

Yokogawa Electric Corporation

FY2010 Management Policy

FY2009-2010 Action Plan Status Update / Next Steps



May 14, 2010

Shuzo Kaihori, President and Chief Executive Officer



YOKOGAWA



FY2009 Results

Sales: Down substantially from FY2008 due to slow capital investment and the strong yen

Operating income: Income recorded. Fixed costs reduced much more than initially planned

Net income: Loss recorded for second year in a row but the FY2009 loss was smaller. Extraordinary losses including an impairment loss on fixed assets, restructuring loss, and business structure improvement expense were recorded

(Billion ¥)

| | FY08 results | FY09 revised budget (10/2/9) | FY09 results (B) | Difference (B-A) |
|------------------|--------------|------------------------------|------------------|------------------|
| Orders | 374.3 | 320.0 | 315.2 | (59.1) |
| Sales | 376.5 | 316.0 | 316.6 | (59.9) |
| Operating income | 4.7 | 0.0 | 2.6 | (2.1) |
| Ordinary income | 0.3 | (4.0) | 0.2 | (0.1) |
| Net income | (38.4) | (18.5) | (14.8) | 23.6 |



Action Plan Status Update

Position FY2009-2010 as a period for structural reform with an eye on our next growth phase

FY2009-2010 action plan announced in February 2009 to respond to the rapidly changing management environment and turn the company profitable with an eye on the next growth phase from FY2011:

- 【1】 Reduce fixed costs.**
- 【2】 Review our business portfolio.**

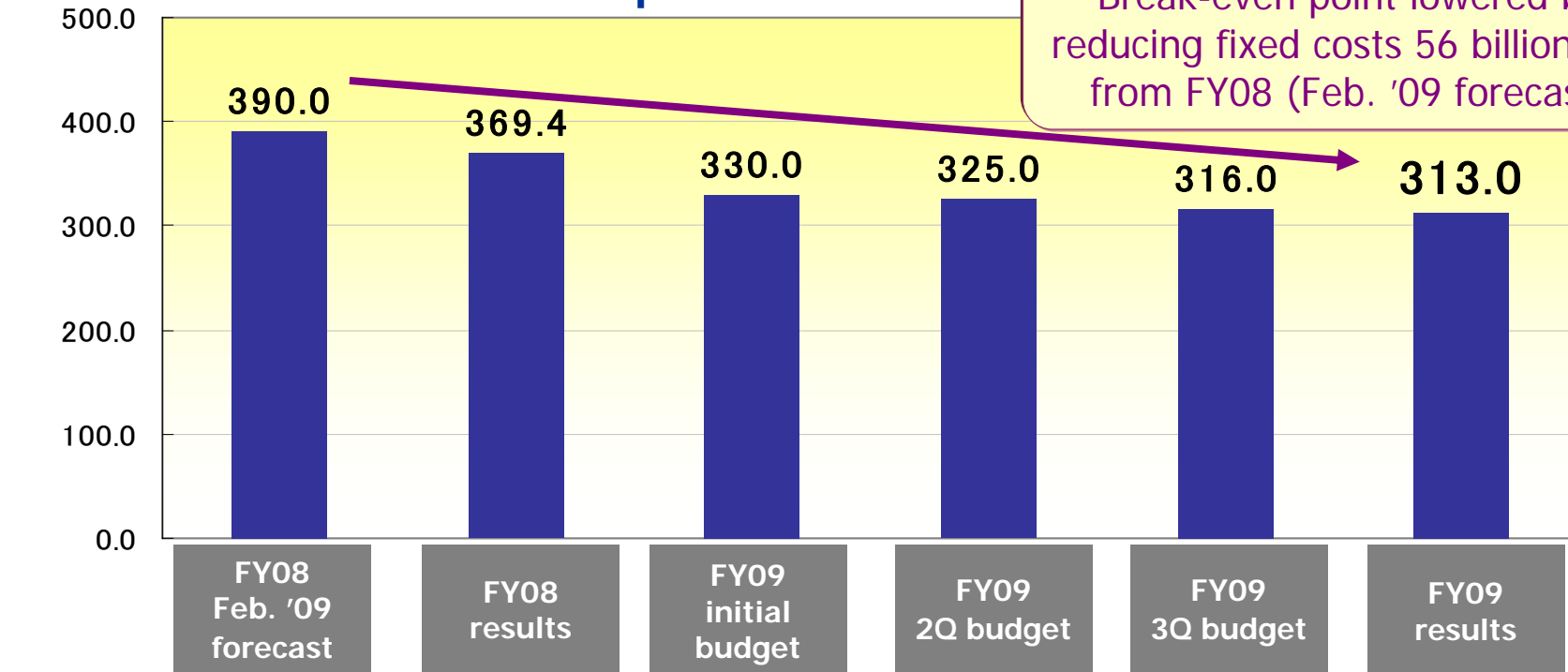


Action Plan for Reduction of Fixed Costs

【FY2009 target】

Reduce fixed costs by 38 billion yen from FY2008 (Feb. '09 forecast) and achieve a break-even point of 330 billion yen or less.

(Billion ¥) **Trend of break-even point**





Action Plan for Review of Business Portfolio - 1

Make quick improvements to a portfolio where profits generated by the control business are currently covering losses in the measurement business and investments in new businesses.

◆ Basic policy for the portfolio review

- 1. Focus resources on the control business.**
- 2. Maintain and develop the company's core measurement technologies.**
- 3. Select and quickly establish new businesses.**
- 4. Discontinue loss-making businesses.**

The future direction for almost all action items has been mapped out, and only a few of these items remain to be implemented.



Action Plan for Review of Business Portfolio - 2

Basic policy: Maintain and develop the company's core measurement technologies.

◆ Reorganization of measuring instruments business

【1】Transfer of standalone measuring instruments business to subsidiary

April 1 transfer of the company's business unit handling conventional standalone electronic and optical measuring instruments to Yokogawa Meters & Instruments

- Thoroughly review business processes to sharply increase efficiency.
- Enhance cost competitiveness to expand business in growing markets of emerging countries.

【2】Development of solution-based business by Yokogawa Electric using the latest measurement technologies

Evaluation of lithium ion batteries and other secondary batteries, LED's for lighting equipment, and drive systems for electric automobiles

- Combine measurement and control technologies to provide comprehensive solutions, from development to commercial production phases.



Action Plan for Review of Business Portfolio - 3

Basic policy: Select and quickly establish new businesses.

Basic policy: Discontinue loss-making businesses.

- 【1】 Semiconductor tester business**
 - Development of SoC testers suspended
 - 【2】 Advanced stage business**
 - Development of XY stage for semiconductor manufacturing equipment halted
 - 【3】 Photonics business**
 - Development of transponders for next-generation optical communication networks discontinued
 - 【4】 Information business**
 - Business units that have little synergy with the control business reorganized
 - Nihon System Gijutsu newspaper typesetting systems subsidiary sold off
 - Medical information systems business spun off to form Yokogawa Medical Solutions
- } Implemented in FY2008



Action Plan for Review of Business Portfolio - 4

Basic policy: Focus resources on the control business.

◆ Inject personnel from downsized businesses.

200 employees, mainly development engineers, transferred from measuring instruments, advanced stage, and photonics businesses to the control business

 **Focus resources on strengthening competitiveness to become No.1 in the global market.**



A new business portfolio centering on the control business needs to be created, and concrete plans for the remaining action items need to be quickly formulated.



FY2010 Budget

Orders, sales: Despite a recovery in capital investment, not expected to increase largely due to market uncertainty

Operating income: Expected to improve only a moderate amount due to increased fixed costs from the suspension of compensation cuts and furloughs for employees and higher investment to grow market share for the control business.

Restructuring fixed costs a priority measure in FY2010

- Completion of selection and concentration of businesses through portfolio review
- Restructuring of HR costs, thorough review of business processes, restructuring of production, etc.

(Billion ¥)

| | FY09 result | FY10 budget | Difference |
|------------------|-------------|-------------|------------|
| Orders | 315.2 | 340.0 | 24.8 |
| Sales | 316.6 | 335.0 | 18.4 |
| Operating income | 2.6 | 8.0 | 5.4 |
| Ordinary income | 0.2 | 5.0 | 4.8 |
| Net income | (14.8) | 0 | 14.8 |



Growth Strategy for Control Business - 1

Formulation of mid-term business strategy based on new control business-centered portfolio

Improve market share by focusing resources on large, high-growth markets to become No.1 in the global control market.

【1】 Industry strategy

Target industries: power, petrochemicals, chemicals, oil and gas (upstream), oil refineries

◆ Petrochemicals, oil refineries

- Develop new customers and secure plant replacement projects → Capture an even larger market share.
- Provide high value-added services → Stabilize and increase profitability.

◆ Power, chemicals

Introduce Japan know-how to other countries to increase global market share.

◆ Resource and energy

- Increase upstream oil and gas market share.
- Promote business in renewable energy source (biofuel, solar, etc.) and unconventional oil resource (oil sands, etc.) fields.



Growth Strategy for Control Business - 2

Formulation of mid-term business strategy based on new control business-centered portfolio

Improve market share by focusing resources on large, high-growth markets to become No.1 in the global control market.

【2】 Regional strategy

Focus regions: China, India, Southeast Asia, South America, the Middle East, Africa

- ◆ Focus on emerging countries and resource-rich countries.
- ◆ Expand energy-saving and environmental-conservation businesses.
- ◆ Strengthen investment in offices and personnel in these regions.



Enhance global cost competitiveness, globally optimize business functions, and develop global HR as a common foundation for the industry and regional strategies.



For Next Growth Phase

FY2010 is the final year for implementing the action plan.

With FY2010 positioned as the final year for restructuring the company and achieving a robust business, review the business portfolio and thoroughly implement measures to increase efficiency by reducing fixed costs.



**Make the company profitable so it can realize growth
in FY2011.**



Disclaimer

The information pertaining to our business plans and forecasts that has been provided in this presentation and at analyst meetings contains forward-looking statements that are based on our management's current knowledge and require the making of assumptions about future events. As such, it cannot be guaranteed that these statements will not differ materially from actual results.