

Yokogawa Electric Corporation
Mid-term Business Plan
Fiscal Years 2011-2015

November 9, 2011

Shuzo Kaihori, President and Chief Executive Officer

- **Review of structural reforms**
- **The long-term vision and the positioning of this mid-term business plan**
- **Growth strategy**
 - ◆ **IA and control business**
 - ◆ **Test and measurement business**
- **Business structural reform strategy**
- **Policies towards investment in R&D, M&A, and alliances**
- **Business plan for each segment**
- **Financial strategy**

Review of structural reforms

Positioning of FY09-10

A period of structural reform with an eye on the next growth phase

■ Action plan for reduction of fixed costs

◆ Reduction of fixed costs

Initial target: ¥34 billion 

Result: ¥56 billion

◆ Break-even point

Initial target: ¥350 billion 

Result: ¥309 billion

■ Action plan for review of business portfolio

【Basic policy】

- Focus resources on the control segment.
- Maintain and develop the company's core measurement technologies.
- Select and quickly establish new businesses.
- Discontinue loss-making businesses.

All loss-making businesses have been reviewed.

Discontinue: Photonics, advanced stage
Scale down: Semiconductor testers,
magnetoencephalographs (MEG)
Spin out: Measuring instruments

■ Remaining items for structural reform

- ◆ Complete discontinuance of the photonics business and decide on a course of action that will make the most effective use of the Sagami-hara Office.
- ◆ Enter into semiconductor tester related alliances.



Concentrate efforts on achieving both items in FY11.

This mid-term business plan was prepared for our current business portfolio and excludes the figures of semiconductor tester and photonics businesses, which are still in the process of being restructured.

The long-term vision and the positioning of this mid-term business plan

Long-term vision

Becoming the global No. 1 company in the IA and control business.

Top share in the market

Mid-term business plan

Evolution 2015

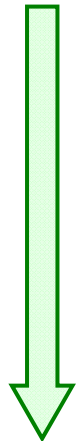
First step to achieving the long-term vision

Basic strategy

- **Growth strategies and structural reforms centering on the IA and control business**
- **Putting the company in a strong financial position**

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

put the company in a strong financial position.

Equity ratio	50%
Debt-to-equity ratio (D/E)	40%

※Exchange rate: 1\$=¥80, 1€=¥110

Growth strategy

– IA and control business –

<Business environment>

Sustained growth expected in the mid- to long-term mainly due to steadily rising demand for energy in emerging countries

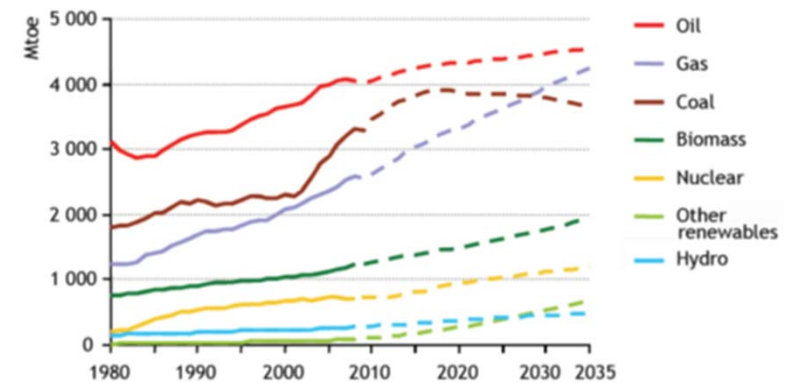
- **Power-related investment** will be 1.4 times larger in 2015.
- ◆ **Natural gas:** In comparison to 2008, it will be 1.6 times larger in 2035.
- ◆ **Oil:** Steady growth is expected.
- ◆ **Renewable Energy:** Biomass is already well established and has good growth potential.
- **In industries other than energy,** the demand for chemical products, particularly specialty chemicals, is expected to outpace GDP growth.



For these expanding control markets,

Yokogawa will implement a growth strategy that centers on the business of providing customer-focused solutions.

Figure 1.1 ▷ World primary energy demand by fuel in the GAS Scenario



Source: IEA WEO 2011_Golden Age of Gas Report

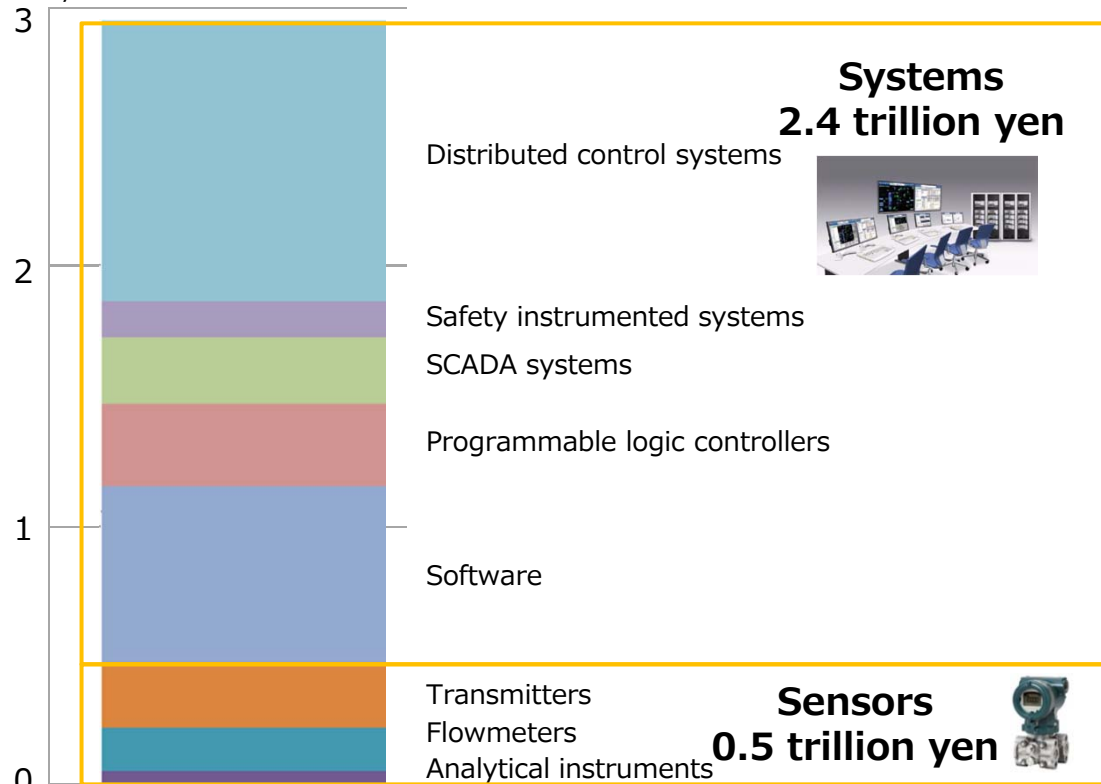
<Market size>

■ Main target for IA and control business

The approximately 3 trillion yen market for control systems and sensors

2009 (1\$=85¥)

Trillion yen



<Main target>

Approximately 3 trillion yen market

Growth areas are:
Upstream
Downstream
Power
Chemical



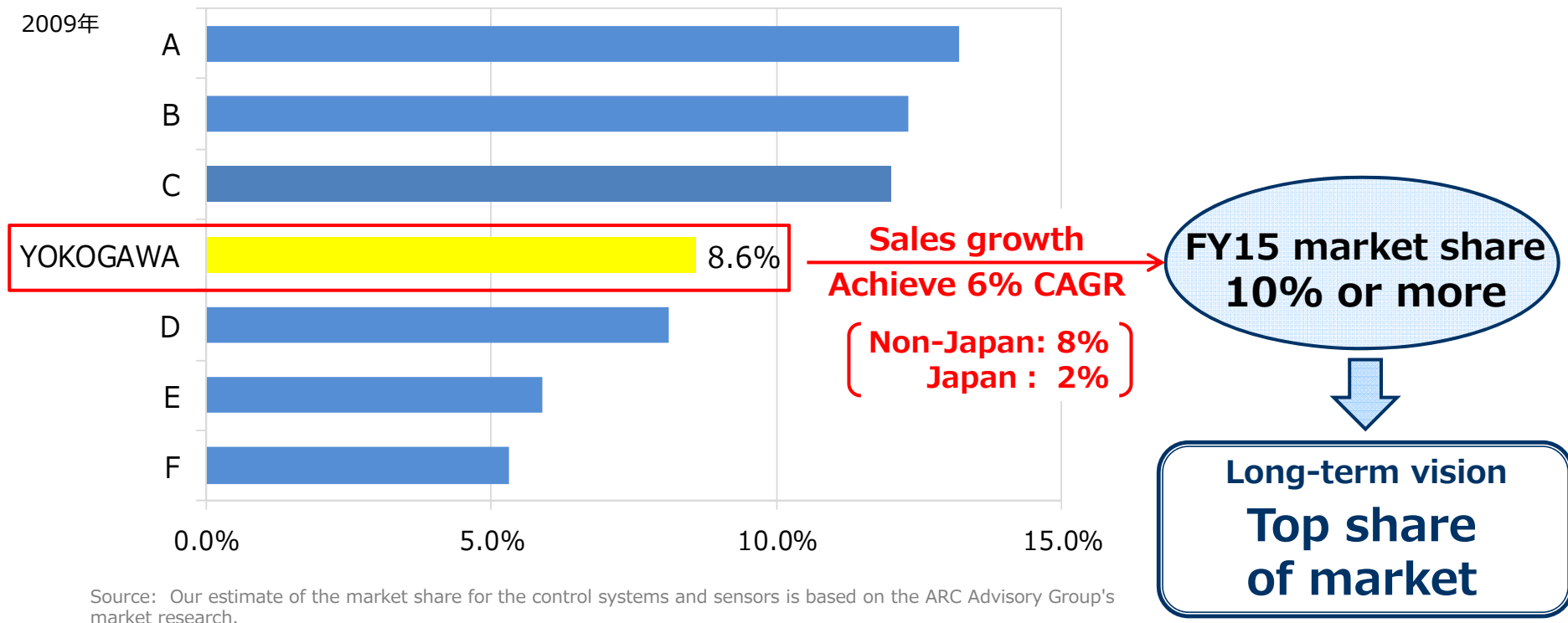
To become the global No.1 company in the IA and control business,

we will increase our market share.

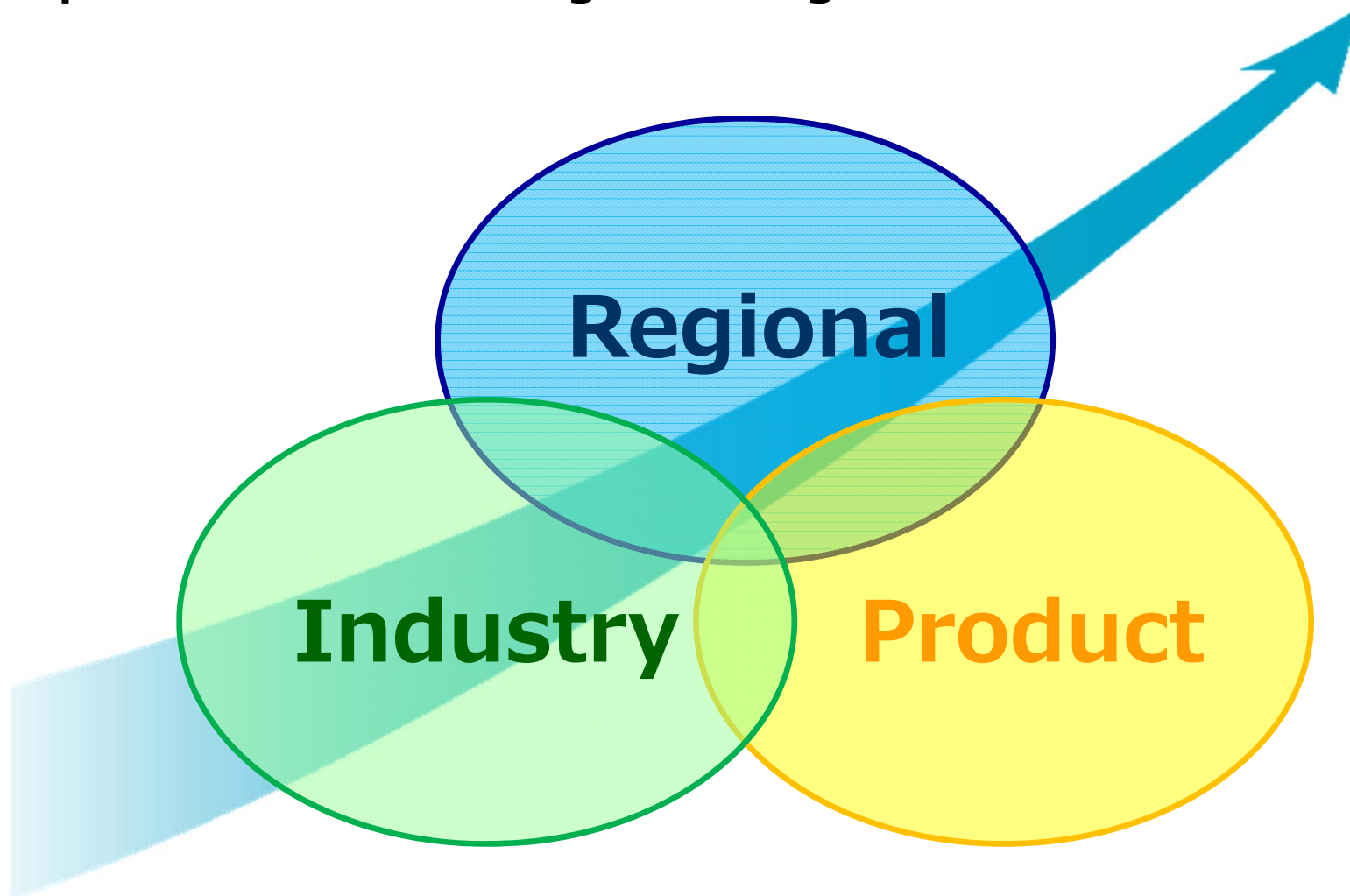
Source: The above information on the control system and sensor markets is based on the ARC Advisory Group's market research.

<Competitive conditions>

- In the system and sensor markets that are our focus, Yokogawa is narrowing the gap between it and the market leaders.



Implement the following 3 strategies:



<Regional strategy>

① Resource-rich and emerging countries (markets are growing rapidly)

■ Increase market share by winning new projects.

- Focus groups/regions:
BRICs, Middle East, South East, Asia, Oceania → Reinforce resources.
- Development regions:
Africa, Central Asia, South America → Open new offices and facilities to enhance our sales channels.

② European and U.S. markets (markets are large, but only moderate rates of growth are projected)

■ Strengthen relationships with major global companies in each industry.

- Steadily and efficiently advance in these mature markets and strengthen our presence in the global market.

③ Japan market

■ Expand the business by leveraging the strengths of a large installed base, sophisticated engineering capabilities, and a strong service network.

- Offer services that help our customers achieve a high level of efficiency and add greater value at their plants.
- Help Japanese manufacturers expand their operations in other countries.

<Industry strategy>

① Markets where we already have a strong position

◆ Downstream (oil refining, petrochemicals)

- Strengthen relationships with major energy and chemical companies.
- Offer a greater range of services covering the entire plant lifecycle.

② New target markets

■ New targets: (all large and high growth)

◆ Upstream (oil and gas field development and production)

◆ Electric power

◆ Specialty chemicals

- Bring together all our industry-specific control expertise.
- Share this knowledge throughout the Group.

■ Yokogawa will make full use of its track record and strengths to enter the biomass, geothermal, wind, solar, and other renewable energy markets.

<Product strategy>

① Production control systems

- **Continue developing products with world-class reliability and functions that are fully backward compatible with previous versions.**
 - Enrich their functionality for our new target industries/sectors such as upstream oil & gas, electric power, and specialty chemicals.
 - Provide product solutions that address specific customer needs (field digital solutions).

② Sensors

- Aim for the largest share of the global market with our highly competitive differential pressure/pressure transmitters and process gas analyzer.
- Rather than adhering to an in-house development policy, consider expanding our product lineup through alliances and M&A.

③ After-sales services

- Expand the provision of high value-added consulting services to improve production efficiency, in addition to conventional maintenance services.

Growth strategy

– Test and measurement business –

<Measuring instrument business>

- **Become the market leader in certain market niches where we can exert our strengths, e.g. the environment-related electrical and energy markets and the optical communications market.**

→ **Achieve steady growth and stable profits.**

- Make improvements to power meters and other types of basic measuring instruments, optical measuring instruments such as OTDRs, portable test instruments, and indicating instruments (meters).
- Strengthen our sales channels outside Japan and set up a planning and development organization in China that will focus on products for emerging countries.

<Life science business>

- **By making use of our measurement and control technologies, we believe this business has good growth potential.**

→ **Make this business highly profitable.**

- Attract new customers in the growing biotechnology research and new drug discovery markets.
- Maintain competitiveness and expand the product lineup by developing new products.

Business structural reform strategy

① Globalization of headquarters functions

- Accelerate the global expansion of our business by transferring more production and engineering functions to other countries.
- Group companies outside Japan will be asked to be prepared to undertake R&D and administrative operations.

② Review of production system

Strengthen our cost competitiveness by producing more of our products outside Japan, using external resources (outsourcing), and expanding international procurement.

- Our non-Japan operations will be significantly more active than our Japan operations in the areas of production and procurement.

③ Global human resources strategy

Improve our international competitiveness with the following two measures:

- Strengthen our system for recruiting and utilizing human resources from other countries.
- Improve our human resources development system.

Through these business structural reform measures, we can record costs in dollars and reduce our sensitivity to fluctuations in the exchange rate.

Policies towards investment in R&D, M&A, and alliances

<Investment in R&D>

- We will efficiently invest in research and development based on the development of scenarios on what we hope Yokogawa and the world will look like in 2025.
- ◆ Maintain R&D investment at current levels while increasing sales.

Achieve an R&D-to-sales ratio of 8%.

- IA and control business:	7%
- Test and measurement business:	10%

<M&A and alliances>

- Actively examine opportunities for alliances and M&A to improve the IA and control product lineup and enhance our high value-added consulting services.

Business plan for each segment

Business plan for each segment

YOKOGAWA 

Sales	FY10	FY15	Change FY10-15	CAGR FY10-15
Unit: billion yen				
IA and control	260.6	350.0	+89.4	6.2%
Test and measurement	37.1	28.0	-9.1	—
Other	27.9	22.0	-5.9	—
Sales	325.6	400.0	+74.4	4.2%

※Exchange rate : 1\$=¥80, 1€=¥110

Operating income	FY10	FY15	Change FY10-15
Unit: billion yen			
IA and control	16.5	36.0	+19.5
Test and measurement	(6.4)	3.0	+9.4
Other	1.0	1.0	0
Operating income	11.1	40.0	+28.9

※Exchange rate: 1\$=¥80, 1€=¥110

Financial strategy

Build a financial structure that allows us to become the No. 1 company in the IA and control business.

① Generation of free cash flow (FCF)

- During the five-year period of 2011-2015, generate FCF of 60 billion yen or more.

② Equity ratio and debt-to-equity ratio (D/E)

- Maintain a single-A rating and achieve a 50% equity ratio and a 40% D/E ratio.

After achieving these targets:

Minimize the cost of capital by optimizing our capital structure.

③ Capital investment

- Capital investment will be limited to the amount covered by depreciation (excluding M&A).

④ Dividends

- Our basic policy is to maintain a consolidated dividend payout ratio of 30%.

Closing

**Together with the strategies of Evolution 2015,
implement the following:**

- ① Make an all-out effort to complete all remaining items in the FY09-FY10 structural reforms by the end of FY11.**

- ② Expedite the attainment of the Evolution 2015 targets, which is the minimum that we must achieve.**
Implement the PDCA cycle for each business strategy and have the Board of Directors (including three independent directors and one independent auditor) monitor progress.

	Evolution 2015
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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.