

Yokogawa Electric Corporation

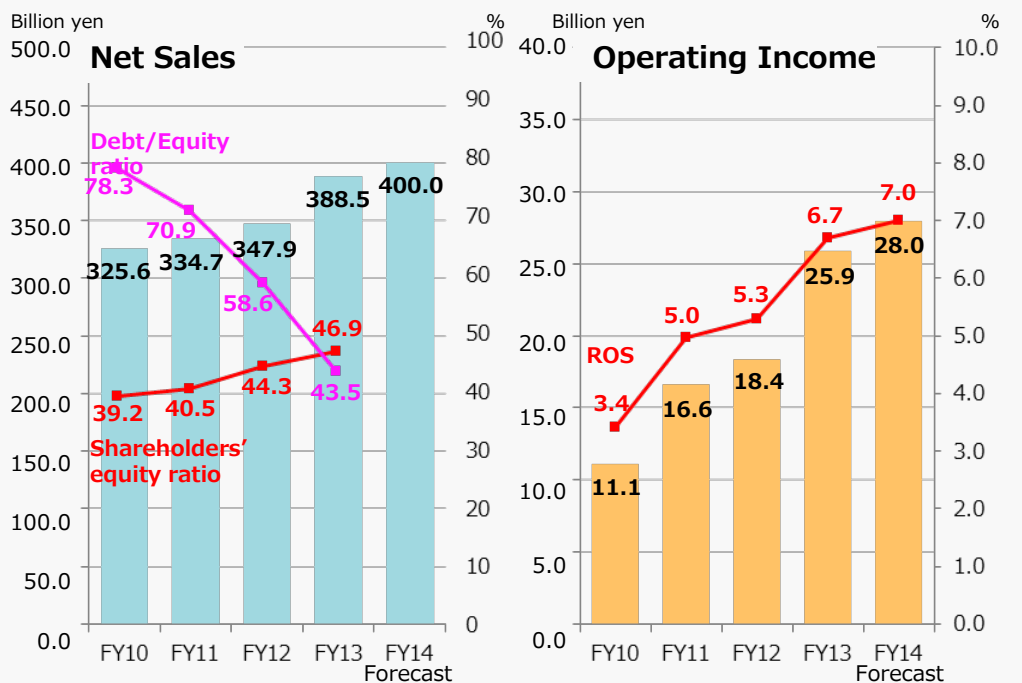
# Our Groupwide Approach



May 13, 2014  
Takashi Nishijima  
President and Chief Operating Officer

①Management review	P.2
②The present business environment	P.3
③Strategy review	P.4~
④Management policy	P.7~
<ul style="list-style-type: none"><li>•Two priority measures</li><li>•Summary of IA and Control business strategy</li><li>•Dividend</li></ul>	
⑤Corporate governance	P.20~
<ul style="list-style-type: none"><li>•Candidates for directors and Audit &amp; Supervisory Board members</li><li>•Discontinuation of takeover defense measures</li></ul>	

# ① Management Review



## Business plan for FY15

Evolution2015

While growing the IA and control business,

Sales

Operating income

Operating income-to-sales ratio

EPS

FY15 plan

¥400 billion

¥40 billion

10%

¥100 or more

put the company in a Strong financial position.

FY15 plan

Equity ratio

50%

Debt-to-equity ratio

40%

Two important challenges that we continue to face:

Business restructuring must outpace rapid market change

Achieving real business growth (excluding impact of exchange rate)

### ■ Control market outside Japan

#### Continued 6%-8% CAGR

- ◆ North America has become a very promising target market
- ◆ Emerging markets appear to be on the verge of a recovery
- ◆ Middle East and South East Asian markets remain healthy

### ■ Japan control market

#### Rapid structural change that exceeds our expectations

- ◆ Accelerated consolidation and offshoring of production operations by our customers
- ◆ Our customers need ever higher value solutions[Business model change]

### ■ Measurement

- ◆ Gradual resumption of capital investment by companies in Japan and emerging markets

### ■ Other Businesses

# ③Strategy review

## ①Review of control business growth strategy

Large project orders in emerging regions through global cooperation

→ Winning of orders for Ichthys LNG PJT, Yamal LNG PJT, etc.

Large North American project orders through reinforced relationship with global major companies

→ USGC petrochemicals PJT, etc.

Launch of Japan solutions service business

→ More than 10% growth in orders

## ②Review of business structural reform strategy

Globalization of headquarters functions

→ Accounting & treasury and HR

→ Shift of control business operations to a global matrix system

## ③Review of financial strategy

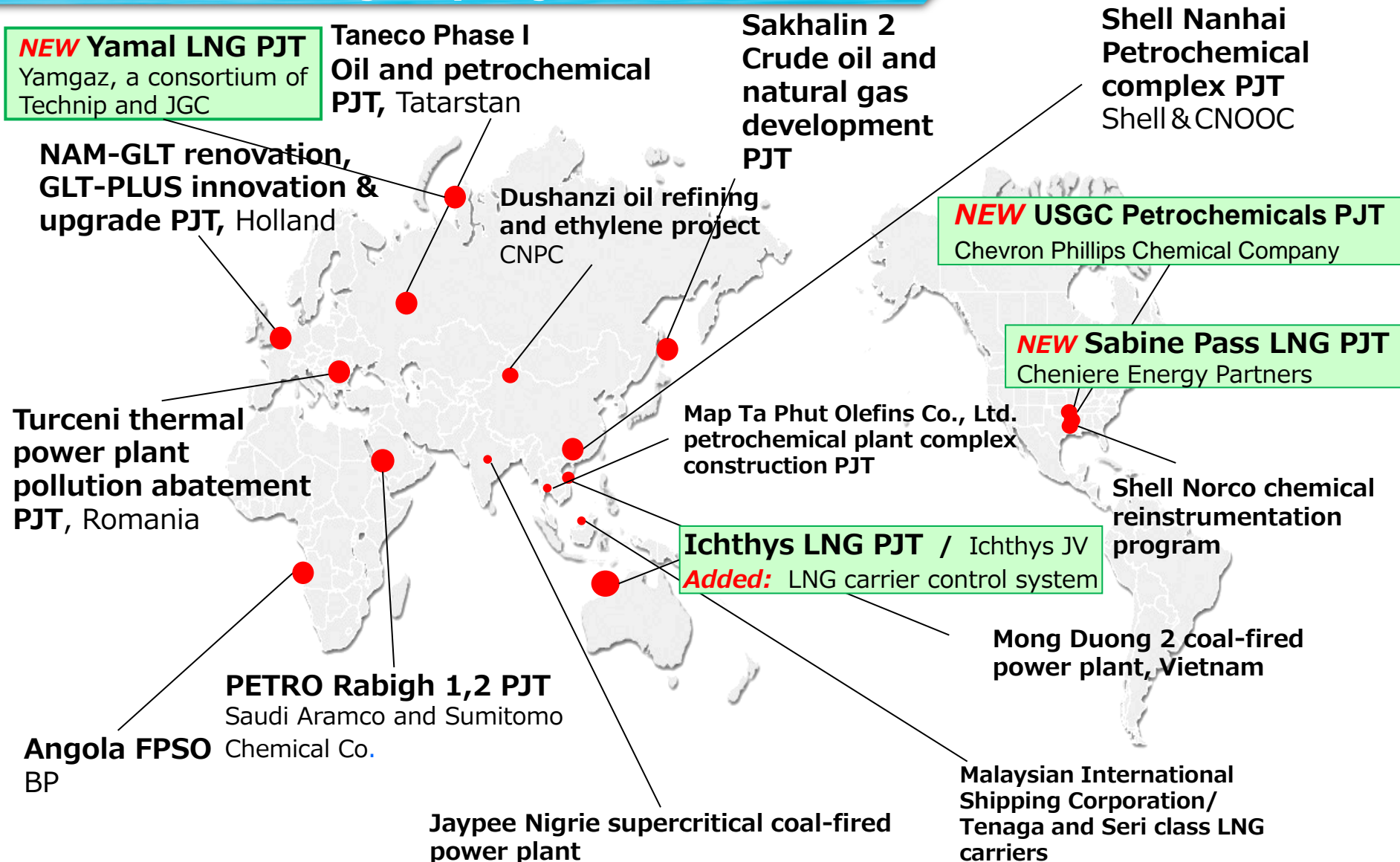
Improvement of equity ratio and debt-to-equity ratio (D/E)

→ FY13 equity ratio 46.9% (FY15 Plan 50%)

D/E ratio 43.5% (FY15 Plan 40%)

# ③Strategy Review : Recent major projects

YOKOGAWA ◆



#### Two important challenges

- Business restructuring must outpace rapid market change
- Achieving real growth (excluding impact of exchange rates)



#### Two priority measures

- 1 . Accelerate growth strategy
- 2 . Improve profitability

# Management policy

## Two important challenges

- Business restructuring must outpace rapid market change
- Achieving real growth (excluding impact of exchange rates)



## Background

### 1. Structural change in Japan

- 1-1. Falling product demand
- 1-2. Production costs and SG&A remain high as production moves overseas
- 1-3. Conventional lifecycle business in decline due to longer product service life and restricted investment in replacement

### 2. Intensifying competition in high-growth markets outside Japan

- 2-1. Increase in cross-regional large projects (need for global resource management)
- 2-2. Increasingly challenging projects (in new fields such as offshore development that require development of new products)
- 2-3. Need to optimize investment in new, growing markets such as Africa and Central Asia

### **1. Accelerate growth strategy**

- 1-1. Establish solutions service business model and expand business
- 1-2. Expand product portfolio for focus industries
- 1-3. Inject resources in high-growth markets

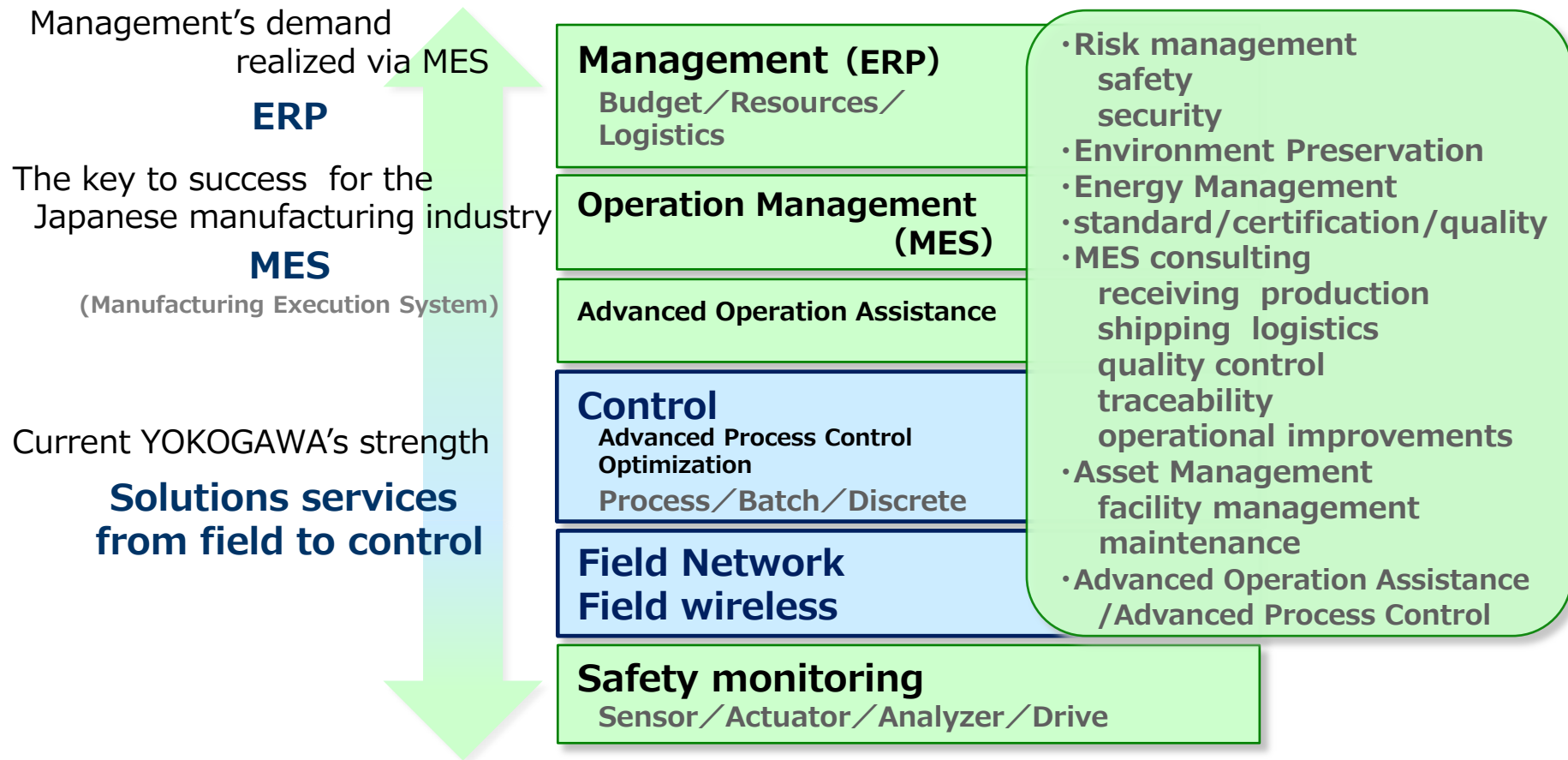
### **2. Enhance measures to improve profitability**

- 2-1. Reduce costs for Japan business
- 2-2. Enhance cost competitiveness (mainly Japan production costs)
- 2-3. Improve efficiency through global optimization

# ④ Measures to address challenges

## 1. Accelerate growth strategy

### 1-1. Establish solutions service business model and expand business



**Develop vertically and horizontally to expand lifecycle business**

# ④ Measures to address challenges

## 1. Accelerate growth strategy

### 1-1. Establish solutions service business model and expand business

#### Yokogawa strengths

- ◆ Long track record in providing system and instrumentation solutions based on measurement, control, and information technologies that improve operations, safety, and maintenance at production sites
- ◆ Large number of personnel with substantial knowledge and expertise from working with customers at production sites who are able to apply excellent judgment, analytical skills, and management techniques/tools

#### HR development, including mid-career recruitment

##### **【Personnel to develop and recruit】**

- Consultants with a management perspective who have good analytical, solution proposal, and communication skills
- Personnel with knowledge of customers' businesses
- Personnel who can provide IT related solutions
- Personnel who can analyze customer operations and propose solutions (knowledge of processes, chemical engineering, mathematics, operations)

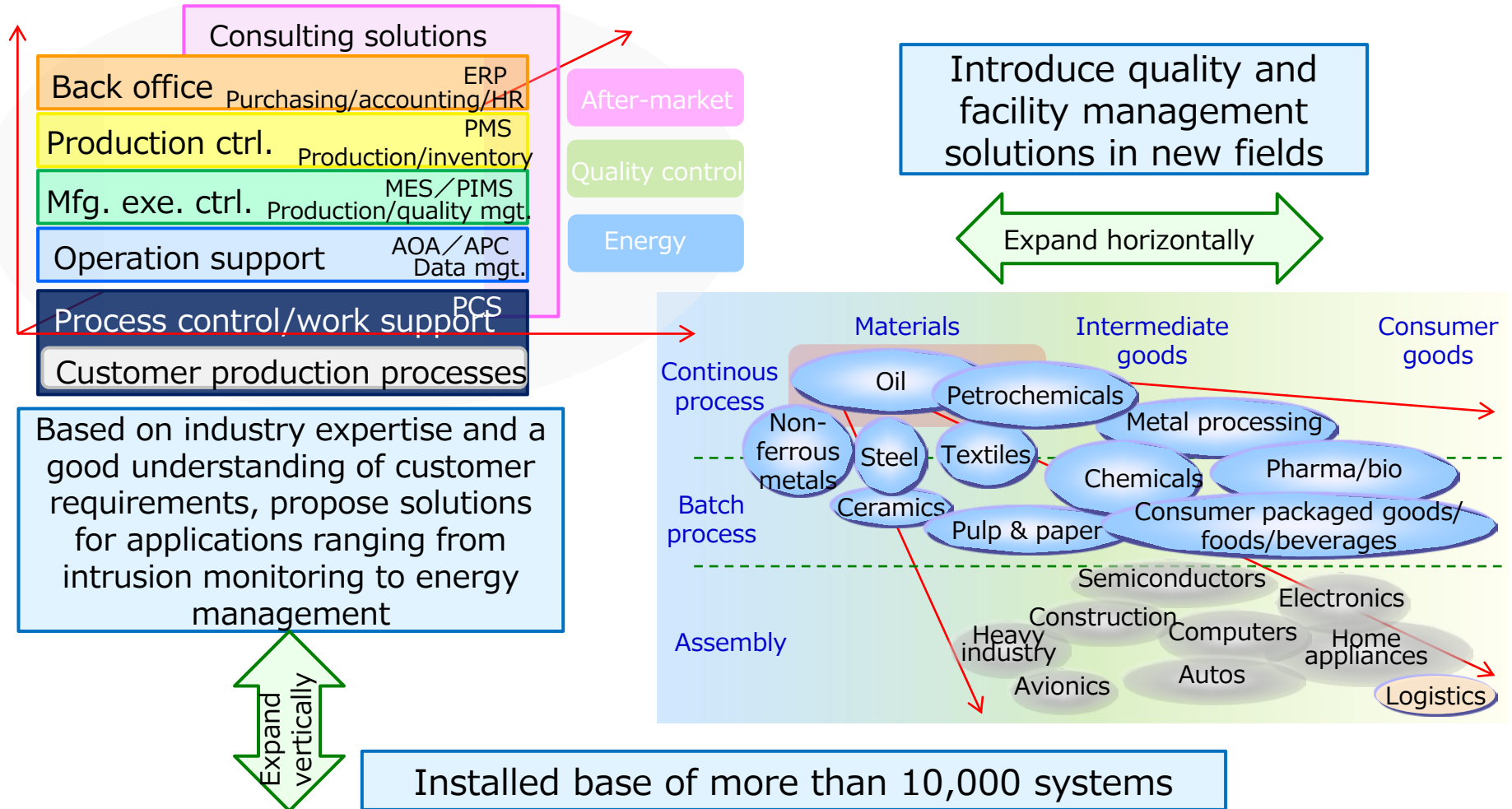
# ④ Measures to address challenges

## 1. Accelerate growth strategy

YOKOGAWA ◆

### 1-1. Establish solutions service business model and expand business

- Expand high value-added solution service business in Japan market

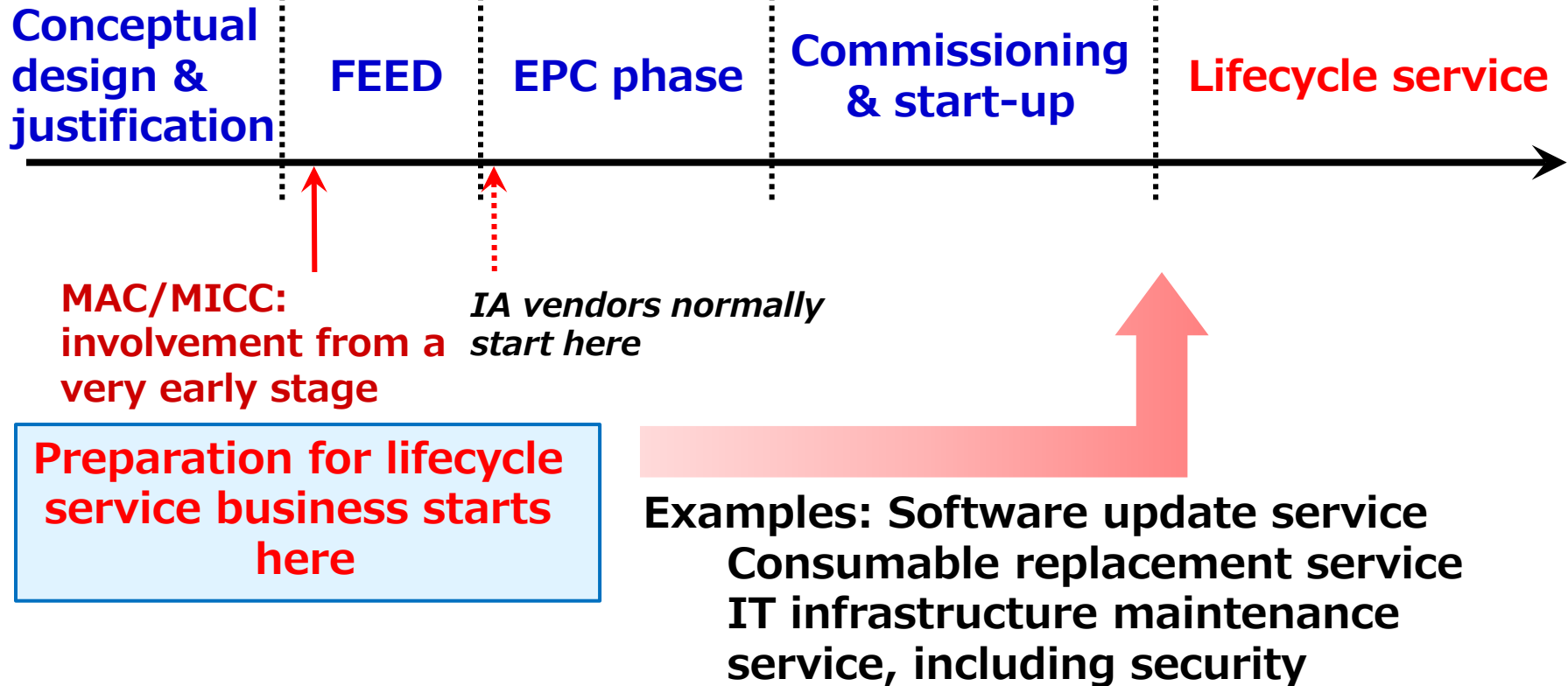


# ④ Measures to address challenges

## 1. Accelerate growth strategy

### 1-1. Establish solutions service business model and expand business

- ◆ Lifecycle service business for complete integrated systems implemented as part of Main Automation Contractor projects



Provide added value over the facility lifecycle by expanding the scope of the service business to include resale products

# ④ Measures to address challenges

## 1. Accelerate growth strategy

### 1-2. Expand product portfolio for focus industries

**NEW**

#### ① Multi-protocol wireless adaptor

Widens the scope of what can be measured to strengthen the foundation for operational excellence



**Wired communications using various protocols**

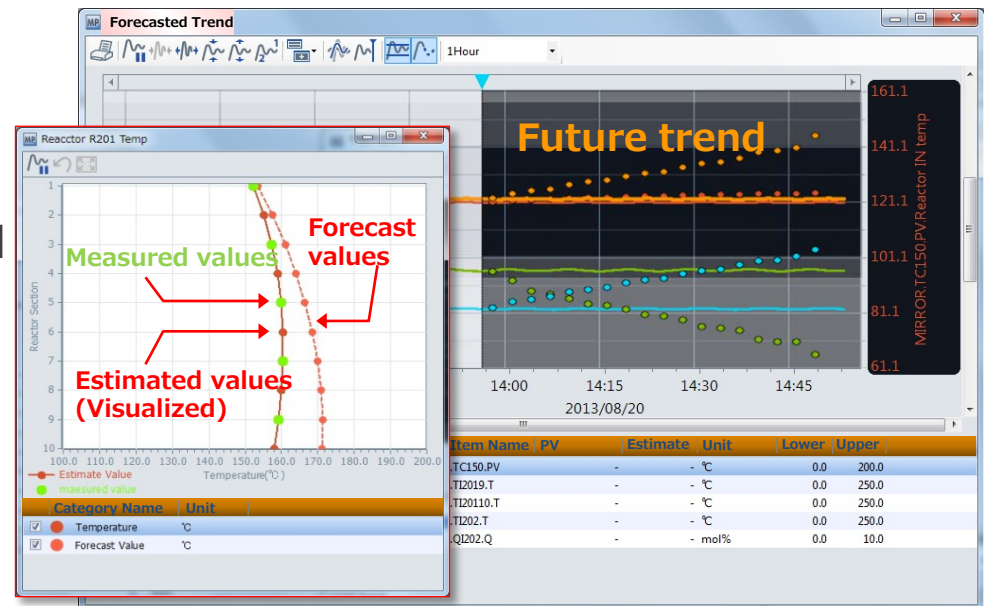
**Power supply**

Yokogawa and other manufacturers' devices

**NEW**

#### ② MIRROR PLANT

For a proactive approach to plant safety, predicts plant behavior based on real-time data

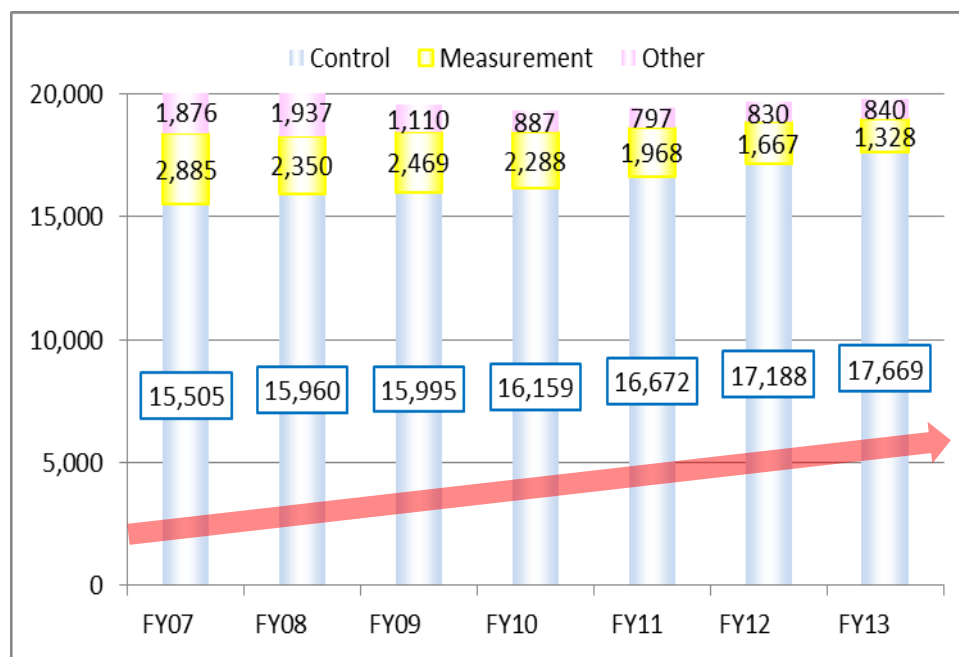


# ④ Measures to address challenges

## 1. Accelerate growth strategy

### 1-3 Injection of resources in high-growth markets

<Headcount by business segment>



- ◆ Inject resources mainly in Middle East, Southeast Asia, and other high-growth regions
- ◆ Continue injecting resources in North America
- ◆ Plan to inject resources in Africa, Central Asia and other newly developing markets

Inject resources in target markets to increase our installed base outside Japan and improve profitability. In so doing we will be able to accelerate our evolution into a solutions and service company.

### **1. Accelerate growth strategy**

- 1-1. Establish solutions service business model and expand business
- 1-2. Expand product portfolio for focus industries
- 1-3. Inject resources in high-growth markets

### **2. Enhance measures to improve profitability**

- 2-1. Reduce costs for Japan business
- 2-2. Enhance cost competitiveness (mainly Japan production costs)
- 2-3. Improve efficiency through global optimization

# ④ Measures to address challenges

## 2. Enhance measures to improve profitability

### 2-1. Reduce costs for Japan business

- ◆ Overseas transfer of Japan personnel (reduce Japan fixed costs and enhance overseas business)
- ◆ Continue Groupwide optimization measures
- ◆ Natural attrition through restricted Japan recruitment
- ◆ Reduce costs and expand sales through on-site engineering and lifecycle services to industrial complexes, etc. (multifunctional)

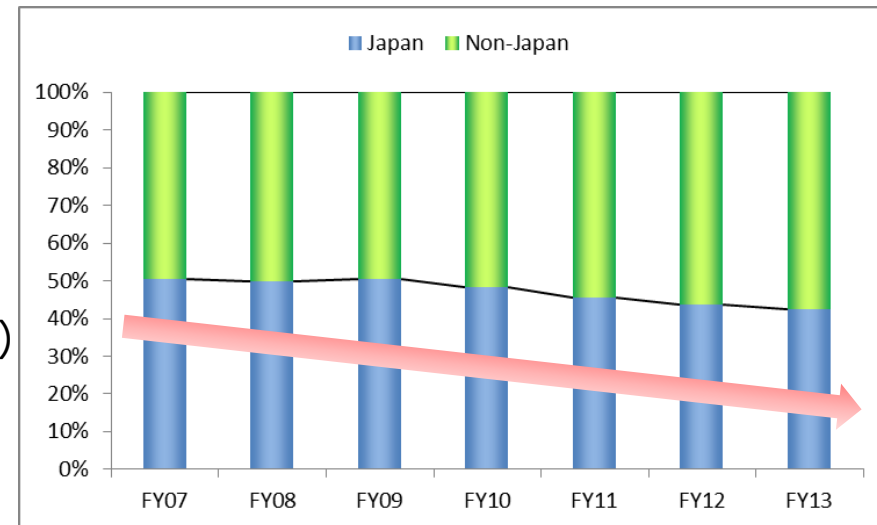
### 2-2. Enhance cost competitiveness (mainly Japan production costs)

- ◆ Further expand non-Japan procurement and production
- ◆ Promote automation
- ◆ Reduce overhead costs

### 2-3. Improve efficiency through global optimization





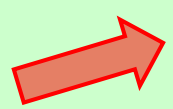

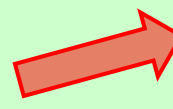

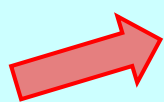
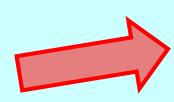
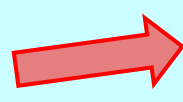
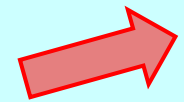
- ◆ Introduce business-region matrix operations and seek an optimal balance between the global integration of management resources for improved efficiency and the regional localization of operations

Trend in Japan-to-non-Japan personnel ratio



**Study all possible measures to improve profitability**

# Summary of IA and control business strategy

	Market	Resources (personnel, capital)	FY14 ROS forecast	ROS forecast after FY14
Japan				
	Rapidly Shrinking	Reduce fixed costs	Prevent rapid decline	Approx.5%
Outside Japan				
	CAGR 6%–8%	Inject resources in high growth markets	Improving	10% or higher
Overall				
	CAGR 5%–7%	Slight increase Target newfields	7.4% (+0.2%) Gradually improving	10% set as initial target. Improve in phases

## <FY13 dividend>

The Company plans to make a dividend payment of 6 yen per share at the end of fiscal year 2013. Accordingly, the annual dividend payment will be 12 yen per share.

Interim period	End of term	Annual
¥6	¥6	¥12

## <FY14 dividend>

For fiscal year 2014, the Company plans to pay interim and year-end dividends of 6 yen each, for a total dividend of 12 yen per share.

Interim period	End of term	Annual
¥ 6	¥ 6	¥12

# Corporate governance

- Candidates for director and Audit & Supervisory Board members
- Discontinuation of takeover defense measures

# Candidates for directors and Audit & Supervisory Board members

## ◆ Director\*

Shuzo Kaihori (Representative Director, Chairman)

Takashi Nishijima (Representative Director, President)

Satoru Kurosu (Director, Executive VP)

Hitoshi Nara (Director)

(NEW) Masatoshi Nakahara (Director, Senior VP, IA platform business)

(NEW) Junichi Anabuki (Director, VP, Accounting & treasury)

Yasuro Tanahashi (Outside Director)

Mitsudo Urano (Outside Director)

(NEW) Noritaka Uji (Outside Director)

## ◆ Audit & Supervisory Board

Takafumi Koyanagi (Member)

Kiyoshi Makino (Member)

Hideto Masaki (Outside member)

Zenichi Shishido (Outside member)

(NEW) Izumi Yamashita (Outside member)

\* Director candidates selected based on a report from the Company's Nomination and Compensation Committee

# Discontinuation of takeover defense measures

The Board of Directors resolved today not to renew the Yokogawa takeover defense measures. These measures will be discontinued upon the conclusion of the annual shareholders' meeting scheduled for June 25.

Henceforth, we will focus on the following:

- ① Ensuring healthy and sustainable growth to meet the expectations of our shareholders and other stakeholders.
- ② Continuing to strengthen and enhance our corporate governance.

By accomplishing the above, we will increase our corporate value and best serve the interests of our shareholders. We thus see no need for the renewal of the takeover defense measures.

•For the details please see the May 13 press release.

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.



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