Our Groupwide Approach

Yokogawa Electric Corporation

Avoid surprises
Preempt bottlenecks
Reduce blind spots

May 13, 2014
Takashi Nishijima
President and Chief Operating Officer
Contents

① Management review .................................................. P.2

② The present business environment ........................................ P.3

③ Strategy review .......................................................... P.4〜

④ Management policy ..................................................... P.7〜
  ・Two priority measures
  ・Summary of IA and Control business strategy
  ・Dividend

⑤ Corporate governance .................................................. P.20〜
  ・Candidates for directors and Audit & Supervisory Board members
  ・Discontinuation of takeover defense measures
Management Review

Two important challenges that we continue to face:

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

Business plan for FY15

While growing the IA and control business,
- Sales: ¥400 billion
- Operating income: ¥40 billion
- Operating income-to-sales ratio: 10%
- EPS: ¥100 or more
- Equity ratio: 50%
- Debt-to-equity ratio: 40%

Net Sales

Operating Income

Shareholders’ equity ratio

Debt/Equity ratio

Forecast
The present business environment

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
① Review 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

② Review of business structural reform strategy

Globalization of headquarters functions
→ Accounting & treasury and HR
→ Shift of control business operations to a global matrix system

③ Review 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%)
Strategy Review: Recent major projects

- recent major projects

1. **Mong Duong 2 coal-fired power plant, Vietnam**
2. **Jaypee Nigrie supercritical coal-fired power plant**
3. **Malaysian International Shipping Corporation/Tenaga and Seri class LNG carriers**
4. **Taneco Phase I Oil and petrochemical PJT, Tatarstan**
5. **Dushanzi oil refining and ethylene project CNPC**
6. **Shell Nanhai Petrochemical complex PJT; Shell & CNOOC**
7. **NEW Yamal LNG PJT; Yamgaz, a consortium of Technip and JGC**
8. **NAM-GLT renovation, GLT-PLUS innovation & upgrade PJT, Holland**
9. **Turceni thermal power plant pollution abatement PJT, Romania**
10. **PETRO Rabigh 1,2 PJT; Saudi Aramco and Sumitomo Chemical Co.**
11. **Angola FPSO BP**
12. **Sakhalin 2 Crude oil and natural gas development PJT**
13. **Map Ta Phut Olefins Co., Ltd. petrochemical plant complex construction PJT**
14. **Shell Nanhai Petrochemical complex PJT; Shell & CNOOC**
15. **NEW USGC Petrochemicals PJT; Chevron Phillips Chemical Company**
16. **NEW Sabine Pass LNG PJT; Cheniere Energy Partners**
17. **Shell Norco chemical reinstrumentation program**
18. **Mong Duong 2 coal-fired power plant, Vietnam**
19. **NEW USGC Petrochemicals PJT; Chevron Phillips Chemical Company**
20. **Shell Nanhai Petrochemical complex PJT; Shell & CNOOC**

- added:
  - LNG carrier control system
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
Background of two important challenges

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
Measures to address challenges

1. Accelerate growth strategy

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

- Management’s demand realized via MES
  - ERP
  - Operation Management (MES)
    - Advanced Operation Assistance
  - Control
    - Advanced Process Control Optimization
    - Process/Batch/Discrete
  - Field Network
    - Field wireless
  - Safety monitoring
    - Sensor/Actuator/Analyzer/Drive

- Current YOKOGAWA’s strength
  - Risk management
  - Safety
  - Security
  - Environment Preservation
  - Energy Management
  - Standard/certification/quality
  - MES consulting
  - Receiving production
  - Shipping logistics
  - Quality control
  - Traceability
  - Operational improvements
  - Asset Management
  - Facility management
  - Maintenance
  - Advanced Operation Assistance/Advanced Process Control

Develop vertically and horizontally to expand lifecycle business
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

1-1. Establish solutions service business model and expand business
- Expand high value-added solution service business in Japan market

- Based on industry expertise and a good understanding of customer requirements, propose solutions for applications ranging from intrusion monitoring to energy management

- Installed base of more than 10,000 systems

©Yokogawa Electric Corporation
2014/5/13
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

Conceptual design & justification | FEED | EPC phase | Commissioning & start-up | Lifecycle service

MAC/MICC: involvement from a very early stage

IA vendors normally start here

Preparation for lifecycle service business starts here

Examples: Software update service, Consumable replacement service, IT infrastructure maintenance service, including security

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

NEW

② MIRROR PLANT

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

Study all possible measures to improve profitability
### Summary of IA and control business strategy

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

©Yokogawa Electric Corporation
2014/5/13
<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.

<table>
<thead>
<tr>
<th></th>
<th>Interim period</th>
<th>End of term</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>¥6</td>
<td>¥6</td>
<td>¥12</td>
</tr>
</tbody>
</table>

<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.

<table>
<thead>
<tr>
<th></th>
<th>Interim period</th>
<th>End of term</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>¥6</td>
<td>¥6</td>
<td>¥12</td>
</tr>
</tbody>
</table>
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
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.

IR Group, Corporate Communication Department
Yokogawa Electric Corporation
Email: Yokogawa_Electric_IR6841@cs.jp.yokogawa.com
Phone: +81-422-52-5530
URL: http://www.yokogawa.com/pr/ir/index.htm