

Name of Listed Company: Yokogawa Electric Corporation

(URL: <http://www.yokogawa.com>) (Stock code: 6841, listed in TSE 1st section)

Name and Position of the Representative:

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**Yokogawa Announces “Evolution 2015” Mid-term Business Plan  
Aiming to Become the Global No. 1 Company in the IA and Control Business**

Yokogawa Electric Corporation announces that it has drawn up its mid-term business plan for the period through the end of fiscal year 2015. This is the first step to achieving our long-term vision of becoming the global No. 1 company in the industrial automation (IA) and control business.

In fiscal years 2009 and 2010, Yokogawa conducted business structural reforms, and the company is now ready to raise its corporate value centering on the IA and control business.

This mid-term plan seeks to put the company in a strong financial position by achieving consolidated sales of 400 billion yen, an operating income-to-sales ratio of 10%, and earnings per share (EPS) of 100 yen or more by fiscal year 2015. To achieve this, we will implement growth strategies for the IA and control business as a global solutions and service company that develops a solutions business utilizing our expertise in measurement and control to address specific customer needs. We will also introduce another round of structural reforms that include the globalization of the corporate headquarters functions and changes to our overall production setup.

## 1. Consolidated business plan for fiscal year 2015

Item	Target
Sales	400 billion yen
Operating income	40 billion yen
Operating income-to-sales ratio	10%
EPS	100 yen or more
Shareholders' equity ratio	50%
Debt-to-equity ratio (D/E)	40%

Assumed exchange rate for the mid-term business plan: US\$1 = JPY 80, EUR 1 = JPY 110

## 2. Assumed business portfolio for the mid-term business plan

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

## 3. Growth strategy

### (1) IA and control business

The IA and control business is expected to see sustained growth in the mid- to long-term mainly due to steadily rising demand for energy in emerging countries. By the year 2015, it is expected that power-related investment worldwide will be 1.4 times larger than at present. In comparison to 2008, it is estimated that the demand for natural gas will be 1.6 times larger in 2035. Demand for oil will also grow steadily. As for 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 used in secondary batteries and other products, 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.

In Japan, Yokogawa already holds a large share of every process industry related market. We are strongest in the downstream sector, which includes oil refining and petrochemicals, and have actively expanded our business in the global market, almost doubling our sales outside Japan over the past decade.

The IA and control business is expected to continue growing. With advantages that include highly reliable products and excellent project implementation capabilities, Yokogawa will grow its business in the years leading up to 2015 by strengthening its coverage of geographic regions and forte industries and expanding its product lineup. Our long-term vision is to become the world's No. 1 company in the IA and control business. As a first step in this direction, we aim for this business to achieve sales of 350 billion yen by fiscal year 2015. To reach this target, we will implement the following regional, industry, and product strategies:

(i) Regional strategy

We aim to increase our market share mainly by winning new projects in resource-rich and emerging countries that are growing rapidly. Our main targets are the BRICs, the Middle East, Southeast Asia, and Oceania, and we will reinforce our resources accordingly. Growth is also anticipated in Africa, Central Asia, and South America; we regard these markets as a new frontier and will open new offices and facilities to enhance our sales channels.

While the European and U.S. markets are large, only moderate rates of growth are projected there. To efficiently and steadily increase our share in these mature markets as well as our presence in the global market, our strategy will be to strengthen relationships with major global companies in each industry.

In the Japan market, we will rely on strengths such as our large installed base of production control/management systems, sophisticated engineering capabilities, and strong service network to achieve growth through the following activities:

- Helping our customers achieve a high level of efficiency and add greater value by offering services that enhance productivity, safety, energy saving, and environmental conservation at their plants

- Utilizing our global network to help Japanese manufacturers expand their operations in other countries
- Using our comprehensive system integration (including third-party products) capabilities to offer high value-added solutions mainly for major industrial complexes, ranging from the development of production processes and the establishment of production technologies to the construction, operation, and maintenance of production control/management systems
- Expanding our business in new markets such as high-performance materials for secondary batteries

#### (ii) Industry strategy

We already have a large share of downstream markets such as oil refining and petrochemicals. In these areas, we will expand by strengthening relationships with major global energy and chemical companies and offering a greater range of services covering the entire plant lifecycle.

In addition, we will increase market share by globally focusing on a larger number of industries. Our new target industries are oil and gas field development and production (upstream), electric power, and specialty chemicals, all of which have a large market and a high growth rate. To increase our share in these markets, we will set up centers of excellence in Japan, Singapore, the United States, Europe, and other regions to bring together all our industry-specific control expertise. This will help us broaden the sharing of this knowledge throughout the Group.

This expertise, which will become the source of our competitiveness, includes energy saving and plant energy management in Japan, gas drilling in the United States and Europe, oil drilling in the Middle East, fine chemicals in Germany, and electric power in Australia. We will share this expertise with all Group companies worldwide. Moreover, we will actively enter the renewable energy market including biomass, geothermal, wind, and solar heat power generation, where we can make full use of our track record and strengths.

#### (iii) Product strategy

Regarding production control systems, we will continue developing products with world-class reliability and functions that are fully backward compatible with previous versions, ensuring that our

customers can continue to use our products for a long time. We will enrich their functionality for our new target industries such as electric power and specialty chemicals. We will also provide product solutions that address specific customer needs. These include software for improving production efficiency and field digital solutions for using plant information effectively.

With sensor products, we aim to take the largest share of the global market with our highly competitive differential pressure/pressure transmitters and process gas analyzers. Rather than adhering to an in-house development policy, we will consider expanding our product lineup through alliances and M&A. We will also strengthen our after-sales service, which helps our customers operate their plants safely and efficiently for long periods of time. For this purpose, we will expand the provision of high value-added consulting services to improve production efficiency, in addition to conventional maintenance services.

## (2) Test and measurement business

### (i) Measuring instrument business

In this field, Yokogawa Meters & Instruments Corporation, a Yokogawa affiliate, will play a major role in achieving steady growth and stable profits. In the environment-related electrical and energy markets and the optical communications market, which are expected to continue growing, we will become the world leader in niche areas where we can exert our strengths. Specifically, we will improve basic measuring instruments such as power meters, optical measuring instruments such as OTDRs, portable test instruments, and indicating instruments (meters). In addition, we will strengthen our sales channels outside Japan and set up a planning and development organization in China that will focus on products for emerging countries.

### (ii) Life science business

Our proprietary confocal scanner and drug discovery support systems are internationally competitive. With this business's core products, we will attract new customers in the growing biotechnology research and new drug discovery markets. In addition, we will expand this business, make it highly profitable, and maintain its competitiveness by developing new products based on our measurement and control technologies.

### (3) Other businesses

In our aviation and marine equipment and environmental measuring instrument businesses, we will provide a steady flow of products to existing customers and maintain efficient business operations to secure stable profits.

## **4. Business structural reform strategy**

To pursue a growth strategy that will make us the world's No. 1 IA and control business, we will accelerate the globalization of each headquarters function and structure our business to make it less sensitive to fluctuations in the exchange rate.

### (i) Globalization of headquarters functions

We will accelerate the global expansion of our business by transferring more production and engineering functions to other countries. In addition, we will increasingly turn to Group companies outside Japan to perform more of the R&D and administrative operations that are presently conducted mainly in Japan.

### (ii) Review of production system

We will strengthen our cost competitiveness by producing more of our products outside Japan, using external resources (outsourcing), and expanding international procurement. With these changes, our non-Japan operations will be significantly more active than our Japan operations in the areas of production and procurement.

### (iii) Global human resources strategy

We will improve our international competitiveness with the following two measures: strengthening the system for recruiting and utilizing human resources from other countries, and improving the human resources development system to allow the dynamic transfer of personnel between Group companies, including the headquarters in Japan.

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

## **5. Policies towards investment in R&D, M&A, and alliances**

In accordance with the following policies, we will invest to become the global No. 1 company in the IA and control business:

### **(i) 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.

We will achieve an R&D-to-sales ratio of 8% by maintaining R&D investment at current levels while increasing sales. The benchmark ratios for the respective business segments are 7% for the IA and control business and 10% for the test and measurement business.

### **(ii) M&A and alliances**

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

## **6. Financial strategy**

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

### **(i) Generation of free cash flow (FCF)**

We will generate FCF of 60 billion yen or more during the five-year period of fiscal years 2011 to 2015.

### **(ii) Equity ratio and debt-to-equity ratio (D/E)**

The benchmark figures are a shareholders' equity ratio of 50% or more and a D/E of 40%. After achieving these targets, we will improve the capital efficiency to minimize the cost of capital by achieving the optimal capital structure.

(iii) Capital investment

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

(iv) Dividends

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

Reference

Business plan for each segment in fiscal year 2015

	Sales	Operating income
IA and control business	350 billion yen	36 billion yen
Test and measurement business	28 billion yen	3 billion yen
Other businesses	22 billion yen	1 billion yen
Total	400 billion yen	40 billion yen

**About Yokogawa**

Yokogawa's global network of 25 manufacturing facilities and 80 companies spans 54 countries. Since its founding in 1915, the US\$3 billion company has been engaged in cutting-edge research and innovation, securing more than 7,200 patents and registrations, including the world's first digital sensors for flow and pressure measurement. Industrial automation and control, test and measurement, information systems and industry support are the core businesses of Yokogawa. For more information about Yokogawa, please visit our web site at [www.yokogawa.com](http://www.yokogawa.com)