a timely and appropriate manner and aim for highly transparent management that wins the trust of the market.
(2) Prohibition on the provision of unjust benefits
We provide no incentives whatsoever with regard to the exercise of shareholders’ rights, and maintain a sound and transparent relationship with all shareholders.

2.3 (Relationship between the company and employees)
(1) Prohibition of forced and child labor
We do not allow the use of forced or child labor in any workplace, wherever that may be around the world.
(2) Eliminating discrimination and creating a comfortable working environment
We do not discriminate on the basis of race, color, sex, religion, political opinion, country of origin, social origin, disability, or other circumstances. We also strive to improve the abilities of our employees, foster workstyles that respect individual differences, and provide a pleasant work environment that is healthy and safe.
(3) Respect of workers’ rights
We observe labor laws and agreements and respect the rights of workers, including the freedom to participate in labor unions. We also strive through good communication to maintain and develop a relationship of trust between labor and management.
(4) Prohibition of harassment
We build a corporate culture that encourages employees to treat each other with respect and does not tolerate sexual, power, and other forms of harassment.
international guidelines, such as the United Nations Global Compact, and by respecting human rights. In these circumstances, the Group reviewed the configuration and the content of the Yokogawa Group Code of Conduct in July 2019.

2.4 (Relationship with local communities and society)
(1) Environmental protection
We work with our customers to protect the environment by reducing the environmental impact of our products and services. We also observe environmental laws and regulations and are guided in our actions by the need to protect the environment.
(2) Contribution to local development
As a good citizen, we build cooperative relationships with local communities, and through the provision of employment and other means, we contribute to the sustainable development of the countries and regions in which we operate.

2.5 (Relationship with suppliers)
(1) Prohibition of unfair transactions
We engage in fair business transactions based on trust with our suppliers. We do not discriminate against suppliers or use advantages to impose unilateral conditions on them.
(2) Entertainment or gifts from suppliers
We refuse to accept offers of entertainment or gifts from suppliers.

2.6 (Relationship with competitors)
(1) Fair and free market competition
We promote fair and free competition by complying with the laws and regulations concerning fair competition and fair trade stipulated in each country and region, and we do not participate in cartels and other anti-competitive arrangements or any type of unfair trade practice.
(2) Respecting intellectual property rights
Just as we protect our own intellectual property from infringement, we respect the intellectual property rights of others, and ensure that our intellectual property rights do not infringe on others.

2.7 (Relations with politics and government)
(1) Prohibition on provision of entertainment and gifts to public officials
We maintain sound and transparent relationships with politicians and civil servants and never pay bribes or provide anything of value that could be construed as a bribe.
(2) Regulation of political contributions
We comply with laws and regulations concerning political contributions and do not make contributions that go beyond legally permissible limits.

2.8 (Compliance in international transactions)
(1) Security trade controls
We comply with laws and regulations related to security trade control and cooperate in maintaining international peace and security. When exporting or providing goods or technology that may be used or diverted for weapons or the development of weapons, and when exporting or providing regulated goods or technology, we observe the relevant procedures and do not commit any act in violation thereof.
(2) Proper tax payment
We contribute to public finances by complying with tax laws around the world, providing products and services at an appropriate price and properly paying taxes to the tax authorities in each country.

2.9 (Proper use and management of Group assets)
(1) Proper use and preservation of Group property
We make proper use of the Yokogawa Group’s tangible and intangible assets in our business activities and do not divert them for personal or third-party use.
(2) Thorough information security management
We have the duty to maintain the confidentiality of all confidential information held by the Yokogawa Group, including information belonging to any third party that has come into our possession through the course of our business activities. Confidentiality shall be maintained not only during employment but also after one has retired from a position with the Group.
With the use and operation of information devices and other information systems, we comply with the company’s security regulations and endeavor to prevent data theft and damage.
(3) Prohibition on conflicts of interest
We do not harm or endanger the company by acting in our own personal interests or the interests of a third party. We conduct all business activities in the best interests of the Yokogawa Group.

2.10 (Management responsibility)
The management takes the initiative in conducting sound business operations in accordance with this Code of Conduct. In the event of any violation of this Code of Conduct, the management will promptly take corrective and preventive measures, and strictly punish the offending individuals, regardless of their position within the company.