New Mid-term Business Plan
Fiscal Years 2015-2017

May 12, 2015
Takashi Nishijima
President and Chief Executive Officer
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Review of Evolution 2015
We expect to hit the sales target thanks in part to the weak yen, but have fallen short with profits. Further restructuring is necessary.

<table>
<thead>
<tr>
<th>Evolution 2015 targets for FY15</th>
<th>New FY15 targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales  ¥400 billion</td>
<td>¥413 billion</td>
</tr>
<tr>
<td>Operating income  ¥40 billion</td>
<td>¥33 billion</td>
</tr>
<tr>
<td>Operating income-to-sales ratio 10%</td>
<td>8%</td>
</tr>
<tr>
<td>EPS  ¥100 or more</td>
<td>¥74</td>
</tr>
</tbody>
</table>

We expect to achieve these targets and be in a strong financial position for next growth phase.

| Equity ratio  50%            | 55% or more |
| Debt-to-equity ratio 40%    | 30% or lower |

Put the company in a strong financial position

Must speed up our transformation to outpace market change and accelerate growth.

Exchange rate: 1$=80yen

Exchange rate: 1$=110yen
At a turning point:
Need for transformation into a highly efficient company

The plan to make quick strategic investments 4 billion yen explains the decrease from 40 billion yen to 33 billion yen.

Main targets for strategic investment (control business)

1. Expansion of lifecycle service business
   ⇒ Enhancement of services outside Japan
      (People, products, knowledge)

2. Expansion of advanced solution business
   ⇒ Develop and strengthen human resources
      Develop software packages, alliances

3. Development and strengthening of new businesses
   ⇒ Product development and alliances in target industries

4. Development of infrastructure
Analysis of operating income (FY14/FY15)

- Lower gross margin: +3.0
- Increase in gross profit from higher sales (excluding impact of exchange rate): (2.0)
- Strategic investments: +5.0
  - Impact of reduction of fixed costs: (4.0)
  - Other cost reductions: +1.2
- FY14 operating income: 29.8
- FY15 operating income forecast: 33.0

While making investments, continually achieve record high profits

Forecast of foreign exchange sensitivity: approx. 0.4 billion yen/dollars (year)

<table>
<thead>
<tr>
<th>Exchange rate</th>
<th>FY14</th>
<th>FY15 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$</td>
<td>110.58</td>
<td>110.00</td>
</tr>
</tbody>
</table>
Long-term Business Framework & New Mid-term Business Plan
Transformation 2017 (TF2017)
Role of TF2017 in long-term business framework

Structural reforms that prepare the way for growth

2015 ⇒ 2017
Establishing a foundation for growth by transforming our business structure

Focusing on our customers
• Develop business by pursuing close relationships with customers.
• Expand our business with our current customer base.

Creation of new value
• ICT advances are leading to new business opportunities.
• Co-create value across companies, industries, and markets by improving efficiency and achieving overall optimization.

Maximizing efficiency
• Globally optimize all functions and operations.
• Be more profitable than our competitors.

2018 ⇒
Growth to become an even more profitable company

Creating new value with customers
# Process Co-Innovation

This is a concept for a future automation business that will utilize all of Yokogawa’s measurement, control, and information technologies. According to this concept, process optimization goes beyond production processes to address all material and information flows within and between companies, including both value and supply chains.

This concept will encompass the entire range of Yokogawa solutions and will entail a commitment to working with clients to create new value on their behalf.

## Core competencies

<table>
<thead>
<tr>
<th>To be strengthened</th>
<th>Creating new standards to optimize and streamline processes</th>
<th>Connecting field data to management actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundamental</td>
<td>Creating extremely reliable products and solutions to support industry and society</td>
<td>Operating highly complex, mission-critical systems in extreme conditions</td>
</tr>
</tbody>
</table>
Yokogawa: solutions without borders, for all kinds of manufacturing processes and infrastructure
Completion of structural reforms

End of March 2008

Control
- Information business
  - Medical information
    - Japan System Techniques Co., Ltd

Measurement
- Semiconductor testers
- Advanced stage
- Photonics
- Life science
- Measuring instruments
  - Yokogawa Digital Computer Corporation

Other Businesses
- Kokusai Chart Corporation

Now

Control
- Solution service (SS)
- IA Platform (PF)

Measurement

Aviation and Other Businesses

Focus on control business

Spin-off
Transfer
Transfer/Withdrawal
Transfer/Withdrawal
Withdrawal
Withdrawal from MEG*business
Spin-off
Transfer

*MEG = Magnetoencephalograph
TF2017: three reforms

While focusing on the control business,

① **transform** from being product-centered to **being focused on the customer**

② **transform** to **create new value** by taking advantage of ICT

③ **transform** by **becoming more efficient than ever**
   (ROE 11%, with top priority on ROIC of control business)
The three reforms ① Focusing on customers

Based on our leading position in the Japan market

Until now

Customer base

① 56 countries, 86 affiliates
⇒ % of sales generated outside Japan has tripled over the past 20 years

② Over 25,000 DCSs installed
⇒ Number of systems installed outside Japan has increased 6 times over the past 20 years

③ No. 1 DCS supplier in petrochemical industry and LNG supply chain

From now

Customer base

Expansion of business

Focus on products
⇒ Focus on customers

Provide products
⇒ Provide value

Value creation with customers
The three reforms ② Creating new value

Connecting production control and management

Improving efficiency and optimizing processes across companies, business fields, and industries

Development of ICT

Alliances
Cisco Systems, Inc.
Tokyo Electron Limited
Mitsui Chemicals, Inc.
Murata Manufacturing Co., Ltd.
Microsoft Japan Co., Ltd.
Soteica Visual MESA
McAfee, Inc.

Our strengths
The three reforms ③ Maximizing efficiency management

Greatly improve profitability by globally optimizing operations to reduce costs and emphasizing ROE in company management

11% or more

ROE

6% or more

ROIC

ROA

Expansion of business and improvement of efficiency (control)

Expansion of scale

ROS

Revenue/invested capital

Re-examination of non-business assets

Financial leverage
Optimum capital structure

Investment (CAPEX & OPEX)

Continual investment

Strategic investment

Finances

Return to shareholders

Operating CF

Investment for growth

Business KPIs

Financial strategy, capital policy

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2017 Business strategy
- Industrial automation and control business
  Test and measurement business
  Aviation and other businesses -
IA & control business – Market opportunities –

1. **Further development of resource and energy sector**

   - **Energy Demand**
   - **Fossil Fuels**
   - **Biomass**
   - **Nuclear**
   - **Other renewables**
   - **Hydro**

   *Source: World Energy Outlook 2013*

2. **Innovation of industrial structure by integration of devices (“things”) and information ⇒(IoT)**

3. **Smartization of society ⇒(ICT)**

   - **Overall optimization for a smart society**
   - **Control**

   - **First industrial revolution**
   - **Second industrial revolution**
   - **Third industrial revolution**
   - **Fourth industrial revolution**

   *Source: Recommendations for Implementing the Strategic Initiative INDUSTRIE 4.0*, Aecotech, 2013
IA & control business – Two basic strategies –

The global No.1 company in IA
Top share of the market

Customer base-driven expansion throughout energy supply chain

Expand into new industries
Leveraging our strength in the Japan market
Starting in Asia, expand business operations worldwide
IA & control business – Target industries –

1. Oil & gas
   (Upstream, midstream, downstream)
   **Midstream:** in specific following area
   → Pipelines, FLNG/LNG tankers

2. Power
   For DCSs, this is the largest and the highest-growth market

3. Chemical
   Use knowhow acquired in Japan to achieve global growth
Business expansion in target industries (energy supply chain)

1. Expand lifecycle service business
2. Expand advanced solution business
3. Enhance platform product functions
4. Develop and expand new businesses:
   - Upstream/midstream
   - HSE + maintenance
   - Analytical × solution

*HSE: Health, safety and environment

Business expansion in new industries

1. Enter new industries through consulting business
2. Develop expertise in Asia
Measuring instruments
Focus on power measuring instruments, optical communications measuring instruments, and fields that have good synergy with our control business

Life science
Consolidate our leading position in the drug discovery support system market
Develop new applications for confocal scanner units

Measurement

Improve profitability

Incubate new businesses

CV7000 high-throughput cytological discovery system
CSU-X1 confocal scanner unit

Aviation and other
Expand aircraft business
Expand marine navigation business

Increase profits

Aviation and Other

Flat panel displays
Gyrocompasses
2017 Business Plan
## Mid-term business plan

**Aim for record high operating income and ROS each year.**

<table>
<thead>
<tr>
<th>Business plan</th>
<th>FY14</th>
<th>FY17</th>
<th>increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROE (%)</strong></td>
<td>8.6</td>
<td>11 or more</td>
<td>2.4pt or more</td>
</tr>
<tr>
<td><strong>ROA (%)</strong></td>
<td>3.8</td>
<td>6 or more</td>
<td>2.2pt or more</td>
</tr>
<tr>
<td><strong>Sales (billion yen)</strong></td>
<td>405.8</td>
<td>440.0</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>Operating income (billion yen)</strong></td>
<td>29.8</td>
<td>45.0</td>
<td>x 1.5</td>
</tr>
<tr>
<td><strong>ROS (%)</strong></td>
<td>7.3</td>
<td>10.2</td>
<td>2.9pt</td>
</tr>
<tr>
<td><strong>EPS (yen)</strong></td>
<td>66.9</td>
<td>100 or more</td>
<td>x 1.5</td>
</tr>
</tbody>
</table>

Exchange rate: 1$ = 110 yen

*After start of consolidated accounting*
## Business plan by segment

### Sales

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY17</th>
<th>Difference</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>358.0</td>
<td>390.0</td>
<td>+32.0</td>
<td>2.9%</td>
</tr>
<tr>
<td>Measurement</td>
<td>23.8</td>
<td>26.0</td>
<td>+2.2</td>
<td>3.0%</td>
</tr>
<tr>
<td>Aviation &amp; Other</td>
<td>24.0</td>
<td>24.0</td>
<td>±0</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>405.8</td>
<td>440.0</td>
<td>+34.2</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

Exchange rate: 1$ = 110 yen

### Operating income

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY17</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>27.1</td>
<td>42.0</td>
<td>+14.9</td>
</tr>
<tr>
<td>Measurement</td>
<td>1.6</td>
<td>2.0</td>
<td>+0.4</td>
</tr>
<tr>
<td>Aviation &amp; Other</td>
<td>1.1</td>
<td>1.0</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Total</td>
<td>29.8</td>
<td>45.0</td>
<td>+152</td>
</tr>
</tbody>
</table>

Exchange rate: 1$ = 110 yen

The FY14 operating income figure for Aviation & Other includes 300 million yen in gross profit earned by a property-related business.

*The Other Businesses business segment was renamed “Aviation and Other Businesses” on April 1.*
Policies on investment/costs
- R&D, investment for growth, HR, cost structure optimization -
R&D, investment for growth, HR

Investment in R&D

- Add more value and create new business.
- Maintain R&D investment at current levels and achieve an **R&D-to-sales ratio of 6%**.

Investment for growth

- To expand in target industries, **set aside 50 billion yen for strategic investment and M&A over the next three years**.
- Regular capital investment will be kept at an amount that is sufficient to cover capital depreciation.

HR

- **Keep size of global workforce at around 20,000** and increase proportion of employees who are based outside Japan.
Cost structure optimization

Establish an organization that reports directly to the president and undertakes global cross-organizational projects that will reduce costs by 20 billion yen.

<table>
<thead>
<tr>
<th>FY14</th>
<th>TF2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.3%</td>
<td>10%</td>
</tr>
<tr>
<td>58.3%</td>
<td>Strategic investment</td>
</tr>
<tr>
<td>COGS</td>
<td>Equivalent to ¥20 billion in sales in FY17</td>
</tr>
<tr>
<td>34.4%</td>
<td></td>
</tr>
</tbody>
</table>

- Operating profit 7.3%
- Engineering costs
- Manufacturing costs
- Material costs
- Consumable costs
- Rental costs
- Indirect operation costs
- Product dev. costs
- Logistics costs
- Sales costs

ICT utilization
Central procurement
Horizontal division of labor
Shared services
Back-office integration
Standardized work processes
Improved development efficiency
Global logistics optimization

Global approach to the overall reduction of costs

Transformation into a highly efficient global company
Financial strategy, capital policy

Cash generation/business expansion cycle

Operational cash flow (FY15-FY17) Total: 100 billion yen

90 billion yen (including strategic investment)

I Investment

• Strategic investment (50 billion yen from FY15 to FY17)
• Regular capital investment (to cover capital depreciation)

II Finances

• Ensure the sound finances needed to undertake business expansion (enhance ability to raise funds and manage risk)

III Return to shareholders

• Stable and sustainable dividend payment
• While allocating funds for investment and maintaining a sound financial footing, will aim for a 30% dividend ratio

Priority

Optimum capital structure

◆ Maintain ability to generate the funds needed to invest for growth
◆ Keep single A credit rating with Japanese rating agencies
## Enhancing corporate governance

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
<th>Directors</th>
<th>Auditors</th>
<th>Officers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>in</td>
<td>outside</td>
<td>Outside %</td>
</tr>
<tr>
<td>2003</td>
<td>Introduced outside directors</td>
<td>7</td>
<td>1</td>
<td>13%</td>
</tr>
<tr>
<td>2004</td>
<td>Abolished retirement bonuses for directors</td>
<td>7</td>
<td>1</td>
<td>13%</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td>7</td>
<td>1</td>
<td>13%</td>
</tr>
<tr>
<td>2006</td>
<td>Introduced one year tenure system for directors and revised articles of incorporation to reduce number of directors (25⇒15)</td>
<td>9</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>2007</td>
<td>Increased number of outside directors</td>
<td>8</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>2008</td>
<td>Abolished retirement bonuses for directors</td>
<td>7</td>
<td>2</td>
<td>22%</td>
</tr>
<tr>
<td>2009</td>
<td>Increased number of outside directors</td>
<td>7</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>2010</td>
<td>Increased number of outside directors</td>
<td>5</td>
<td>3</td>
<td>38%</td>
</tr>
<tr>
<td>2011</td>
<td>Renewed takeover defense measures</td>
<td>4</td>
<td>3</td>
<td>43%</td>
</tr>
<tr>
<td>2012</td>
<td>Sold shares of a listed affiliate</td>
<td>4</td>
<td>3</td>
<td>43%</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>4</td>
<td>3</td>
<td>43%</td>
</tr>
<tr>
<td>2014</td>
<td>Established Nomination and Compensation Committee (voluntary advisory body) Discontinuation (non-renewal) of takeover defense measures Introduced standards to ensure independence of outside directors</td>
<td>6</td>
<td>3</td>
<td>33%</td>
</tr>
<tr>
<td>2015</td>
<td>Established Nomination Advisory Committee and Compensation Advisory Committee (voluntary advisory bodies) Considering outside evaluation of Board of Directors</td>
<td>6</td>
<td>3</td>
<td>33%</td>
</tr>
</tbody>
</table>
Closing

With gratitude to all for the support received over the past 100 years

100th anniversary commemorative dividend: 5 yen (to be added to interim dividend)

Expect great things from Transformation 2017
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.

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