

Round-Table Discussion with Outside Directors

What will be needed for an effective and transparent Board of Directors and future innovation is a sense of speed and visualization.



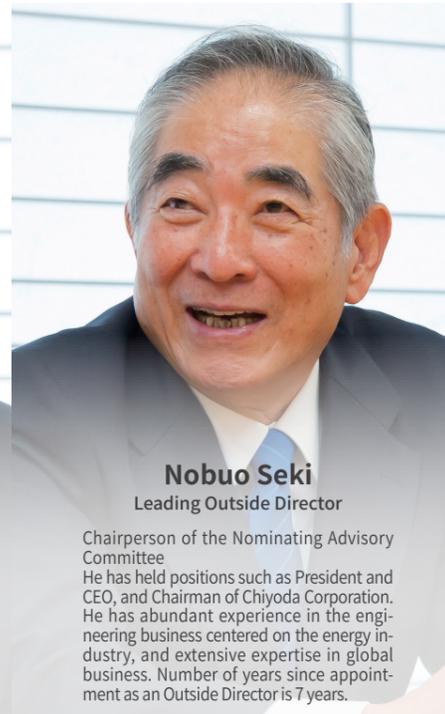
Kuniko Urano
Outside Director

She has held positions such as Director of Komatsu Ltd. She has wide experience in production, personnel/education, public relations/CSR and other divisions at major manufacturing companies. Number of years since appointment as an Outside Director is 1 year.



Shiro Sugata
Outside Director

Chairperson of the Compensation Advisory Committee
He has held positions such as President and CEO of Ushio Inc. He has abundant experience in the development and marketing of industrial instruments, and extensive expertise in global business. Number of years since appointment as an Outside Director is 6 years.



Nobuo Seki
Leading Outside Director

Chairperson of the Nominating Advisory Committee
He has held positions such as President and CEO, and Chairman of Chiyoda Corporation. He has abundant experience in the engineering business centered on the energy industry, and extensive expertise in global business. Number of years since appointment as an Outside Director is 7 years.



Akira Uchida
Outside Director

He has held positions such as Senior Vice President (Member of the Board) of Toray Industries, Inc. He has wide experience in the corporate administration field centered on the Finance and Controller's Division. Number of years since appointment as an Outside Director is 3 years.



Takuya Hirano
Outside Director

He has held positions such as President of Microsoft Japan Co., Ltd and Vice President of Microsoft Corporation. He has a wide range of practical experience in business divisions at a major global IT company and has a wealth of experience as a manager, such as the president of the Japanese subsidiary of the company. He was newly elected in June 2022.

A round-table discussion was held in which outside directors Nobuo Seki, Shiro Sugata, Akira Uchida, Kuniko Urano, and Takuya Hirano objectively discussed the functions of the Board of Directors and what Yokogawa should do to accomplish a transformation in the face of a rapidly changing business environment. Through this frank and direct exchange of views, the importance of leveraging the advantages that Yokogawa has cultivated over the years stood out.

Moderator: Regarding the roles and functions of the Board of Directors and the status of discussions, please tell us your frank opinions on the current situation, what issues you see, and what can be done to improve things.

Continuous innovation at the foundation of the mid-term business plan Strengthening the functions of the Board of Directors through cooperation between outside directors and outside members of the Audit & Supervisory Board

Nobuo Seki: My seven years as an outside director can be summed up with the one phrase “constant transformation.” During this period, three mid-term business plans have been formulated and implemented, namely, Transformation 2017, Transformation 2020, and Accelerate Growth 2023 (AG2023). I believe that the underlying theme of all these plans has been transformation, and I think everyone shares this assessment.

Also, I feel that sufficient improvements to corporate governance have been made over the past seven years, and I do not hesitate to say that Yokogawa can be regarded an exemplary company in this respect.

Looking ahead, we will have to pay close attention to whether the ongoing efforts to implement the four basic strategies can achieve the transformation needed to



realize the ambitious target of becoming a trillion-yen company by fiscal year 2030.

Shiro Sugata: The Board of Directors has been highly evaluated for its effectiveness and transparency. While I am in total agreement about our transparency, I believe that the effectiveness of the Board of Directors and its outside directors will only be recognized once plans are achieved as intended.

I think that another role of outside directors is that we are responsible for expressing our views on the appropriateness of new mid- and long-term plans, new businesses, acquisition projects, and large-scale development projects, and also for monitoring the progress of these undertakings. I have the impression that the company members of the Board, including the company president, are prepared to accept input from the outside directors, and that they can as needed revise their plans and put them into action.

Akira Uchida: As for effectiveness in governance, there may be diverging opinions on this, but I think it is very good that the Audit & Supervisory Board members have provided valuable comments not only on legal matters but also on the appropriateness of strategies and the like. This is one of the reasons why the Board of Directors has become more dynamic. I believe that the way in which the Audit & Supervisory Board members and outside directors work together to coordinate their statements has led to the strengthening of the functions of the Board of Directors.

In my message that appeared in last year's integrated report, I emphasized the importance of integrating corporate strategy and sustainability strategy. The company has been making a steady effort with ESG management, including the identification of priority issues (materiality), and this year a sustainability committee was established. By closely tracking the progress that is achieved and following up on any issues, I believe that this committee will ensure steady progress is made in the implementation of the company's sustainability strategy. At the same time,

the company has identified six areas* in which it will contribute through its business activities toward the year 2030. However, the company has not yet established a method for determining the financial impact of the contributions made in these six areas. By creating a system that can accurately do this, we believe that the company will be able to integrate its sustainability and corporate strategy and that this will contribute to its corporate value.

*Achieving carbon neutrality, improving efficiency in society & industry, optimizing the plant lifecycle & protecting the environment, improving health & safety, creating a resource recycling ecosystem, and creating workplaces where people can fulfill their potential



Kuniko Urano: The outside directors all bring their own point of view to discussions based on differences in their area of expertise and work experience, and so I have the impression that the Board of Directors is suitably diverse.

I also feel that the setting of the agenda is very creative. Rather than focusing on detailed short-term items, the

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agenda is set to focus discussion on topics from a medium- to long-term perspective, and I have the impression that this is worked out in a very ingenious way. I also feel that the company's executive officers are taking a very earnest and bold approach in everything that they do.



As an outside director, I am mindful of the need to check what progress is being made in the attainment of individual goals, but more than that, I think we need to closely follow changes in society and base our statements on that. When unexpected things happen in the business environment, we should constantly reflect on what changes Yokogawa needs to make, what should be kept the same, and what risks and opportunities there are for each course of action.

Takuya Hirano: I just took office as an outside director earlier this year, and I feel that the Board of Directors has an open atmosphere and that it is very easy to speak out. The members all respect each other. There is a professional friendliness, and at the same time I feel that the environment allows one to convey opinions and feedback without hesitation, and to engage in discussion. Also, it is clear everyone strongly believes that we must make changes.

**Speed and visualization required
In-depth discussions on institutional design changes**

Mr. Hirano: I would like to say a few words about Yokogawa's future transformation. It overlaps with the contribution that I will personally have to make from here on, but I think speed and visualization are the keywords. I believe that visualization is needed to manage the changes that will be necessary to achieve the AG2023 goals and that this must be matched by speed in execution. To speed things up, I think that visualization and operational efficiency (including in managerial accounting), the clarification of decision making, and governance in the global business will all become increasingly important.

Mr. Sugata: Speed is a very important point. I would like to propose specific measures for this purpose. For instance,

there may be issues to consider that relate to institutional design, such as the shift from being a company that is structured based on a board of corporate auditors to being a company that is structured based on a nominating committee. This point was raised during last year's evaluation of the Board of Directors, and it was impressive that, unlike the other outside directors, many internal directors endorsed this. Behind this I think there is the strong desire to leave business decision making to the company's executive officers. Apart from the pros or cons of making changes in our institutional design, I believe from this point of view that it is necessary to consider and implement measures that will speed up management, including reviewing the decision-making authority and boldly delegating authority.

Mr. Uchida: As one more way of looking at the changes in institutional design, after considering different examples, I have a very good impression of Yokogawa's current governance system. However, once a company is structured based on a nominating committee or some similar body, it does not mean that everything will speed up and get better, and sometimes effectiveness does not increase at all. To increase the speed of management, it is not enough just to change the institutional design. I think it is important to delegate considerable authority and establish a clear chain of command.

Mr. Seki: I agree with taking a deeper look at institutional design. Regarding the third-party evaluation by the Nomination Advisory Committee, discussions are proceeding in the same direction regarding the transition to a company that is structured based on a nominating committee etc., and I feel that the situation is changing. As Mr. Sugata says, there is still room for discussion, so I think we need to make sure not to cause confusion here.

Also, regarding the visualization that Mr. Hirano mentioned, SG&A expenses are an example of a subject that comes up for discussion during performance evaluations and the like, and the method for their management may be too elaborate, so explanations of their increase or decrease are inconsistent and difficult to understand. I think that proper visualization will make it easier to perform a correct evaluation.

Mr. Uchida: Just to add a comment about the visualization of SG&A expenses, we know that the SG&A ratio is the reason why profitability is lower than that of competitors, but we are not seeing significant improvement. I think we can make further improvements by strengthening Group management, such as by separating and managing variable and fixed costs, and by making it possible to see them in chronological order.

In terms of speed, I feel that it will be more effective to improve the willingness to take risks and the ability to get things done. For example, I believe that Yokogawa must accelerate the reorganization of the control business into

the Energy & Sustainability, Materials, and Life business segments that it set out and executed in the long-term business framework.

Also, recently, President Nara has been saying that it's time for the entire Group to move ahead based on global corporate strategy. I think that perception is correct. To execute that, Yokogawa's headquarters must have the ability to rapidly unite and bring together all global operations, something that is not yet completely within its grasp as an organization. Yokogawa's corporate culture may have something to do with that. It also relates to the institutional design discussion mentioned earlier, but I think priority should be given to simplifying the company's organization and clarifying its command and control, while retaining all the good aspects of its corporate culture.

Mr. Seki: I agree with Mr. Uchida's point about the necessity of being able to get things done. Changes in the institutional design that give executive officers greater responsibility will put them under more pressure and lead to changes in attitudes that could have an impact on profitability and productivity. The officers have also mentioned the benefits of such changes in the institutional design. However, it is necessary to consider whether this can be realized only through institutional design changes, and to discuss these matters in greater depth based on a shared recognition of what our essential objectives are.

Acceleration of the reorganization of the control business into three business segments also seems to require improvements to the system so that the people at the top of each segment can properly fulfill their P&L responsibility. I think there is room for improvement in strengthening responsibility and authority.

Ms. Urano: Visualization and speed are two sides of the same coin. Regarding visualization, Mr. Uchida pointed out that the system should be made simpler, and that there is room for improvement, especially with regards to the financial area. I have been thinking the same for a long time.

Going forward, Yokogawa will increasingly engage with customers in a variety of fields and domains, as well as globally. In addition, each department will need to deal directly with customers. In this case, decentralized management may be required. That is why I think it is necessary to simplify and make systems easier to understand, so that both visualization and speed can be realized.

Mr. Hirano: I have experience working in a foreign company, and so in managerial matters I do think it's important to maintain a global perspective. Efforts to drive change tend to become inward-looking. At such times, it is important for the Board of Directors to have a broad worldview as it carries out its discussions, i.e. regarding competitor trends and the company's responses with a global perspective.

I believe that speed and visualization will both be very important as Yokogawa implements its plans for transformation with a global perspective.



Mr. Seki: We have heard various opinions on Yokogawa's transformation, and the outside directors and outside members of the Audit & Supervisory Board have met to hold candid discussions on this topic. I have also informed the company's executives, including the executive officers, about the issues that have been pointed out today.

Would it be better to strengthen command and control, to simplify systems, to avoid confusion by not trying to implement too many measures at once, or to simply better clarify our priorities? Yokogawa's top management is seriously considering these matters and is moving ahead with next steps, and I believe that we are making progress.

**Challenges for fostering innovation and developing human resources
Concentration and enhancement of technology development functions**

Mr. Seki: In relation to transformation, I would like to hear your opinions on topics such as human resources and the fostering of innovation. For example, putting in place the systems needed for DX and IT utilization, and developing excellent human resources are management issues of the utmost importance, and many measures have already been set into motion to accomplish this. One of my concerns is that we may need to put a little more effort into developing the technologies that will spur innovation. I would like to hear everyone's thoughts on this.

Mr. Uchida: Yokogawa operates in manufacturing, so it is important for the company to be involved in developing new technologies. One concern I have is regarding how the R&D function (the Innovation Center) sits within the Marketing Headquarters, and the question of just how effective it is.

Currently, each business and region has a technology development function that is developing its own unique technologies, and this is too dispersed. Because the Innovation Center does not supervise this as a whole, there is the view that our actions to bring about innovation are too scattered. Because lateral collaboration, the movement of people, and the fusion of technologies are important in R&D, I believe that integration, rather than decentralization,

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can increase the power of innovation. At a time when it is becoming more important for the company headquarters to strengthen centralized management, I think it would be better to make the Innovation Center independent from the Marketing Headquarters and give it the role of unifying the research and technology development functions for the entire Group. I am sure that this decentralized approach to technology development is working well at present and am not talking about changing it immediately, but I have shared my thoughts on this with Yokogawa's executives.

Mr. Sugata: In response to the point about whether we should decentralize or integrate technology research, I will just point out that Yokogawa has been operating as a decentralized organization for many years, but is now globally transitioning to a business structure that is centered on three industry segments. As Mr. Uchida pointed out earlier, it has been a year and a half since we started this transition, but I feel that there are some things that cannot be done overnight. This isn't something where we can just push forward by issuing orders. Because of differences in management methods and in the history of the employees working in each region, I know that this isn't easy.

I do think, however, that it is necessary for each and every employee to be strongly aware of the fact that the entire Group is moving in this direction and to take whatever actions are needed to make this happen.



Ms. Urano: I believe that we are now at a time where, more than ever before, serious thought must be given to how to make the most effective use of human capital. The areas where Yokogawa will compete, whether that be IoT/DX or the global business arena, are all highly competitive and demanding. For the company to succeed, each of its approximately 20,000 employees must fully realize their potential. Of course, there is the idea of securing human resources through M&A, but that is only one option. To come out ahead in this competition, each individual must have a positive mindset and improve their abilities. To achieve this, it is necessary to carefully reevaluate the company's human capital, such as what kind of people and how many people there are, and what their strengths are. This also is visualization. Rather than creating detailed rules and systems, it is important to consider and

implement optimal policies that take both the quantity and quality of human capital into consideration. Yokogawa's level of success in growing as a company will depend on how it utilizes its resources.

While discussions like this tend to focus narrowly on the question of whether a particular business unit has enough people or not, I think it's important for the management at the company headquarters to take a careful look at these matters and develop an optimal overall strategy.

Mr. Hirano: There are many things that need to be focused on to promote the transformation of the company, but I would like to express my thoughts on four points that deserve particular attention.

The first is, as Ms. Urano says, to consider how to empower employees. That is directly related to mindset. The second thing is to get closer than ever to customers. This is not just doing whatever a customer wants, it is about thinking up and proposing new ways of doing things. Third, to accomplish the above we need to change our internal processes and operations. The fourth and most difficult thing is to design new products, services, and business models.

We must transform each of these four domains. To accomplish this I think we will need to adopt new ideas and consider new ways to empower people while respecting the conventional approaches. When people talk about mindset, that is often just passed off to HR to handle, but I think that not just personnel systems, but also firm leadership and the ability to establish an appropriate evaluation system, will be necessary.

Moderator: Lastly, please tell us how you would like to contribute to the enhancement of corporate value, and how you would like to use and demonstrate your experience and skills to fulfill your roles and responsibilities.

**Insights of outside directors on what is needed to improve corporate value
The decision to take risks when selecting investments**

Mr. Seki: I recognize that my role as the leading outside director this fiscal year is to coordinate between the outside directors and executive officers, to build relationships with the members of the Audit & Supervisory Board, to discuss issues just between the outside directors and the outside Audit & Supervisory Board members, and to convey the results of those discussions to the management team. As the coordinator for the team of outside directors, I intend to work with the chairperson of the Board of Directors, discuss fundamental matters in a logical manner, and through these activities support the company.

I've been through a lot in my long career, and I have also had my share of failures. With the knowledge and insights

that I have gained through learning experiences with contracts and so on, I hope to make a contribution in areas such as Project Lotus, a cross-organizational project led by employees (in their 20s, 30s, and 40s) that was launched to plan and create scenarios for the year 2035. This is an important mid- to long-term management initiative. Even though it may go beyond the role of an outside director, I hope to take part in the exchange of ideas and offer my support with such bottom-up initiatives.

Mr. Sugata: I believe that outside directors serve as a check and as a catalyst for the Board of Directors. Outside directors do not drive or promote the business; rather, our position is one in which we are to view from the sidelines and confirm all aspects of Yokogawa's business, whether good or bad. And I think our statements should bring things to the attention of the executive officers and spur action. I also believe that the role of outside directors should be to try and improve benefits for all stakeholders, including, of course, the company's shareholders. While keeping the needs of all stakeholders in mind and considering what things the company must do, I hope that we can be of assistance in making sure that the right decisions are taken.

Mr. Uchida: I sometimes think that Yokogawa could be a little more aggressive when it comes to taking risks with investments.

For example, in its investment decisions, the company sets theoretical hurdle rates, and takes overseas risks and new business risks into consideration when evaluating risk premiums, and that thinking is correct. However, I do think that there are situations where the hurdle rate could be reduced slightly based on long-term, strategic considerations. As an outside director, I would like to encourage such risk-taking.

Ms. Urano: People who are inside a company sometimes don't understand all its merits. When it comes to my attention, I intend to point out what aspects of its culture the company must not lose. For example, Yokogawa is a company with many people who have been hired in mid-career, and some of them are in important positions. They tend to be more flexible in adopting the positive aspects of both Yokogawa and other companies. This can be a great advantage for our future growth and a very important base for alliances with other companies and M&A.

I also recognize that one of my roles is to contribute in the areas of gender and diversity. As I enter my second year in this role, I will seek to further address gender and diversity issues.

Mr. Hirano: I came from an IT company. One definition of IT companies is that they are organizations that keep changing. I have been involved in DX for a long time, which is one of the topics we mentioned earlier. And now, IT is part of our society's infrastructure, just like the electricity, water, rail, and transportation systems that we all rely on.

When we refer to IT companies, we have traditionally thought of software companies, but it is no exaggeration to say that all companies are IT companies nowadays. Yokogawa too must take this perspective. Based on this view that IT is a form of infrastructure that will never cease to change, I want to contribute to Yokogawa as an IT company.

I've also seen the use of both best practices and worst practices at foreign companies, and hope to help improve the Yokogawa's corporate value by sharing this knowledge.

