

Yokogawa Electric Corporation

FY2009-2010 Action Plan For the Next Growth Phase



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YOKOGAWA



Our Management Environment

Changes accompanying the economic downturn

Industrial Automation and Control Business

Japan: Decrease in production has been accelerating, particularly in the materials industries.

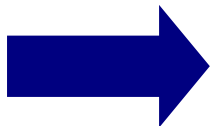
Outside Japan: Postponement of investments in new plant construction has been accelerating due to slumping demand for oil & petrochemical products and the sharp decrease in the oil price. A rapid appreciation of the yen has been underway.

Test and Measurement Business

Semiconductor manufacturers have been freezing capital investment due to slumping demand for semiconductors. Investment in measuring instruments has been weak.

New and Other Businesses

The photonics business has been performing well thanks to the brisk market for 40-Gbps optical communications subsystems used in backbone networks, but part of its sales will be recorded in FY2009.



Financial forecast revised downward * Announced on January 27



Aim to Be a Profitable Company

【1】 The FY2008 financial forecast has been revised due to rapid changes in the business environment.

【2】 The reversal of 30.5 billion yen of deferred tax assets due to the difficulty of forecasting future taxable income has led to an FY2008 net loss forecast of 40 billion yen.

Respond to the rapidly changing environment by implementing the FY2009-2010 action plan.

Become profitable to achieve growth from FY2011 onwards.



Action Plan to Be Implemented by FY2010

Position FY2009-2010 as a period for structural reform with an eye on our next growth phase.

As the management environment is rapidly changing and the management outlook remains totally unclear, we first need to securely implement an action plan to:

- 【1】** Reduce fixed costs
- 【2】** Review our business portfolio

We will not be setting mid-term target figures and will focus on achieving the FY2009 targets.



Reduction of Fixed Costs - 1

Reduce fixed costs by 34 billion yen and achieve a break-even sales of 350 billion yen or less in FY2009.

- [1]** Reduce labor costs, which account for a majority of fixed costs.
- Have regular employees take over non-regular employees' work.
 - Freeze mid-career recruiting and halve the number of new recruits.
 - Reduce the remuneration of directors and officers (-20% to -40%), and managers (-10%).
 - Streamline the organizational structure and reduce the number of departments by 30%.
 - Implement a competitive remuneration system that matches the market.



Reduction of Fixed Costs - 2

【2】 Reduce capital investment in FY2009 to one half the forecasted FY2008 level of 32 billion yen and bring down the depreciation cost by 3 billion yen

【3】 Reduce fixed costs by 9 billion yen via measures to be taken by the Business Process Innovation Headquarters (established in January 2009) and through selection and concentration measures to be taken by each business headquarters

【4】 Reduce cost *This is in addition to the targeted reduction in fixed costs

- Increase the in-house manufacturing ratio
- Cut product and engineering costs



Review of Business Portfolio - 1

Quickly improve the current portfolio in which profits generated by the control business cover losses in the measurement business and investments on new businesses.

◆ Basic policy for the portfolio review

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

Changes to our portfolio that involve our dealings with other companies are difficult due to the credit crunch.

- First, review businesses that Yokogawa can decide on by itself.
- Make changes to the portfolio when the environment turns around.



Review of Business Portfolio - 2

Industrial Automation and Control Business

Continue to inject resources as the market will steadily expand in the mid- and long-term.

Utilize advanced measurement technology in this business and evolve it into next-generation control technology by finding ways to measure the unmeasurable in order to improve control.

Key: Energy saving and environment

- Provide applications that can save energy throughout an industrial complex based on the Energy on Demand concept.
- Introduce energy-saving solutions to developing countries.
- Control CO₂ capture and storage plants.

For our large installation base, standardize after-sales and maintenance services, and introduce them around the world.



Review of Business Portfolio - 3

Test and Measurement Business

Streamline the semiconductor testers business unit and focus on the development of memory testers.

- Reduce the number of personnel from 500 to 300 and lower break-even sales from 40 billion yen in FY2007 to 20 billion yen in FY2009.

Reorganize the measuring instruments segment and the new businesses into a new measurement business.

- Integrate the Communications and Measurement, Advanced Stage, Life Science, and Photonics Business Headquarters into a single business unit.
- Provide solutions in the energy, environmental conservation (including efforts to achieve a low-carbon society), medical assistance and drug discovery support, and IT/infrastructure fields.

New and Other Businesses

Decide in FY2009 whether we will discontinue and retain technology in-house for each business.



FY2009 Outlook

FY2009 economic and market environment

- ◆ Exchange rate: 1 dollar = 85 yen, 1 euro = 120 yen level
- ◆ Crude oil price: 40 to 60 dollars
- ◆ Lower capital investment than in FY2008 due to the continuing corporate credit crunch

1. The markets for the control and measurement businesses will be smaller than in FY2008. There will be some improvement starting in FY2010 but this will be limited for the semiconductor tester business.
2. As for the new businesses, the photonics market will begin to expand in FY2009. The markets for the advanced stage will be smaller than in FY2008.

Undaunted by the harsh market environment, we will surely overcome these difficulties by implementing our action plan.



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.