

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: Shuzo Kaihori, President and Chief Executive Officer

Name and Position of the Person in Charge: Yuusuke Ichinose, General Manager of Public Relations and Investor Relations

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February 23, 2010

## **Notice of Funds to be Procured through Hybrid Financing (Subordinated Loan)**

Yokogawa Electric Corporation (the Company) announces that it has entered into an agreement for hybrid financing (subordinated loan).

### **1. Purpose of the Financing**

The global economy has finally turned the corner and is showing signs of recovery. This trend varies from region to region and is strongest in the emerging markets. Although capital investment remains subdued worldwide, particularly in Japan and other developed nations in Europe and North America, resource-rich countries in the Middle East and Africa are starting to resume energy plant projects. A look across business segments shows that the Yokogawa Group's control segment is making a slow recovery; however, the test and measurement segment, which mainly consists of the semiconductor test systems business and measuring instruments business, is still on the road to recovery.

Against this backdrop, the Company sees FY2009 and FY2010 as a period for structural reform, with an eye on the next growth phase, and has been strengthening its efforts to build a new business portfolio centered on the industrial automation and control business. It has been doing this by (1) focusing resources on the industrial automation and control business, (2) maintaining and developing the Company's core measurement technologies, (3) quickly selecting and establishing new businesses, and (4) discontinuing loss-making businesses.

However, the posting of an impairment loss and other extraordinary losses in connection with the Company's withdrawal from the advanced stage business and other unprofitable businesses has had the effect of eroding the Company's financial fundamentals, such as by reducing its shareholders' equity ratio. Furthermore, the repayment of a 20 billion yen syndicated loan is scheduled for FY2010.

Given these circumstances, the Company has decided to secure financing through a subordinated loan that will make it possible to concentrate management resources on the industrial automation and control business. This will quickly strengthen the Company's financial base without the stock dilution that would occur if, for example, the Company raised capital in the equity markets by issuing additional shares at the market price.

The Company believes that a subordinated loan will help provide a solid basis for growth in the years to come. The aim is to use this to stabilize the Company's business base and promptly restore profitability by focusing on the industrial automation and control business.

## **2 Characteristics of the Subordinated Loan**

The Subordinated Loan is a type of hybrid financing, the characteristics of which place it midway between equity and debt: although it is a debt, it also has aspects and characteristics similar to equity, such as optional deferment of interest, an especially long repayment period, and a subordinated aspect with respect to insolvency proceedings and liquidation proceedings. Consequently, for the purpose of rating the Company, the major ratings institutions (Rating and Investment Information, Inc. (R&I), Japan Credit Rating Agency, Limited (JCR), and Moody's Japan K.K.) have recognized 50% of the total value of the financing as "equity credit attribute." The Subordinated Loan is also a debt from a legal perspective, and because no conversion right into ordinary shares is attached, there will not be any dilution whatsoever of the Company's shares.

## **3 Significance of Procuring Financing through the Subordinated Loan**

The Company believes that the Subordinated Loan will enable the Company to consolidate its financial base through debt financing without diluting its shares and to secure investment capital for the expansion of the Company's industrial automation and control business in the business fields of energy, performance materials, and environmental preservation, which are expected to grow in the future.

Furthermore, a broad range of investors are participating in the Subordinated Loan, particularly financial institutions involved in the Company's business. The Company believes that this shows how highly its business plans and potential for future growth have been evaluated. The investors (lenders) participating in the Subordinated Loan are as follows (in no particular order).

- Mizuho Corporate Bank, Ltd.
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- The Dai-ichi Mutual Life Insurance Company
- Development Bank of Japan Inc.
- Fuyo General Lease Co., Ltd.

(And 1 other financial institution)

Total: 6 investors

## **4 Overview of the Subordinated Loan**

- |                              |                   |
|------------------------------|-------------------|
| (1) Amount to be borrowed    | 25 billion yen    |
| (2) Agreement execution date | February 23, 2010 |
| (3) Drawdown date            | February 26, 2010 |
| (4) Due date                 | July 20, 2070     |

However, the Company may, at its option, make an early repayment of all or some of the principal on the Subordinated Loan on any interest payment date on or after July 20, 2015.

Furthermore, the Company also has the option to make an early repayment of all or some of the principal if

- (i) after the drawdown date the interest on the Subordinated Loan will attract serious tax disadvantages from the Company's perspective that according to even the Company's reasonable judgment are not possible to avoid, or
- (ii) an announcement or notice is given by a ratings institution of its decision to the effect that it will treat the Subordinated Loan as having equity credit lower than the Subordinated Loan had at the time of its drawdown.

(5) Replacement restrictions

The Company intends not to make an early repayment of the Subordinated Loan except to the extent that the Company has, within the 6-month period before the date on which it will make that early repayment, raised funds that have been approved by ratings institutions as having equity credit equal to or greater than the Subordinated Loan.

(6) Interest rate

The interest rate for interest payment dates on and before July 20, 2015, is to be 4.81807% (a fixed rate calculated by adding 4.00% to the 5 years and 5 months swap rate) and for interest payment dates after July 20, 2015, is to be a floating rate calculated by adding the above spread and step-up interest of 1.00% to the 6-month yen LIBOR.

(7) Interest payment dates

The first interest payment date is to be July 20, 2010, and subsequent interest payment dates are to be January 20 and July 20 each year (however, if an interest payment date falls on a bank business holiday, interest will be paid on the immediately preceding bank business day).

(8) Limitations on payments of interest

- (i) Optional suspension of interest payment

If a Mandatory Payment Event provided for in (ii) below is not occurring, the Company may, at its option, defer all or some of the payment of interest on the Subordinated Loan.

- (ii) Endeavors to pay suspended amounts of interest payments on occurrence of Mandatory Payment Event

If the Company pays a dividend on, buys back (but excluding buybacks required by law or regulation), or acquires shares of its own that are (i) ordinary shares or (ii) shares other than its ordinary shares and are in effect subordinate to the Subordinated Loan in terms of the right to receive a dividend of surplus and the right to receive a distribution of residual assets (any such payment, purchase, or acquisition, "**Mandatory Payment Event**"), then the Company intends to make reasonable endeavors to the extent commercially practicable to pay all of the **Optional Deferred Payment Amount** (which means the optional suspension amount and the additional interest on it).

- (iii) Limitation on resources for payments

Payment of the Optional Deferred Payment Amount may only be sourced from amounts (on which there is also a maximum) raised through a means of procuring new financing that has

equity credit equal to or greater than the Subordinated Loan.

(9) Subordination clause

If proceedings are commenced to liquidate the Company or a court decides to commence proceedings for the bankruptcy, corporate reorganization, civil rehabilitation, or the like of the Company (any such event, a “**Subordination Event**”), each and every lender of the Subordinated Loan will be entitled to receive payment of the principal and interest on the Subordinated Loan after full payment has been made of all of the Company’s debt other than the Subordinated Loan and the **Subordinated Debt of Equal Priority** (which means a debt of the Company comprising a clause, condition, or the like that is in effect similar to the subordination clause of the Subordinated Loan and with respect to which the rights relating to the interest on it, and the redemption or repayment terms for it, are in effect similar to those in the agreement for the Subordinated Loan or are decided according to the Company’s financial situation and business results) (all debt of the Company other than the Subordinated Loan and the Subordinated Debt of Equal Priority, “**Senior Debt**”).

(10) Prohibition on changes disadvantageous to senior creditors

No term of the agreement for the Subordinated Loan may be changed to the disadvantage of a senior creditor in any respect whatsoever, and no agreement for any such change will be effective in any way whatsoever against any person whatsoever. “Senior creditor” here means a person who has a claim against the Company arising out of Senior Debt.

(11) Right to request delivery of ordinary shares

None.

(12) Loan rating and equity credit attribute

BBB+ / 50 (R&I), A- / 50 (JCR), Baa2 / 50 (Moody’s)

(13) Sharing of residual assets by holders of hybrid assets

If in the future the Company issues **Securities of Equal Priority** to the Subordinated Loan (which means (i) Subordinated Debt of Equal Priority and (ii) the preferred shares of the Company that are highest in priority in terms of the right to receive a dividend of surplus and the right to receive a distribution of residual assets), then the lenders of the Subordinated Loan accept that they will have equal priority with the holders or creditors of those securities (“**Holders of Equal-Priority Securities**”) in relation to distributions of residual assets after full repayment of the Senior Debt as at the occurrence of a Subordination Event. If lenders of the Subordinated Loan receive a payment in advance of the Holders of Equal-Priority Securities, the Holders of Equal-Priority Securities will be paid the amount by which those lenders received more than the lenders’ residual distribution amount calculated in accordance with the formula set out below. The method by which that amount will be paid is provided for in a creditors’ agreement entered into between the lenders of the Subordinated Loan, and the Holders of Equal-Priority Securities may participate in the creditors’ agreement to receive that distribution.

$$\text{Lenders' residual assets distribution amount} = \text{Amount received by holders of hybrid assets} \times \frac{\text{Total amount of principal on Subordinated Loan}}{\text{Total amount of principal on Subordinated Loan} + \text{Total amount paid in on Securities of Equal Priority}}$$

“Amount received by holders of hybrid assets” means the aggregate of (a) the total amount all of the lenders of the Subordinated Loan received, and (b) the total amount the Holders of Equal-Priority Securities received, in connection with the occurrence of a Subordination Event.

—End of Notice—