



Name of Listed Company: Yokogawa Electric Corporation
(URL: <http://www.yokogawa.com>) (Stock code: 6841, listed on TSE 1st section)

Name and Position of the Representative:
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May 8, 2018

Notice Regarding Introduction of New Performance-Linked Stock Compensation Plan (Performance Share Unit Plan)

Yokogawa Electric Corporation (the “Company”) is notifying you that, at the meeting of its Board of Directors held on May 8, 2018, the directors reviewed the executive compensation plan of the Company and decided to submit a proposal regarding the introduction of a performance share unit plan (the “PSU Plan”) which will act as a new performance-linked stock compensation plan for the Company’s directors (excluding outside directors; the “Eligible Directors”) in lieu of the current restricted stock compensation plan (the “Current Plan”). The proposal is to be submitted at the 2018 Annual General Meeting of Shareholders scheduled for June 26, 2018 (the “General Meeting of Shareholders”), pursuant to Article 361, Paragraph 1, Item 1 of the Companies Act.

1. Background to introduction of the PSU Plan

Regarding the Company’s director compensation plan, at its 2016 Annual General Meeting of Shareholders held in June 2016, the Company introduced the Current Plan which is linked to the Company’s performance under its Transformation 2017 mid-term business plan (“TF2017”) covering the three years from fiscal year 2015 through fiscal year 2017, subject to Japan’s Corporate Governance Code which went into effect in June 2015. Specifically, the Current Plan is one where common shares of the Company are granted as restricted shares to the Eligible Directors in advance, then in the final fiscal year of TF2017 the transfer restriction on those granted Company shares is to be lifted in accordance with the extent to which consolidated ROE targets have been achieved, while the Company’s common shares for which the transfer restriction has not been lifted are to be returned to the Company on an uncompensated basis.

The Current Plan has played a consistent role in terms of providing incentives to the Company’s directors and executive officers to act as leaders in bringing about drastic transformation with respect to establishing a growth platform through business structure reforms under TF2017.

However, the Company will introduce the PSU Plan which is to act as the new performance-linked stock compensation plan in lieu of the Current Plan for the Eligible Directors, now that it has drawn up and released the new Transformation 2020 mid-term business plan (“TF2020”) which covers the three years from fiscal year 2018 through fiscal year 2020.

Under the PSU Plan, rather than common shares of the Company being granted in advance, common shares of the Company are to be granted to the Eligible Directors upon conclusion of TF2020 according to the extent to which consolidated ROE targets have been achieved in the final fiscal year of TF2020. Accordingly, the

Company deems that the PSU Plan will result in a greater likelihood of bringing about a stronger sense of shared value between directors and shareholders, partially given that the PSU Plan provides timely and appropriate incentive for the Eligible Directors to sustainably increase the Company's corporate value over the medium to long term, particularly given that the PSU Plan also more adequately establishes a link between the compensation of the Eligible Directors and the Company's performance.

In an effort to make further strides toward achieving the Company's performance objectives on the basis of TF2020 by providing incentives to sustainably increase the Company's corporate value over the medium to long term, the Company will introduce the PSU Plan for, in addition to the Eligible Directors, its executive officers who do not concurrently serve as directors of the Company, and pay non-resident executive officers a monetary sum, as is the case for non-resident Eligible Directors, equivalent to the value of the delivered common shares subsequent to the conclusion of TF2020, in lieu of the Company's common shares that are to be delivered to the Eligible Directors on the basis of the PSU Plan.

2. Overview of the PSU Plan on the basis of the new TF2020 mid-term business plan

As is the case with the restricted stock compensation plan, the main purpose of the PSU Plan is to be a medium- to long-term incentive to develop a stronger sense of shared value with shareholders. As such, the PSU Plan will act as a performance-linked stock compensation plan whereby lump-sum payment of the Company's shares and cash is made in accordance with conditions for achievement of performance objectives, covering directors but excluding outside directors. This is because, the Company takes the approach of paying fixed compensation only, given the notion that performance-linked compensation and other forms of variable compensation are not appropriate for outside directors and audit & supervisory board members who are to maintain a position independent from the execution of business.

(1) Overview of the PSU Plan

The PSU Plan is a performance-linked stock compensation plan, under which the Company delivers its common shares (the "Company Shares") and also makes payment of cash to the Eligible Directors, at an amount of compensation of the Eligible Directors associated with the PSU Plan during the period covered under TF2020 (from the fiscal year ending March 31, 2019, to the fiscal year ending March 31, 2021; the "Target Period"). The payment is made in accordance with the extent to which consolidated return on equity (consolidated ROE; "Actual ROE") targets have been achieved (the "Conditions for Achievement of Performance Objectives") in the final fiscal year of the Target Period. Whenever the Company draws up a new mid-term business plan subsequent to the conclusion of the Target Period under TF2020, the Company will make payment of compensation associated with the PSU Plan within the scope approved by the General Meeting of Shareholders, with the Target Period to be deemed that of the target period associated with said mid-term business plan. In the event that the target period of a mid-term business plan exceeds three years, the maximum compensation associated with the PSU Plan to be paid upon conclusion of the target period will amount to no more than 600 million yen, with the actual compensation amount per fiscal year accordingly decreased. In contrast, in the event that the target period of a mid-term business plan is less than three years, then the maximum amount will be the product of 600 million yen divided by three, multiplied by the number of years of the target period of the mid-term business plan.

As aforementioned, the PSU Plan differs from the Current Plan in that delivery of Company Shares and payment of cash are made to the Eligible Directors generally upon conclusion of a target period, largely in accordance with the Conditions for Achievement of Performance Objectives. Accordingly, at the point in time when the PSU Plan is introduced, the Company will not determine whether or not to deliver Company Shares or make payment of cash to the respective Eligible Directors, nor will the Company determine the number of Company Shares to deliver or the amount of cash to pay in the event of any delivery or payment thereof.

(2) Structure of the PSU Plan

- i. At a meeting of the Board of Directors held within three months subsequent to the start of the initial fiscal year of a target period, the Company will make decisions on matters that include: (a) the target period, (b) base amounts of stock compensation determined for each position of the Eligible Directors (“Base Amounts of Stock Compensation Per Position”), (c) coefficients established beforehand by the Board of Directors in accordance with the Conditions for Achievement of Performance Objectives (the “Payment Rate”), and (d) means of handling matters if an Eligible Director retires or undergoes a change in position during a target period, and other requirements established beforehand by the Board of Directors pertaining to a respective mid-term business plan (collectively referred to as “Other Requirements”).

[Payment Rate]

Actual ROE	Payment Rate
Less than 8%	0%
From 8% to less than 11%	$(\text{Actual ROE} \times 100 - 8) / 3 \times 25\%$
From 11% to less than 14%	$(50 + (\text{Actual ROE} \times 100 - 11) / 3 \times 50)\%$
14% or higher	100%

- ii. The Company will decide on the base amount of Compensation for each respective Eligible Director (the “Individual Base Compensation Amount”) calculated by multiplying the Base Amount of Stock Compensation Per Position by the Payment Rate, in accordance with the Conditions for Achievement of Performance Objectives and premised on Other Requirements, such that are pursuant to resolutions of a meeting of the Board of Directors held within two months from the date on which the first annual general meeting of shareholders is held subsequent to the conclusion of a target period.
- iii. The Company will deliver, to respective Eligible Directors, Company Shares equivalent to the value for the amount corresponding to 60% of the Individual Base Compensation Amount divided by the payment amount for the Company Shares (however, amounts of shares less than 100 will be discarded). When the Company delivers the Company Shares, it will do so through a share issuance or through a disposal of treasury shares. In such a case, the Company will grant, to the Eligible Directors, monetary compensation receivables equal to the amount calculated by multiplying the number of shares to be delivered to the Eligible Directors by the payment amount (the “Amount of Monetary Receivables Corresponding to Payment Amount”). The Eligible Directors, by providing said shares in the form of property contributed in kind, will receive delivery of Company Shares. The payment amount for the Company Shares described above will be the fair price of the Company Shares on the date of payment, such as the closing price of the Company Shares on the Tokyo Stock Exchange on the business day prior to the date on which the Company held the meeting of the Board of Directors where the allotment of shares has been decided (if no trades are made on that day then the price will be the closing price on the most recent trading day prior to that date).

In addition, the Company will make monetary payment to the respective Eligible Directors of an amount corresponding to 40% of the Individual Base Compensation Amount (the “Compensation Amount Paid Monetarily”), considering income taxes and other such obligations incurred by the Eligible Directors.

- iv. The maximum monetary amount of the combined total Amount of Monetary Receivables Corresponding to Payment Amount and total Compensation Amount Paid Monetarily (the “PSU Compensation Amount”) granted to the Eligible Directors will be no more than 600 million yen per

fiscal year, and the total number of Company Shares delivered to the Eligible Directors will be no more than 900 thousand shares per fiscal year. However, as detailed in 3. below, the Company intends to provide Compensation pertaining to the PSU Plan to Eligible Directors as a lump-sum payment upon conclusion of the third fiscal year as consideration for their performance of duties during the target period of a mid-term business plan (generally three fiscal years). The PSU Compensation Amount will essentially amount to no more than 200 million yen per fiscal year, and the number of shares to be delivered will be no more than 300 thousand shares.

Moreover, if there are concerns that the total Individual Base Compensation Amount will exceed 600 million yen, the amount will be reduced to the maximum on a pro-rata basis or using other means. Also, the Company will decrease the number of Company Shares to be delivered to respective Eligible Directors on a pro-rata basis or using other rational means, to ensure that maximums are not exceeded, if there are concerns that delivering the number of Company Shares set forth in aforementioned item (iii), could result in a situation where the maximum total number of Company Shares delivered to an Eligible Director, 900 thousand shares, is exceeded.

- v. Irrespective of aforementioned item (iii), the Company will make monetary payment equal to the combined amount of the Amount of Monetary Receivables Corresponding to Payment Amount, which is calculated in a manner similar to deliver Company Shares for resident Eligible Directors, and the Compensation Amount Paid Monetarily to Eligible Directors in cases where an Eligible Director is a non-resident.
- vi. The Board of Directors will make decisions on the specific delivery and payment dates for and relevant distribution of Company Shares and monetary sums that are to be delivered and paid to respective Eligible Directors on the basis of the aforementioned items (ii) to (v).

(3) Clawback provisions, etc.

The Company has established clawback provisions enabling it to demand uncompensated refund of monetary amounts corresponding to full or partial numbers of Company Shares delivered or cash paid to an Eligible Director as compensation pertaining to the PSU Plan, if a situation arises involving substantial accounting improprieties or significant losses.

The Board of Directors stipulates specifics of the PSU Plan in regulations pertaining to the PSU Plan, upon having been deliberated on by the Compensation Advisory Committee, with respect to matters that include trigger clauses of clawback provisions and other specific details, handling of organizational restructuring, etc. (handling of Base Amounts of Stock Compensation Per Position in the event of a share split or share consolidation), Other Requirements, and requirements for situations where aforementioned item (v), (2) applies.

3. Director compensation associated with introduction of the PSU Plan

The Company will establish compensation amounting to no more than 600 million yen per fiscal year (not including employee salaries of directors who serve concurrently as employees) as compensation pertaining to the PSU Plan, in lieu of the compensation amounting to no more than 600 million yen per fiscal year (not including employee salaries of directors who serve concurrently as employees) pertaining to the Current Plan. However, compensation of directors pertaining to the PSU Plan can essentially be evaluated as an allocation of no more than 200 million yen per fiscal year, which will be provided as a lump sum payment subsequent to the end of the third fiscal year as consideration for the performance of duties by Eligible Directors set forth in TF2020.

After the Company introduces the PSU Plan, the amount of compensation of the Company's directors will remain unchanged at no more than 1,000 million yen per fiscal year. (This amount includes a portion of up to 100 million yen for outside directors per fiscal year, and does not include employee salaries of directors who serve concurrently as employees.)

Accordingly, the amount corresponding to director compensation pertaining to the aforementioned PSU Plan per fiscal year can be evaluated as being no more than 200 million yen. As such, even when combined with the amount of compensation currently earmarked separately for the Company’s directors, no more than 1,000 million yen per fiscal year, the current compensation amount of no more than 1,200 million yen per fiscal year remains essentially unchanged. (Please see the “Reference” below.)

[Reference]

Effective Amount for Director Compensation per Fiscal Year		Current	Proposed revision
(i) Compensation amount related to restricted stock compensation plan (RS)		Up to 600 million yen (up to 200 million yen per fiscal year*)	Discontinued
(ii) Compensation amount related to new performance-linked stock compensation plan (PSU)		—	Up to 600 million yen (up to 200 million yen per fiscal year*)
(iii)		Up to 1,000 million yen	Up to 1,000 million yen
	(Of which, outside directors)	(Up to 100 million yen)	(Up to 100 million yen)
Total compensation amount [(i)+(ii)+(iii)]		Up to 1,600 million yen (up to 1,200 million yen per fiscal year*)	Up to 1,600 million yen (up to 1,200 million yen per fiscal year*)

* When the up to 600 million yen compensation amount is allocated over the period of the mid-term business plan (in principle, three fiscal years), the amount per fiscal year is up to 200 million yen.

(Reference) The Company’s approach with respect to executive compensation plan

The Company positions its executive compensation plan as an important item in corporate governance, and to increase the objectivity and transparency of director compensation, has formed the “Compensation Advisory Committee,” which comprises three or more directors, based on the resolution of the Board of Directors, with the majority being outside directors, and decisions on the executive compensation plan are made on the basis of consultations after deliberations by the Compensation Advisory Committee.

The Company’s basic approach to the executive compensation plan is as follows.

- [Basic approach to the executive compensation plan]
- (1) Plan that promotes sustainable, medium- to long-term improvement in corporate value
 - (2) Plan that reflects the medium- to long-term management strategy and strongly motivates the achievement of medium- to long-term management objectives
 - (3) Plan that prevents bias toward short-term thinking
 - (4) Plan and monetary amounts that secure and maintain excellent human resources
 - (5) Plan that includes transparency, fairness, and rationality for stakeholders, decided through an appropriate process to ensure these factors

The Company’s executive compensation is composed of fixed and performance-linked components (annual incentives and medium- to long-term incentives), and levels of compensation are set through a comparison with

companies from the same industry and of the same scale both in Japan and overseas, as well as in consideration of the Company's financial conditions.

The medium- to long-term incentive component of the performance-linked compensation links incentives with the Company's mid-term business plans through performance-linked stock compensation utilizing common shares of the Company. Accordingly, Company Shares or cash are allotted commensurate with the performance evaluation period (generally three years), according to the extent to which performance targets have been achieved in the final fiscal year of the plan.

The Company's approach to performance-linked compensation is as follows.

[Approach to performance-linked compensation]

- (1) The ratio of performance-linked compensation to total compensation is higher.
- (2) The ratio of performance-linked compensation to total compensation increases the higher the position of the Director, with the President and Chief Executive Officer's ratio of performance-linked compensation exceeding 50%.
- (3) The ratio of the newly introduced share compensation to total compensation for directors is higher than the average level for companies in the same industry and of the same scale both in Japan and overseas.
- (4) In the event that all of the performance targets are achieved, the ratio of the annual incentive to the annualized medium- to long-term incentive will be 2:1.

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