Interview with the President

Resolving a Number of Pressing Issues by Aggressively Expanding Our Businesses

Orders, net sales, and operating income were all up compared with the previous fiscal year due mainly to efforts aimed at expanding the industrial automation and control business, which remained strong outside Japan thanks to energy-related investment growth and continued weakness in the value of the yen.
In fiscal year 2013, our orders, net sales, and operating income were all up from the previous fiscal year.

Looking at the global economic situation, the U.S. economy showed modest signs of recovery. There were also indications of a positive turnaround in Europe in the second half of the year. However, there were ongoing concerns about the slowdown in economic activity in emerging countries. As a result, the global economy showed only moderate growth.

There were also signs of a gradual upswing in the Japanese economy, with the government’s fiscal and monetary policies triggering expectations of growth and leading to a deflation of the strong yen and steady increases in stock prices. Conditions also benefitted from a pickup in personal consumption and corporate-sector results, although the costs of energy and imported raw materials rose. Concerns about a possible downturn in personal consumption due to the consumption tax hike also emerged. As a result, both consumers and the corporate sector remained cautious.

Under these circumstances, and guided by its Evolution 2015 mid-term business plan, the Yokogawa Group worked to aggressively expand its business activities, focusing mainly on the industrial automation and control business, which remained strong outside Japan thanks to the growth in energy-related investment. As a result, and partly due to continued weakness in the yen, orders, net sales, and operating income were up from the previous fiscal year. (Please refer to table 1.)

In our mainstay business of industrial automation and control, we expect robust growth chiefly in energy-related markets thanks to strong demand for energy and the active development of energy resources in emerging and resource-rich countries. Accordingly, orders, sales, and operating income in this business are projected to increase in fiscal year 2014.

In the test and measurement business, we anticipate orders and sales to decrease, and this is due mainly to the discontinuation of the semiconductor tester and motion control businesses and the sale of a subsidiary that was involved in the measuring instruments business. Operating income, on the other hand, is forecast to rise as a result of factors such as the discontinuation of the motion control business.

Taking all this into consideration, we think that consolidated orders, net sales, operating income, and net income are going to increase in fiscal year 2014. Dividends will probably remain unchanged, with an interim dividend of ¥6 per share and a period-end dividend of ¥6 per share, for an annual dividend of ¥12 per share.

What issues do you expect to face in running Yokogawa, and what are your policies going forward?

The Yokogawa Group will need to address the following two urgent issues:

1. The need to outpace the changes that are underway in the market by transforming our business model
2. The need to generate real growth, excluding the effects of foreign currency exchange movements

The Japan market is changing more quickly than we expected. In addition to the large-scale structural reforms that are underway in the oil and petrochemical industries, companies are speeding up the offshoring of production operations. Also, our customers around the world are demanding increasingly higher value-added products and services, and the global competition for their business is growing increasingly fierce. As our customers increasingly move their business activities outside their own home markets, we have a pressing need to coordinate activities that take place across regions. At the same time, it is becoming increasingly important for us to direct our investment toward such new growth areas such as Africa and Central Asia. It is therefore vital that we outpace these changes in the market by transforming our business.

A prolonged weakness in the yen throughout fiscal year 2013 substantially drove up our profits. Excluding the effects of these fluctuations in foreign currency exchange rates, we were unable, however, to generate real growth.
It is imperative for the Group as a whole to work diligently to address this issue. We must take bold steps to accelerate the pace of growth.

Moving forward, the Yokogawa Group will pursue management policies that will address these two issues. Looking ahead, we will accelerate growth and improve profitability.

Establishing and expanding a solutions service business model will play a key role in accelerating growth. In addition to the control systems, field instruments, and other products belonging to the Company’s core businesses, Yokogawa boasts advanced operations assistance and operations management solutions as well as ERP and other high-end manufacturing-related system solutions. In this regard, the scope of our business is expanding vertically.

Yokogawa also has a long track record in resolving plant operation, maintenance, and safety issues. Leveraging this strength, we will take the first steps to building a consulting business model that seeks to identify potential issues early on, before they can lead to problems for our customers. In this manner, we will expand the scope of our business activities into industries where we have yet to establish a foothold.

Moreover, we will continue to emphasize the provision of support that spans the entire plant lifecycle. We will accelerate the pace of growth by expanding our solutions services vertically and horizontally based on a lifecycle matrix.

In expanding our solutions services, it is vital that we bolster the underlying strengths of our product portfolio. The high quality and reliability of our products define us as a company and are indispensable to plant safety. As a major step toward building even more robust ties with our customers, we will continue to focus on product development.

Turning to the subject of how we will improve profitability, we plan to reinforce our activities in three key areas, namely, reducing business costs in Japan, becoming more cost competitive, and improving efficiency through global optimization.

To reduce business costs in Japan, we are considering the possibility of moving certain personnel outside Japan over a three-year period starting in 2014. These will be individuals with outstanding skills and a wealth of experience spanning a wide range of industries. We will also seek to train personnel in a variety of skills so that they can provide a broad spectrum of engineering and lifecycle services, and will assign them to locations where they can work in close proximity with our customers, including operators of major industrial complexes. While strengthening our non-Japan business, this will allow us to make the most efficient use of our limited resources and achieve an optimum balance in the costs for our operations inside and outside Japan.

As a part of our efforts to enhance cost competitiveness, we will work to move more of our procurement and production outside Japan, with the aim of conducting these activities closer to our end users. In Japan, we will seek to further automate production lines that have room for improvement in this area. At the same time, we will look for ways to optimize our manufacturing overhead costs around the world.

To improve efficiency, we will introduce a setup whereby the heads of our regions outside Japan will report directly to me. Our goal is to ensure an optimal balance between the global integration of management resources for improved efficiency and the regional localization of operations.

Q4 In closing, could you please provide us with your thoughts on the Company’s efforts to be a good corporate citizen?

Yokogawa has accumulated a robust portfolio of advanced technologies and a wealth of experience in the measurement, control, and information fields. This allows us not only to support the development of infrastructure that industry and society depend on, but also to contribute in fields such as alternative energy and energy conservation that help to protect the environment.

In January 2009, Yokogawa joined the United Nations Global Compact, a voluntary corporate citizenship initiative centering on 10 principles in the areas of human rights, labour, the environment, and anti-corruption, and has remained focused on engaging in business activities that are consistent with these principles. Worldwide, the Yokogawa Group is vigorously engaged in activities that contribute to society and is working to resolve a variety of social issues in each country and region. As a company that does business globally, we believe that contributing to society should be one of our core responsibilities.

Yokogawa recognizes that it is its responsibility as a corporation to consistently generate maximum value that will benefit both customers and society. At the same time, we understand that fulfilling our corporate social responsibility plays a significant role in ensuring our existence as a going concern. To help realize a sustainable society, we will maintain an unwavering commitment to engaging in business activities that contribute to society and enhance our corporate value.