

Yokogawa Electric Corporation

Transformation 2017

Financial Results for 1st Half of Fiscal Year 2016

November 1, 2016

Contents

1. FY16 1H Results and FY16 Forecast

Junichi Anabuki

Director, Senior Vice President
Accounting & Treasury Headquarters

2. Transformation2017

– Current situation & our efforts to accelerate transformation –

Takashi Nishijima

President and Chief Executive Officer

3. Yokogawa's Solution Services

Hitoshi Nara

Director of Yokogawa Electric Corporation
President & CEO of Yokogawa Solution Service Corporation

Yokogawa Electric Corporation

Transformation 2017

FY16 1H Results and FY16 Forecast



Junichi Anabuki
Director, Senior Vice President
Accounting & Treasury Headquarters

Summary of FY16 1H Results

- There was a slowdown in orders. Sales grew in Japan. Outside Japan, net sales were down due mainly to the appreciation of the yen.
- Operating income was also down due to the appreciation of the yen, as well as an increase in one-time costs and the amortization of goodwill following the acquisition of KBC. (Excluding these acquisition-related items, operating income is at the same level as FY15 1H.)
- Impact of the strong yen:
 - Orders -¥21.1 billion, sales -¥19.8 billion, operating income -¥4.3 billion
- Impact of the KBC acquisition:
 - Orders +¥3.3 billion, sales +¥5.4 billion, operating income -¥1.5 billion

(Billion ¥)

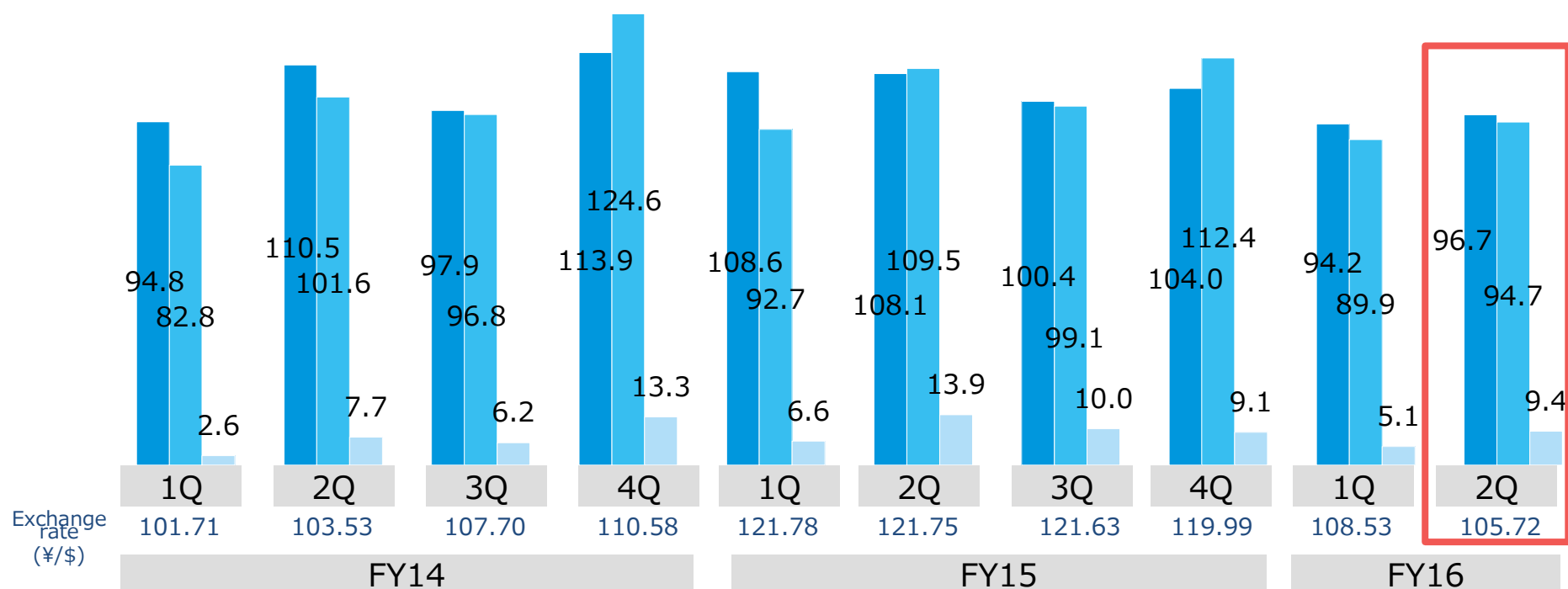
		FY15 1H	FY16 1H	Difference	Growth rate	Impact of exchange rate
Orders		216.7	190.9	(25.8)	-11.9%	(21.1)
Sales		202.2	184.6	(17.6)	-8.7%	(19.8)
Operating income		20.5	14.5	(6.0)	-29.1%	(4.3)
Ordinary income		21.0	14.9	(6.1)	-29.1%	(5.1)
Profit attributable to owners of parent		16.1	10.3	(5.8)	-35.7%	(4.5)
Exchange rate (¥)	1 U.S. dollar	121.75	105.72	(16.03)	-13.2%	

Quarterly Financial Results

- Orders exceeded sales.

(Billion ¥)

■ Orders ■ Sales ■ Operating income



Analysis of Operating Income (FY15 1H/FY16 1H comparison)

Decrease in gross profit from lower sales

(excluding impact of exchange rate and KBC acquisition)

Increase in SG&A

- Strategic investments - 0.9 billion
- Cost reduction +0.4 billion
- Change to quarterly allocation of SG&A, etc. -0.4 billion

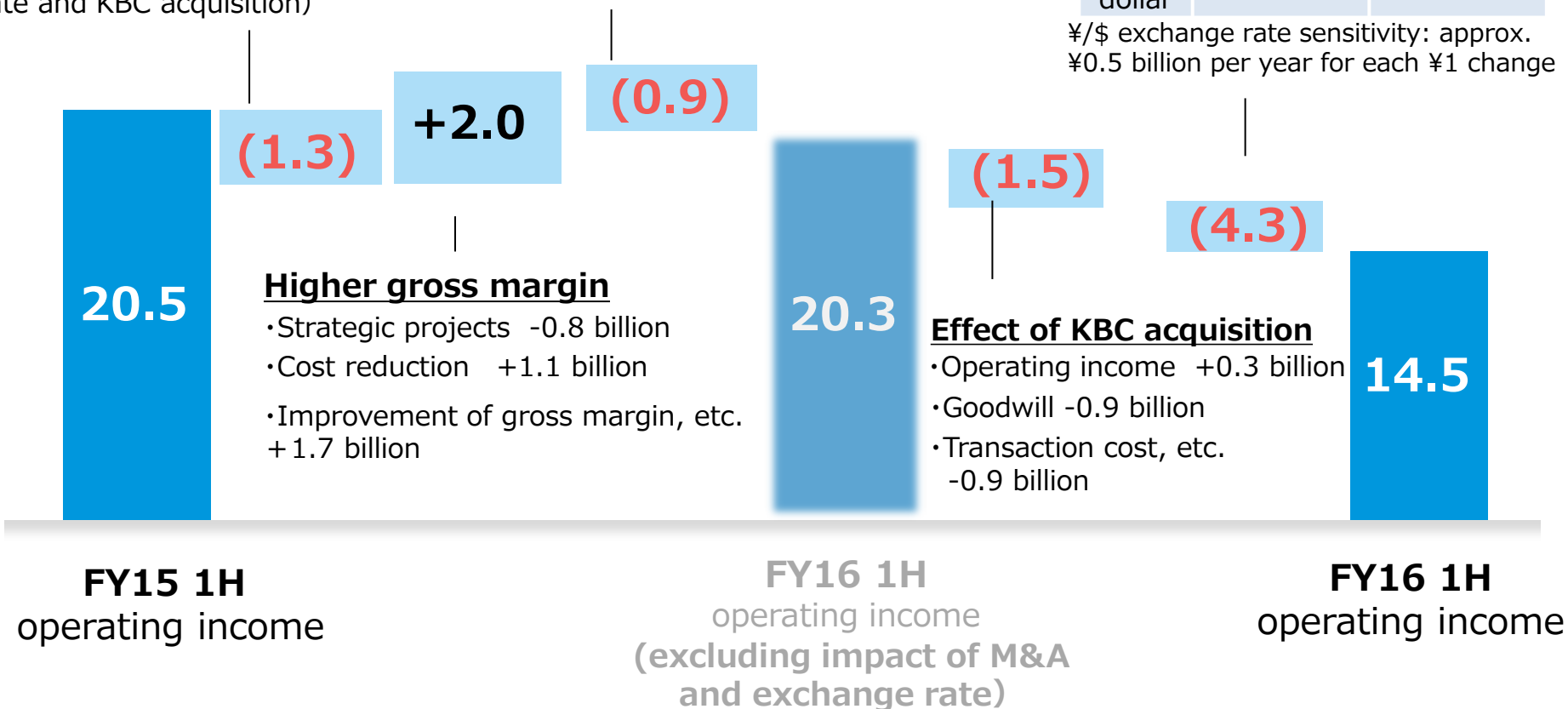
Exchange rate

(Billion¥)

(¥)

	FY15 1H	FY16 1H
1 U.S. dollar	121.75	105.72

¥/\$ exchange rate sensitivity: approx.
¥0.5 billion per year for each ¥1 change



Non-operating/Extraordinary Income and Expenses

(Billion¥)

	FY14 1H	FY15 1H	FY16 1H
Operating income	10.3	20.5	14.5
Non-operating income	2.1	1.7	1.5
Non-operating expenses	1.5	1.2	1.1
Ordinary income	10.9	21.0	14.9
Extraordinary income	1.1	0.9	0.2
Extraordinary expenses	0.2	0.2	0.1
Income before tax	11.8	21.7	15.0
Tax, etc.	4.2	5.6	4.7
Profit attributable to owners of parent	7.6	16.1	10.3

FY16 1H: Interest expenses ¥0.3 billion
(¥0.4 billion year-on-year decrease)
Foreign exchange loss ¥0.5 billion

FY15 1H: Gain on sale of
non-current assets: ¥0.8 billion

FY16 1H: Gain on sale of
investment securities: ¥0.2 billion

(Effective tax rate)

27.4%

22.2%

28.4%

FY15 1H/FY16 1H Comparison for Orders and Sales by Segment

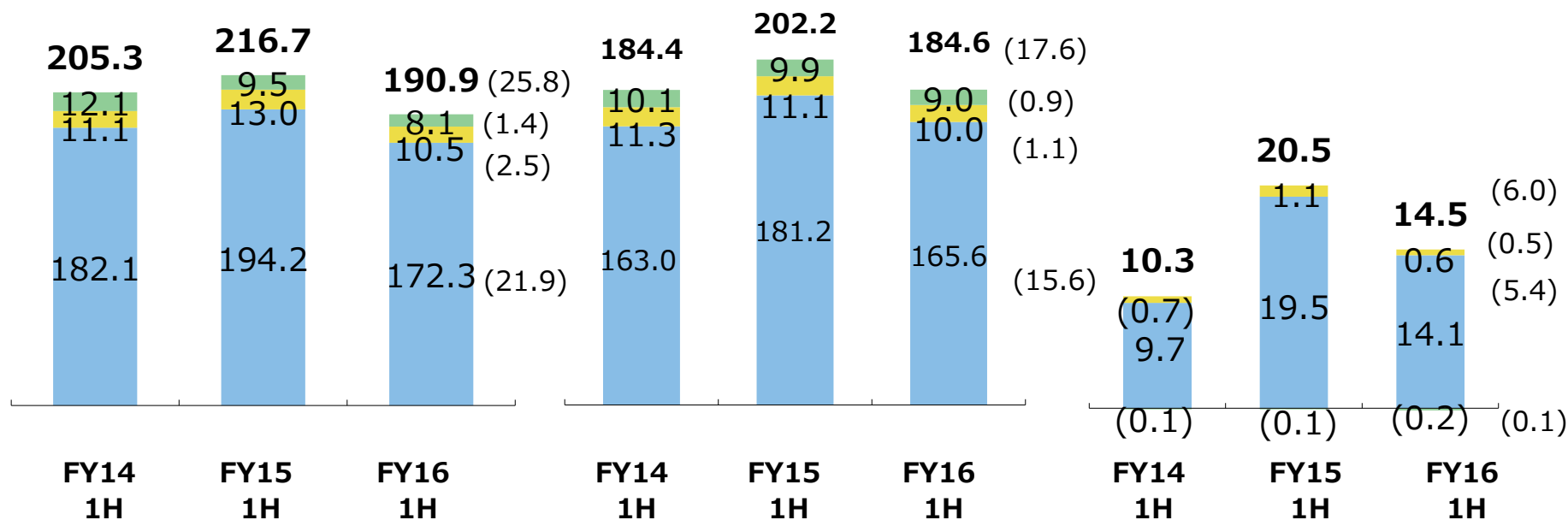
- Control: Japan's resource, energy, and materials sectors remained strong, but sales and net income outside Japan decreased due to the appreciation of the yen and the curtailment of capital investment by certain customers.
- Impact of the strong yen:
 - Orders -¥19.9 billion, sales -¥18.6 billion, operating income -¥3.9 billion

(Billion ¥)

Orders

Sales

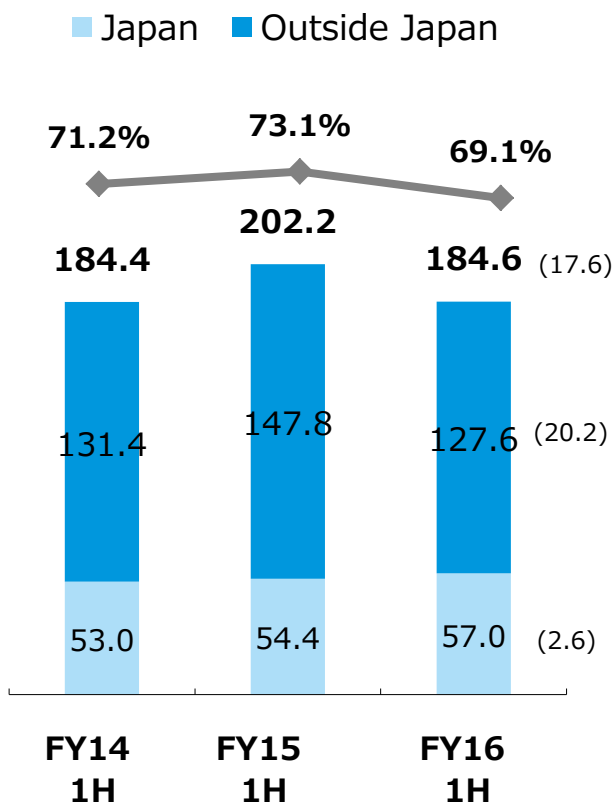
Operating income



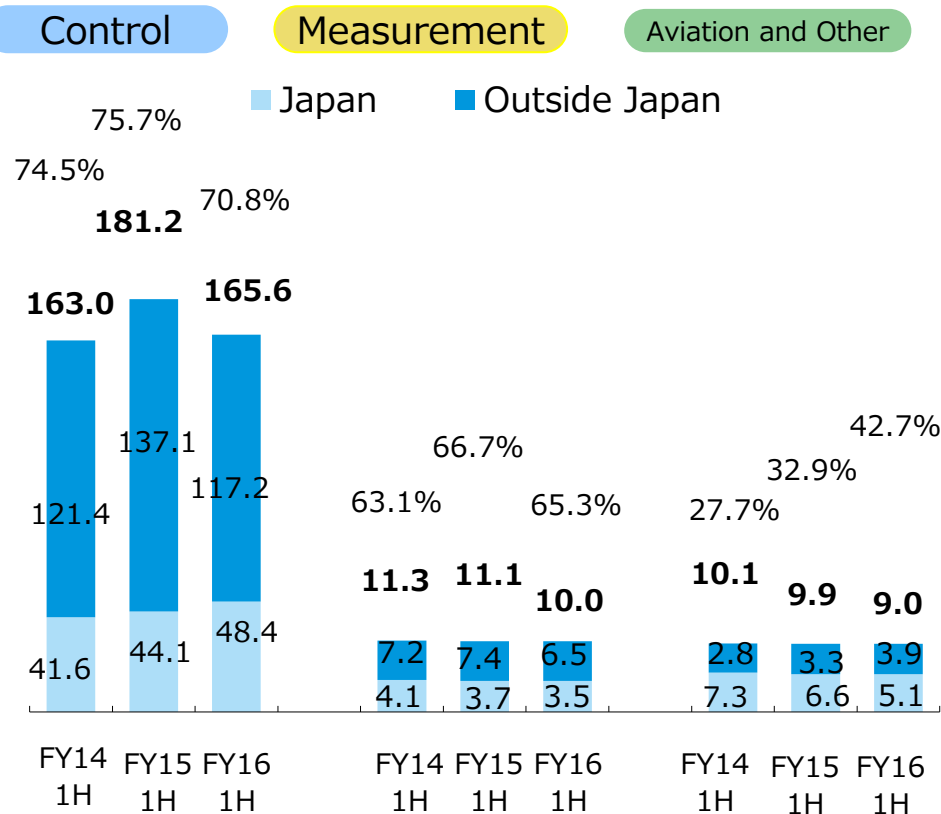
Trend of Global Sales

-The percentage of sales generated outside Japan was down due to the appreciation of the yen and increasing sales in Japan.

Total (Billion ¥)



By segment (Billion ¥)

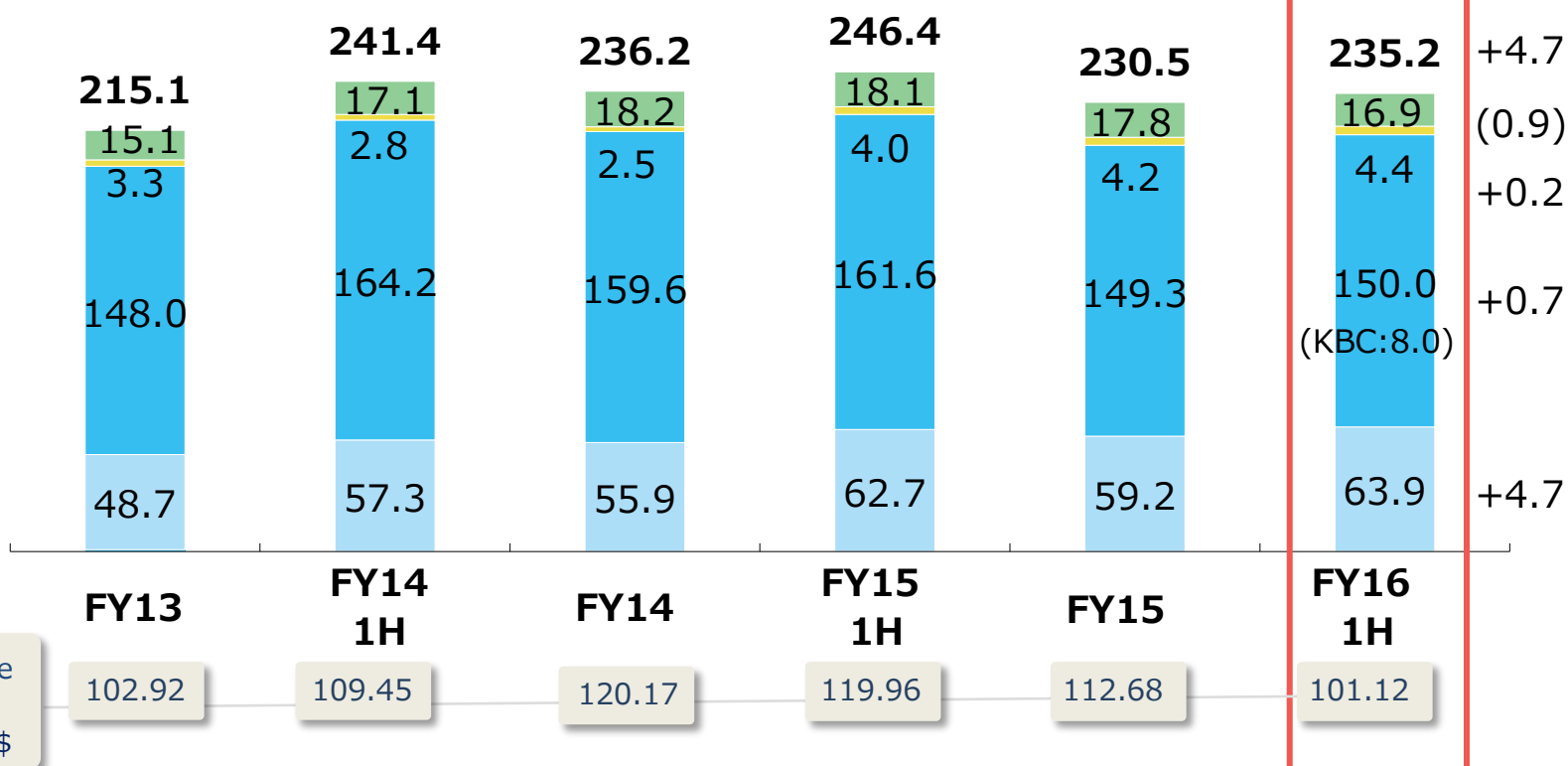


Order Backlog Trend by Segment

- The KBC acquisition had an ¥8.0 billion impact.
- The Japan order backlog was relatively large.

(Billion¥)

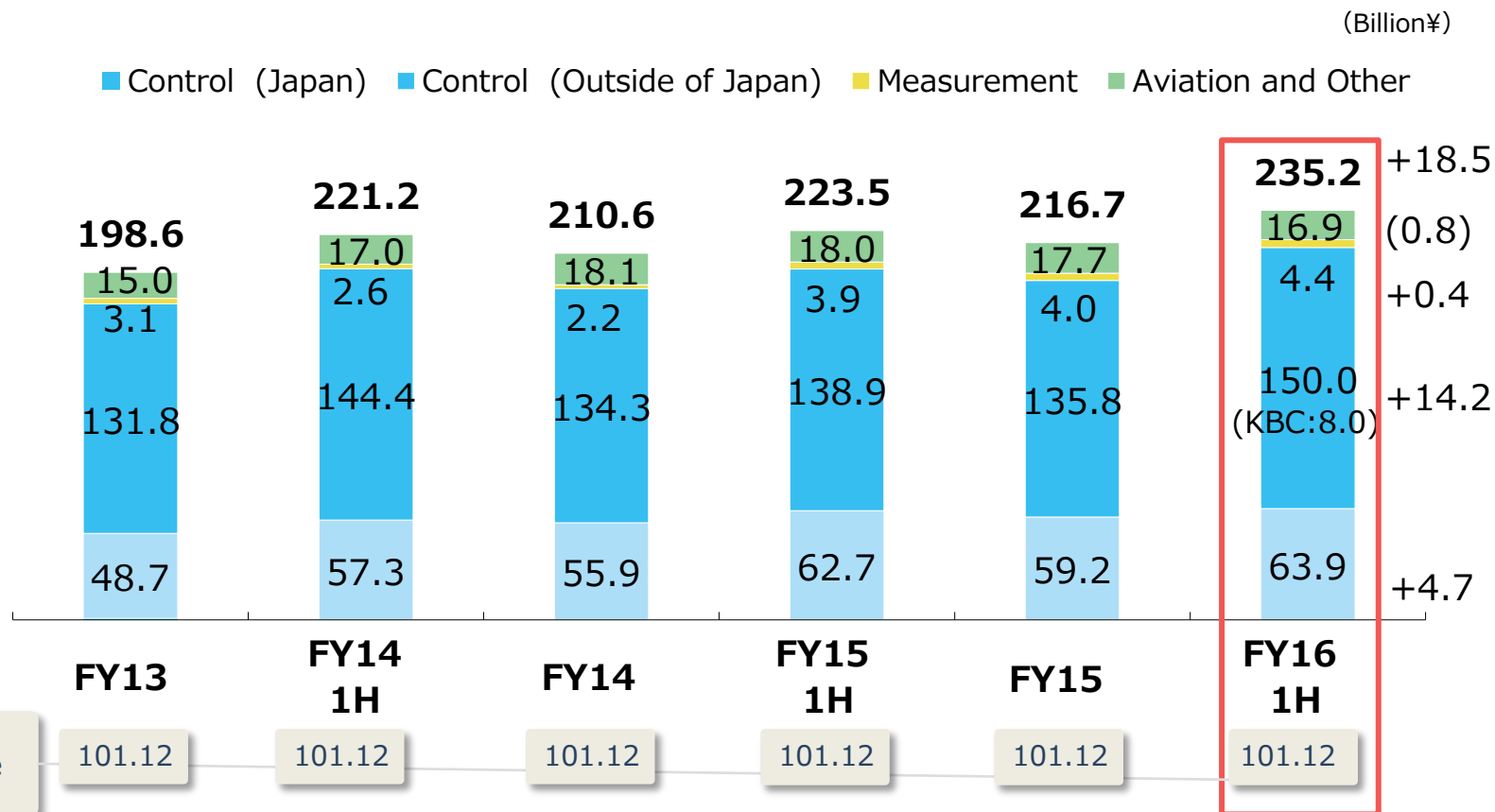
■ Control (Japan) ■ Control (Outside of Japan) ■ Measurement ■ Aviation and Other



Note: Past data revised based on a standard review

<Reference> Order Backlog Trend by Segment (Using FY16 1H exchange rate)

- Excluding the impact of the exchange rate, the order backlog for each segment was relatively large.

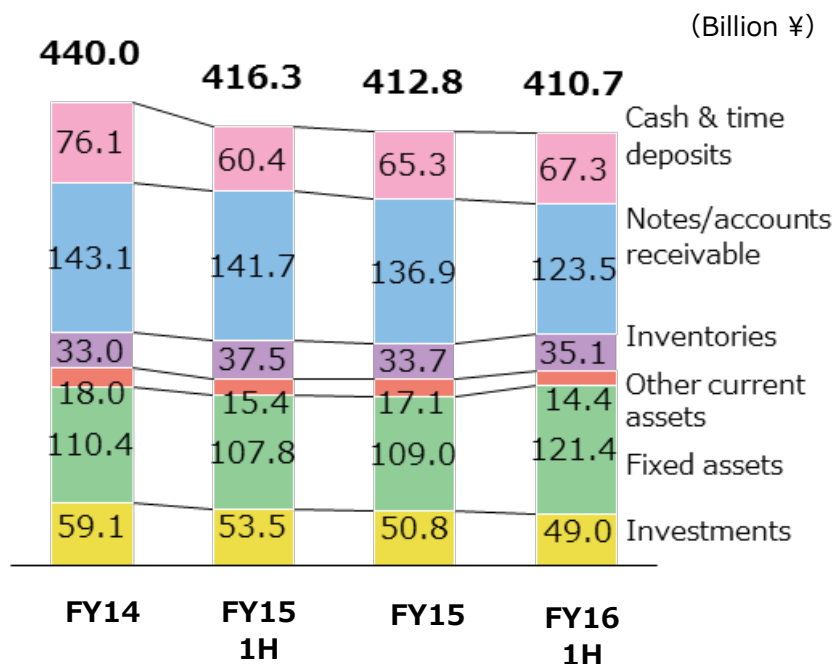


Note: Past data revised based on a standard review

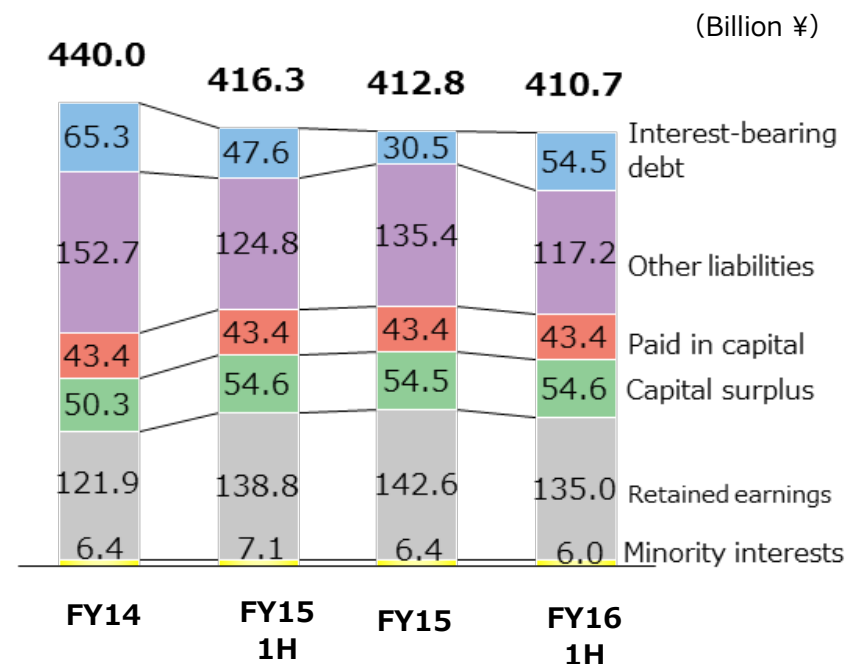
Trend of Balance Sheet

- Total assets were down ¥2.1 billion despite an increase that was mainly due to the impact of the KBC acquisition. The decrease was mainly the result of appreciation of the yen and a decrease in accounts receivable.
- Total liabilities increased ¥5.8 billion due mainly to the increase in short-term loans payable following the acquisition of KBC (D/E ratio: 23.4%).
- Net assets decreased ¥7.8 billion due mainly to a decrease in the amount of the foreign currency translation adjustment (shareholders' equity ratio: 56.7%).

Assets

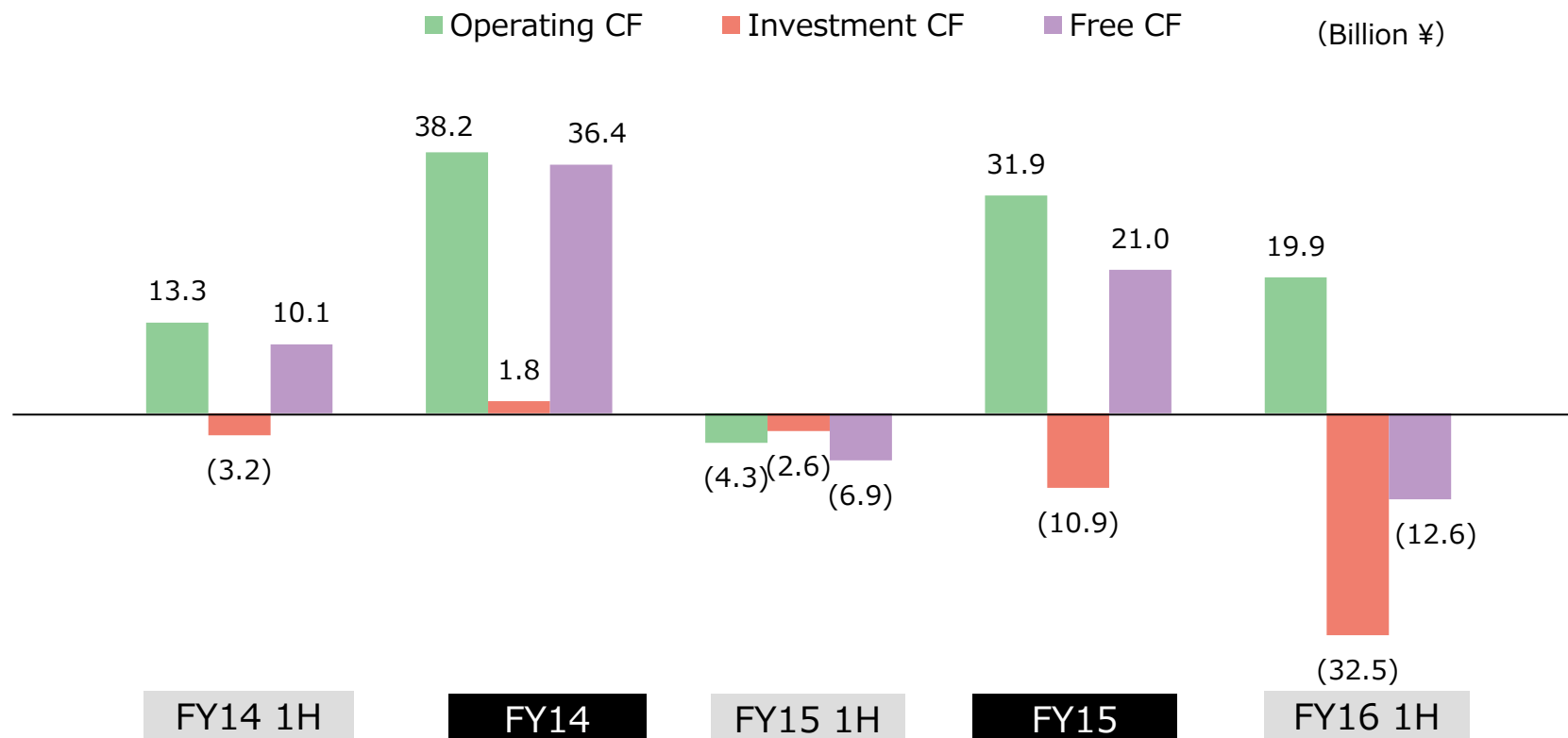


Liabilities and Net assets



Trend of Cash Flow

- The cash flow from investing activities was a net outflow of 32.5 billion yen, due mainly to the impact of the KBC acquisition (26.6 billion yen).



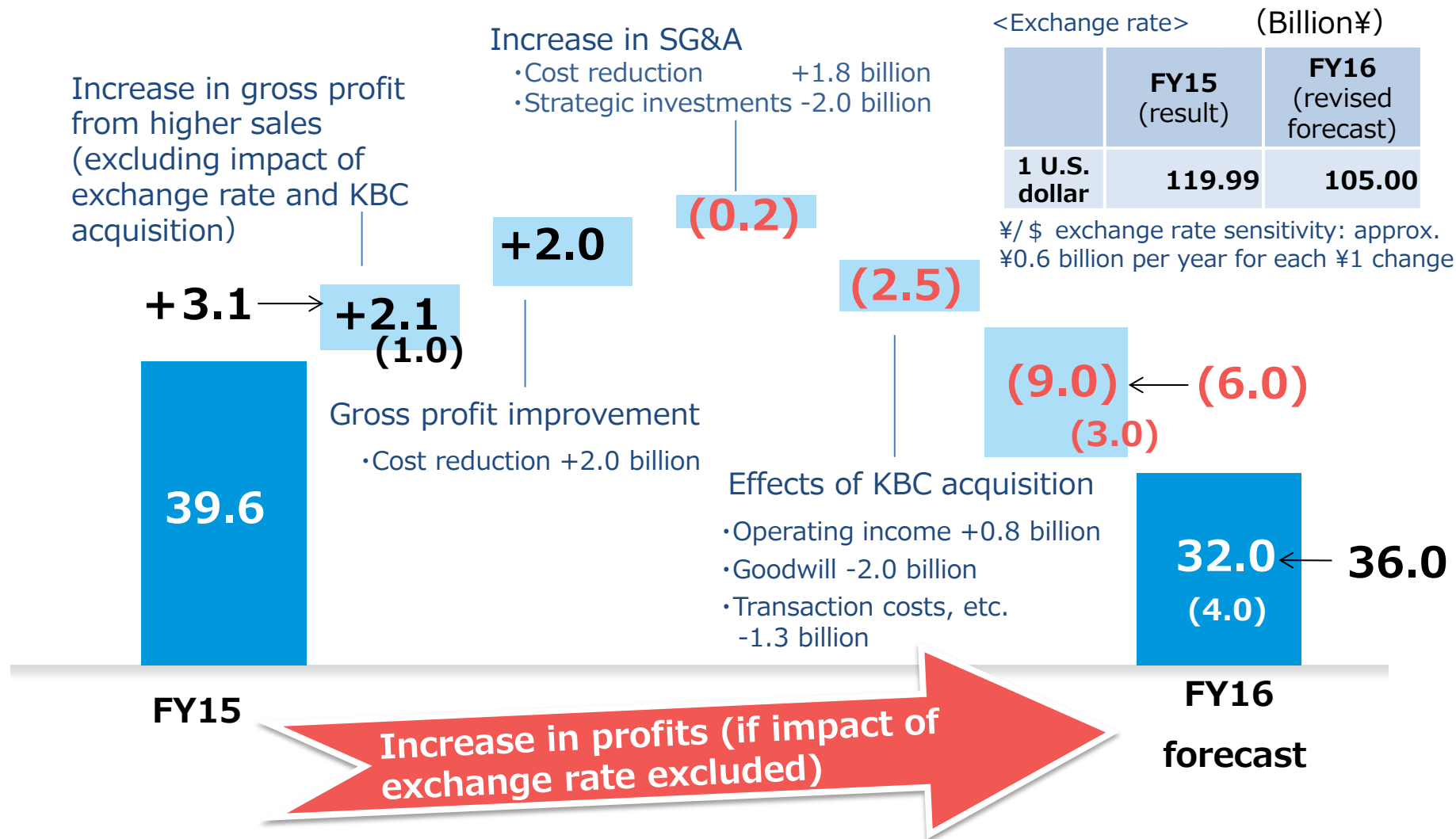
FY16 Forecast → Change from May 5

- After revising our assumed exchange rate from 110 yen to 105 yen and factoring in a rising risk of deterioration in market conditions, we have revised our forecast for the full fiscal year.
 Orders -¥17.0 billion, sales -¥12.0 billion, operating income -¥4.0 billion, ordinary income -¥3.5 billion, net income -¥1.0 billion.

(Billion¥)

		FY15 (A)	FY16 forecast (5/10 B)	FY16 forecast (11/1 C)	Difference (C-A)	Difference (C-B)	Effect of exchange rate
Orders		421.1	408.0	391.0	(30.1)	(17.0)	(35.1)
Sales		413.7	407.0	395.0	(18.7)	(12.0)	(35.1)
Operating income		39.6	36.0	32.0	(7.6)	(4.0)	(9.0)
ROS (%)		9.6	8.8	8.1	(1.5 pts)	(0.7 pts)	—
Ordinary income		40.7	35.0	31.5	(9.2)	(3.5)	(9.0)
Profit attributable to owners of parent		30.2	23.0	22.0	(8.2)	(1.0)	(9.0)
EPS (¥)		114.01	86.16	82.37	(31.64)	(3.79)	—
Exchange rate	1 U.S. dollar =	¥119.99	¥110.00	¥105.00	(¥14.99)	(¥5.00)	—

Factors Accounting for Increase/Decrease in FY16 Operating Income → Change from May 5



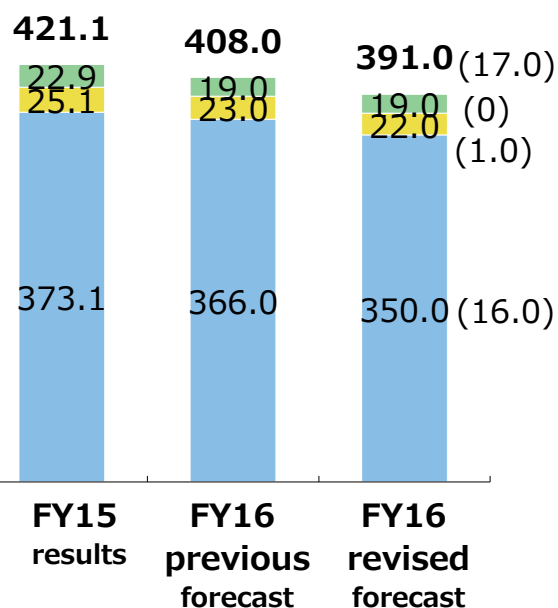
FY16 Forecast for Orders, Sales, and Operating Income by Segment → Change from May 5

-Reflecting the change in the assumed exchange rate from 110 yen to 105 yen and the rising risk of a deterioration in market conditions, we revised the forecast for the full fiscal year.

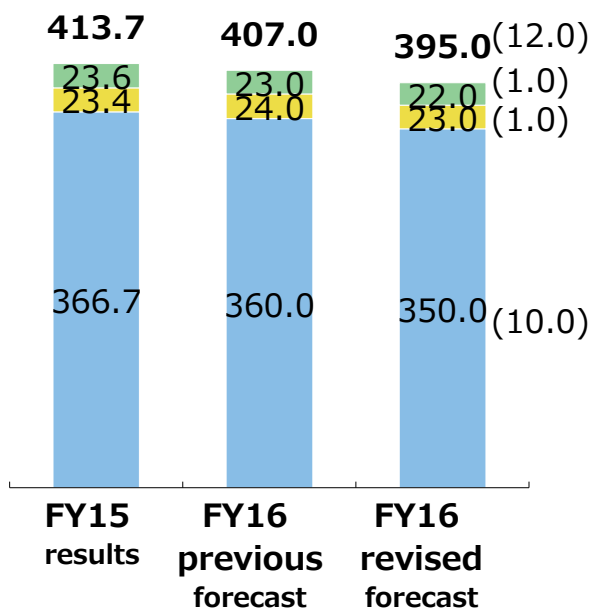
Impact on control segment: Orders -¥10.0 billion, sales -¥10.0 billion, operating income -¥3.0 billion

Control Measurement Aviation and Other (Billion¥)

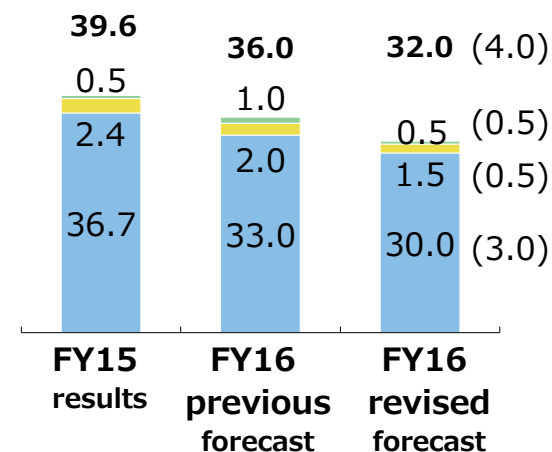
Orders



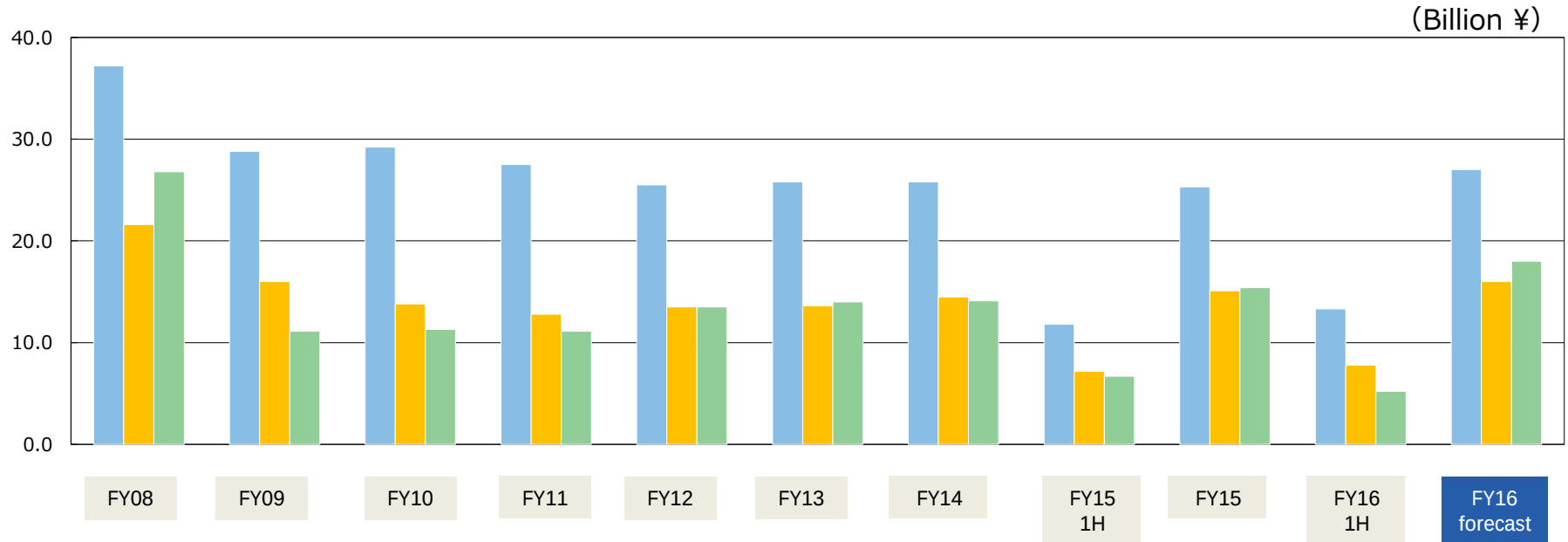
Sales



Operating income



R&D Expenses, Depreciation, and CAPEX



	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15 1H	FY15	FY16 1H	FY16 forecast
R&D expenses (% of sales)	9.9%	9.1%	9.0%	8.2%	7.3%	6.6%	6.4%	5.8%	6.1%	7.2%	6.8%
Depreciation (% of sales)	5.7%	5.1%	4.2%	3.8%	3.9%	3.5%	3.6%	3.6%	3.6%	4.2%	4.1%
CAPEX (% of sales)	7.1%	3.5%	3.5%	3.3%	3.9%	3.6%	3.5%	3.3%	3.7%	2.9%	4.6%

* Excludes ¥1.1 billion amortization of goodwill.

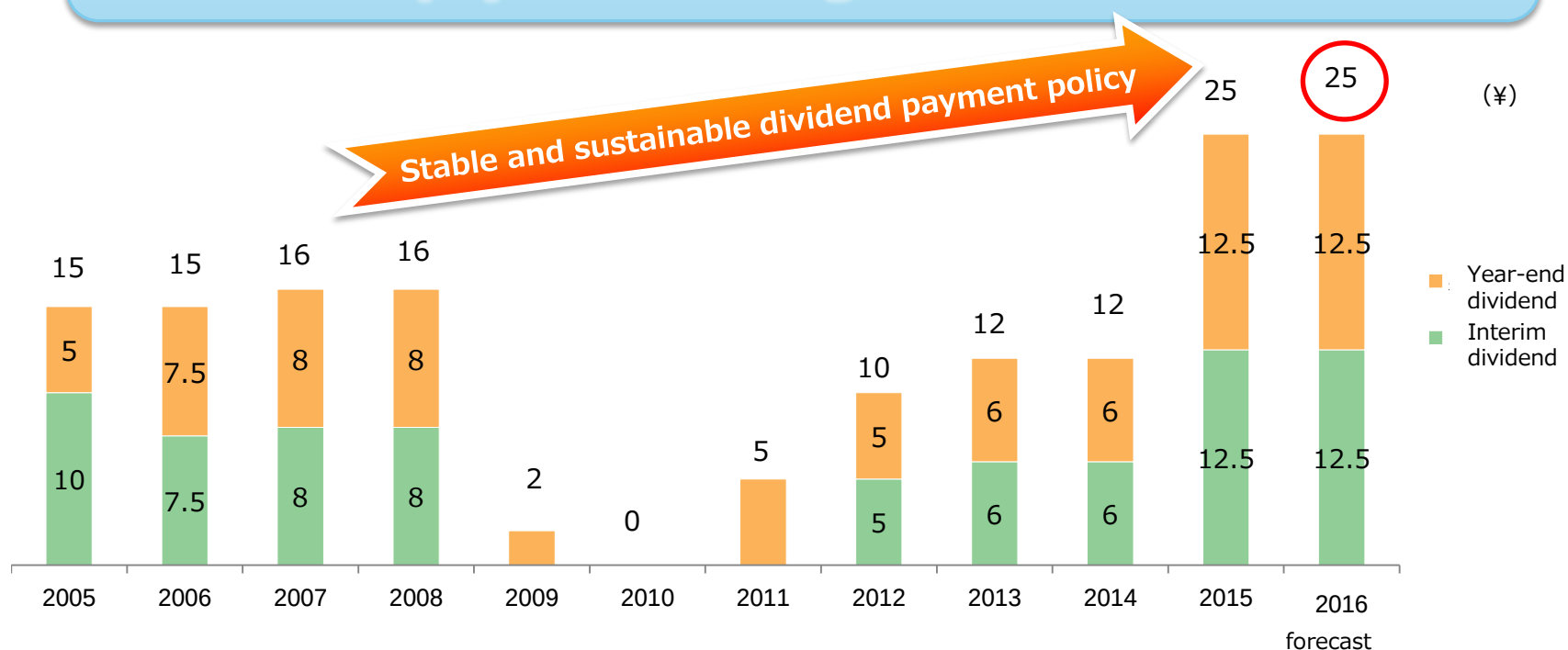
Dividend

- Interim dividend set at ¥12.5
- No change in plans regarding the year-end dividend

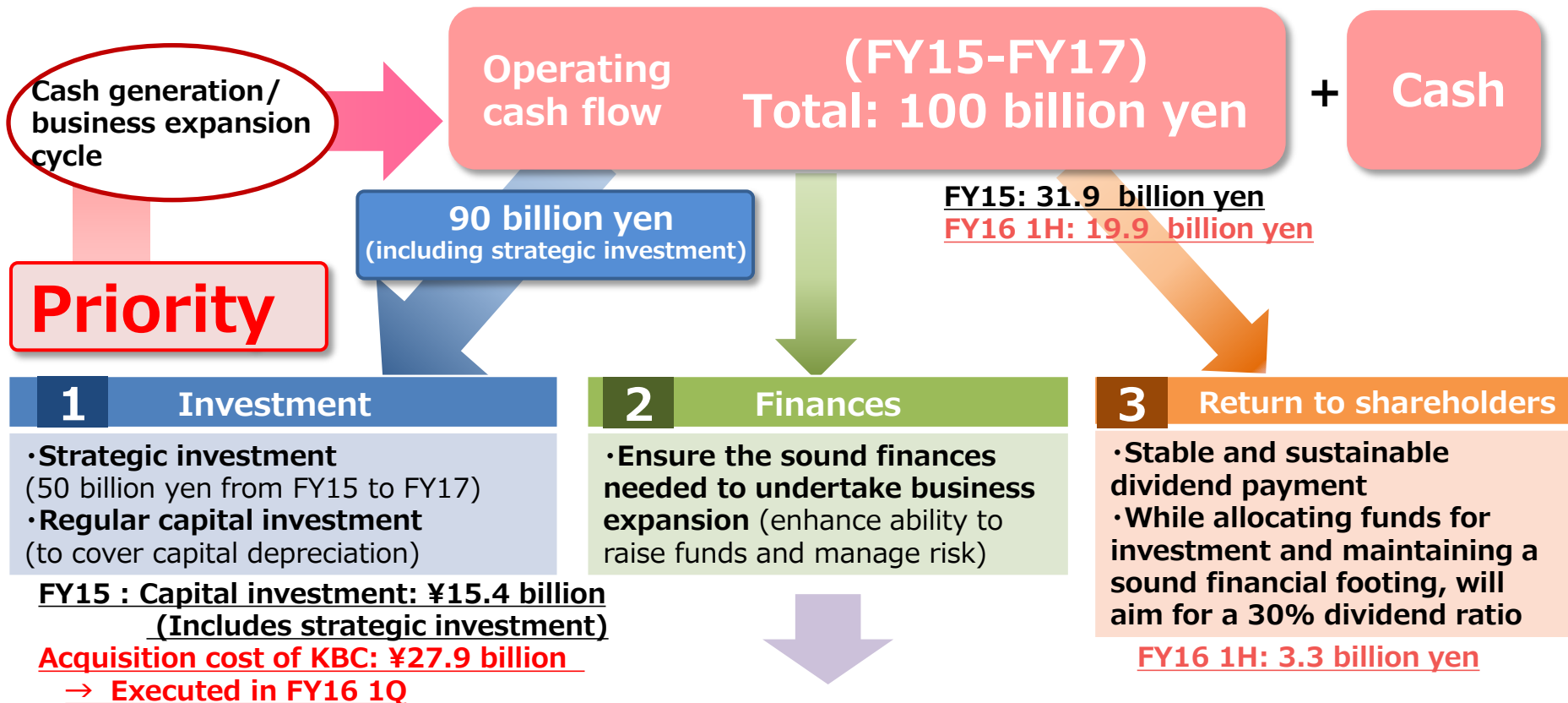
FY15: ¥20 regular dividend + ¥5 commemorative dividend

FY16: Continued ¥25 dividend (payout ratio 30.4%)

FY17: 30% payout ratio target



Financial Strategy, Capital Policy

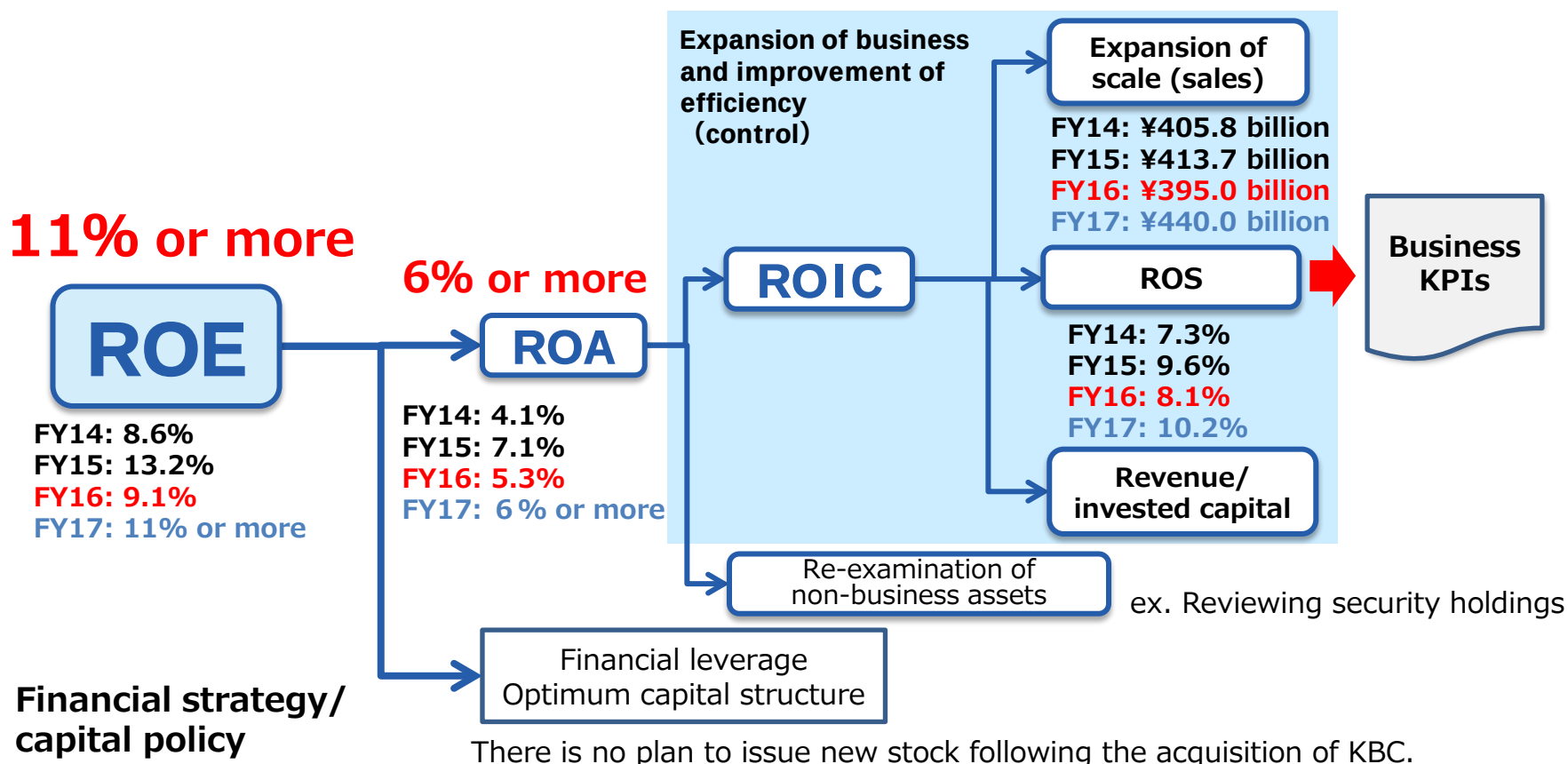


Optimum capital structure

- ◆ Maintain ability to generate the funds needed to invest for growth
- ◆ Keep single A credit rating with Japanese rating agencies

TF2017 Targets

Through acceleration of the cost reduction program and other measures, we aim to achieve our targets.



Yokogawa Electric Corporation

Transformation 2017

– Current Situation / Accelerating Our Transformation –

November 1, 2016

Takashi Nishijima

President and Chief Executive Officer

TF2017 Review / Ongoing Efforts

– Three reforms –

Transformation 2017

In a changing business environment, we will continue to focus on achieving the following three transformations:

- 1** **transform** from being product-centered to **being focused on the customer**
- 2** **transform** to **create new value** by taking advantage of ICT
- 3** **transform** by **becoming more efficient than ever**
(ROE 11%, with top priority on ROIC of control business)

Current Situation: Market Environment

Market status

Customers are cutting back on investment due to the strong yen and prolonged weakness in crude oil prices (tough to procure orders).

Industries

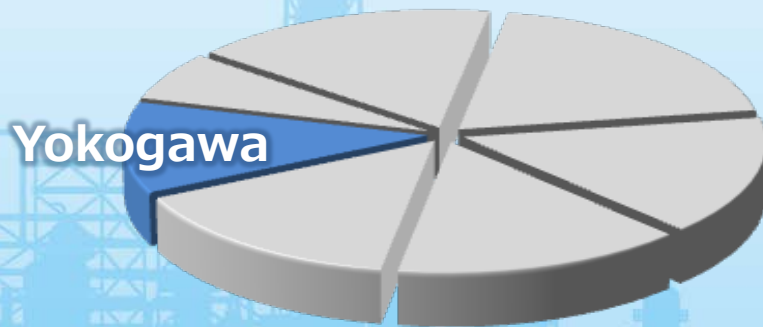
In the upstream sector, some projects are being postponed or cancelled. Downstream, we have noted a cautious investment stance with certain customers.

Geographic locations

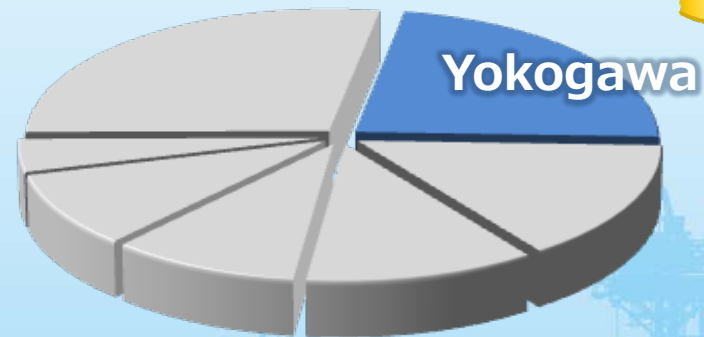
Outside Japan, conditions vary depending on the market; North America is particularly tough right now. Japan is holding steady.

DCS Market Share/Industrial Data 2015

Global market share
(market size US\$14.47 bn)



Asian market share
(market size US\$4.72 bn)

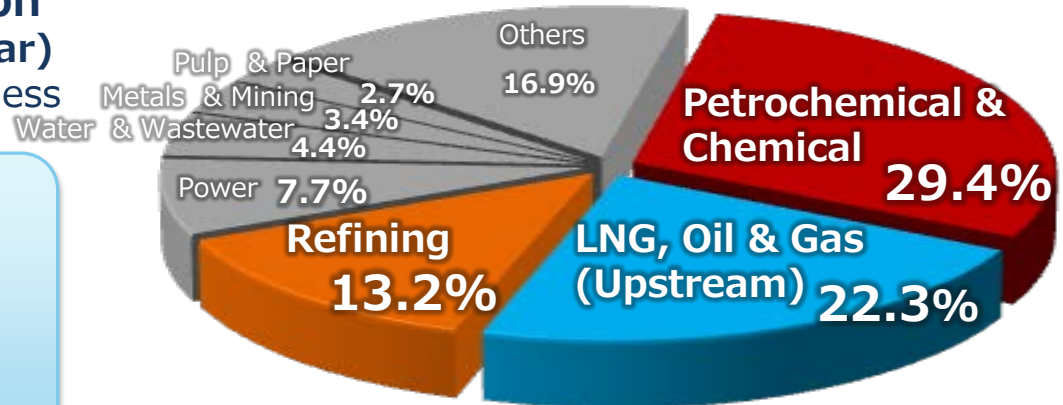


Source: ARC Distributed Control Systems Global Market Research Study

Yokogawa DCS sales: ¥205.7 bn
(+¥12.7 billion, +6.6% year on year)

• 56% of our ¥366.7 bn control business

• We are strongest in downstream industries.
• Half of our upstream sales (22.3%) are LNG related.

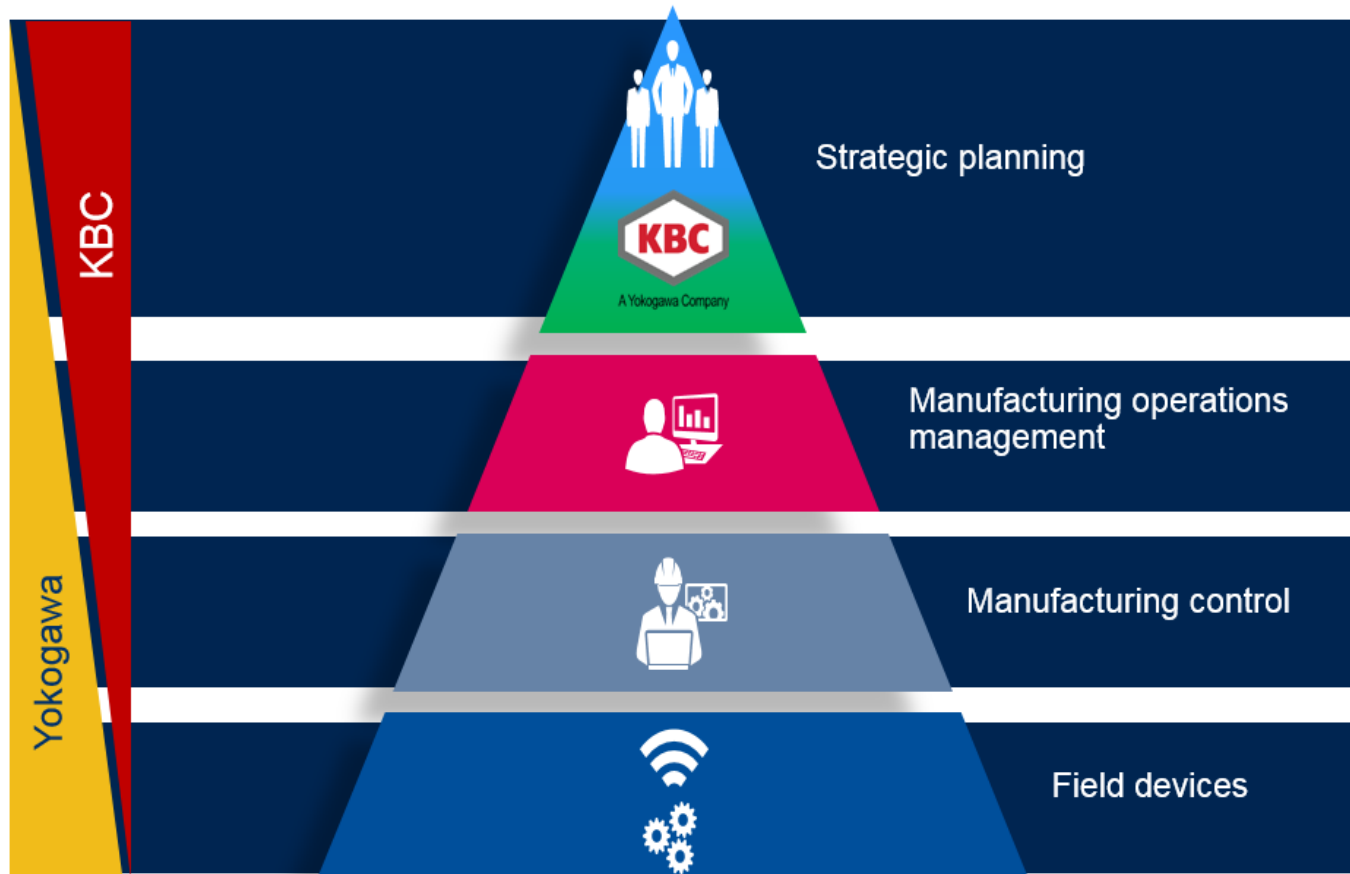


Source: Company data

Post-merger Integration with KBC

Transformation 2017

Transform into a total solution provider



Appendix: Cost reduction targets

Accelerating reduction of costs that are not dependent on sales

	FY14 results	FY15 results	FY16 target	FY17 target
Cost reduction (In relation to FY14)	—	¥5.7 billion	Approx. ¥10 billion	Approx. ¥20 billion
COGS ratio	58.3%	57.3%	Improvement by cost reduction	57% or lower
SG&A ratio	34.4%	33.1%	Despite increased strategic investment, will seek to reduce this mainly outside Japan	30% or lower (excluding strategic investment)
Operating income-to-sales ratio	7.3%	9.6%	8.1%	10.2%

FY16 Management Policy Revision 1

- Focus on strengths such as downstream
- Fund strategic investment through cost reduction
- Establish foundation for making a BIG LEAP next year or soon thereafter



- Accelerate transformation by becoming more efficient than ever (through cost reduction, etc.)

Overall Direction

Transformation is essential

Non-
Japan
control
market

Preparing for the growth
that is to come

Japan
control
market

Serving as a key driver
for our transformation

Yokogawa Electric Corporation

Yokogawa's Solution Services



November 1, 2016

Hitoshi Nara

**Director of Yokogawa Electric Corporation
President of Yokogawa Solution Service Corporation**

Presenter's Career at Yokogawa

- Apr. 1985 Joined the Company
- Oct. 2001 Deputy Managing Director of
Yokogawa Engineering Asia Pte. Ltd.
- Oct. 2003 Managing Director of Yokogawa (Thailand) Ltd.
- Jan. 2007 Head of Sales Div. I,
Industrial Solutions Business Headquarters
- Apr. 2010 Senior Vice President, Head of
Industrial Solutions Business Headquarters
- Jun. 2011 Director and Senior Vice President,
Head of Industrial Solutions Business Headquarters
- Apr. 2012 Director and Senior Vice President,
Head of Industrial Solutions Service Business Headquarters
- Apr. 2013 Director of the Company,
President of Yokogawa Solution Service Corporation (present)



Contents

1. Profile of Yokogawa Solution Service Corporation

2. Yokogawa's Solution Services in the Japan IA & Control Business (Market opportunities, Two basic strategies / Japan's manufacturing sector / IA & control business domains)

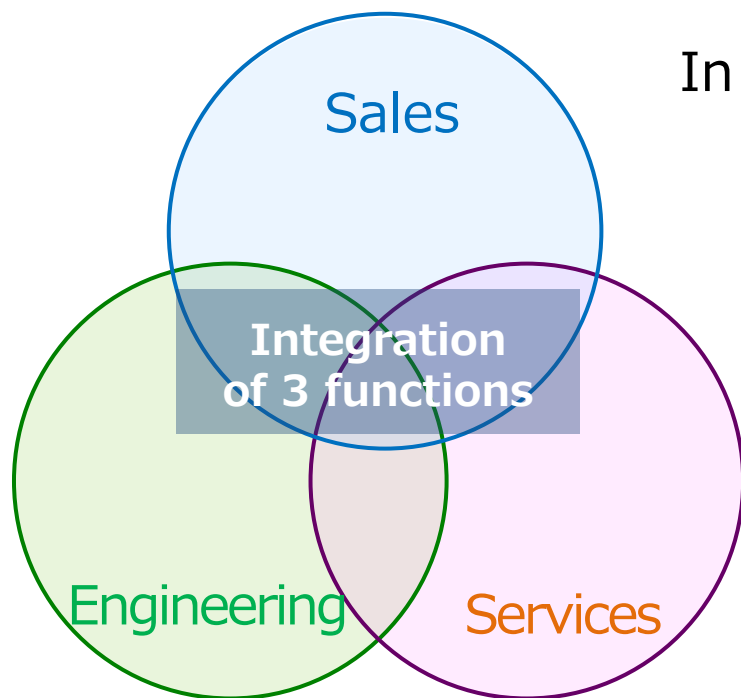
3. Yokogawa's Strengths / Success Cases

4. Future Development (Entering new business domains by leveraging IIoT and alliances)

5. Future Direction

Profile of Yokogawa Solution Service Corporation

April 1, 2013: Launch of Yokogawa Solution Service Corporation



In Japan's control business,
integrating the sales, engineering,
and service functions



Transforming Yokogawa into a
solutions and service company

- **Improve operational efficiency**
- **Speed up decision making**
- **Accelerate expansion of value-added solution service businesses**

IA & Control Business – Market opportunities –

Transformation 2017

Further development of resource and energy sector

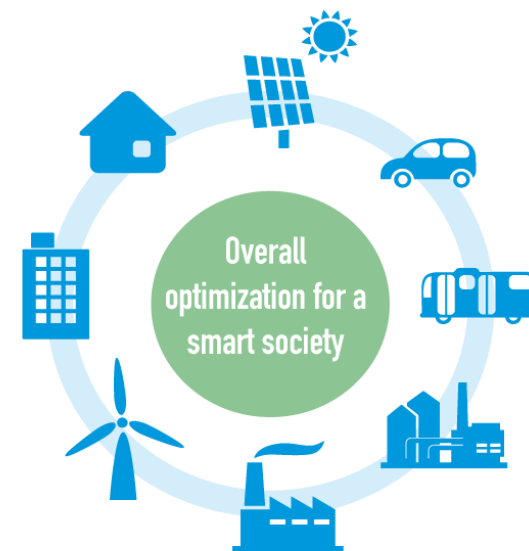
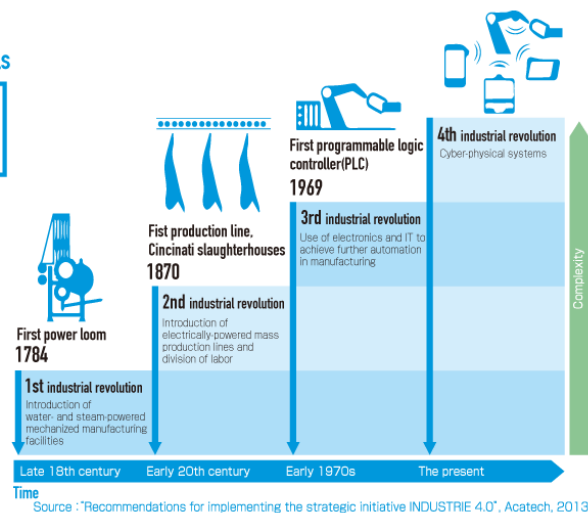
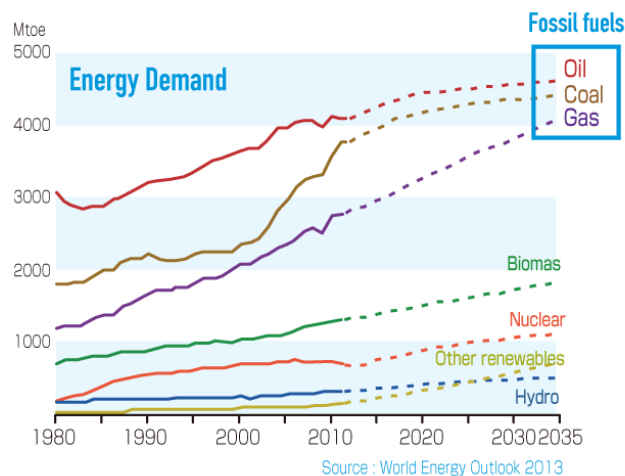
1

Innovation of industrial structure by integration of devices (“things”) and information
⇒(IoT)

2

Smartization of society⇒(ICT)

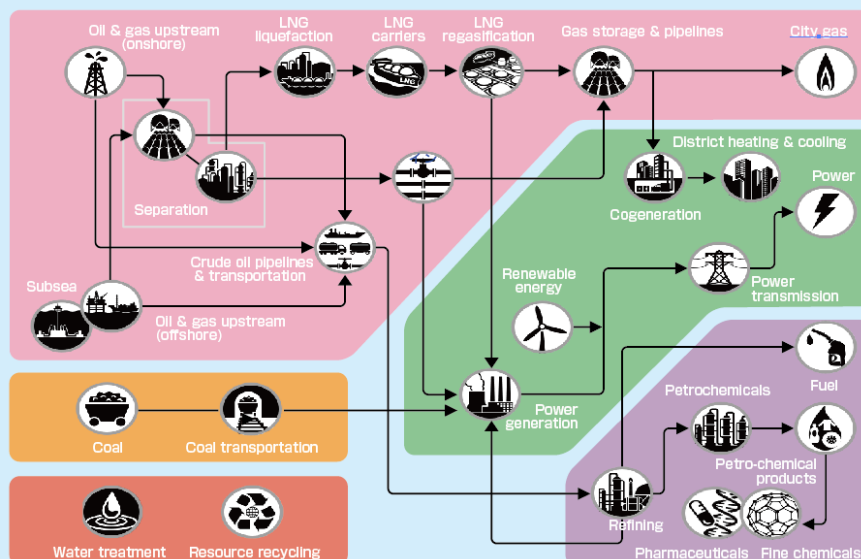
3



The global No.1 company in IA

Top share of the market

Customer base-driven expansion
throughout energy supply chain



Expand into new
industries

Leveraging our strength
in the Japan market

Starting in Asia,
expand business
operations worldwide

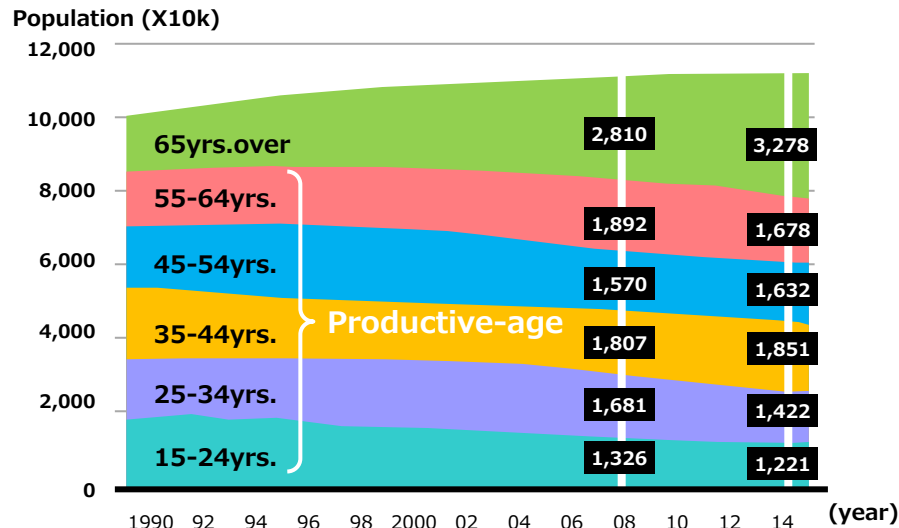
Japan's Manufacturing Sector – Current considerations –

Changes that are having an impact on manufacturers

- Aging/shrinking workforces
- High energy costs
- Intensification of global competition

Direction of Japan's manufacturing

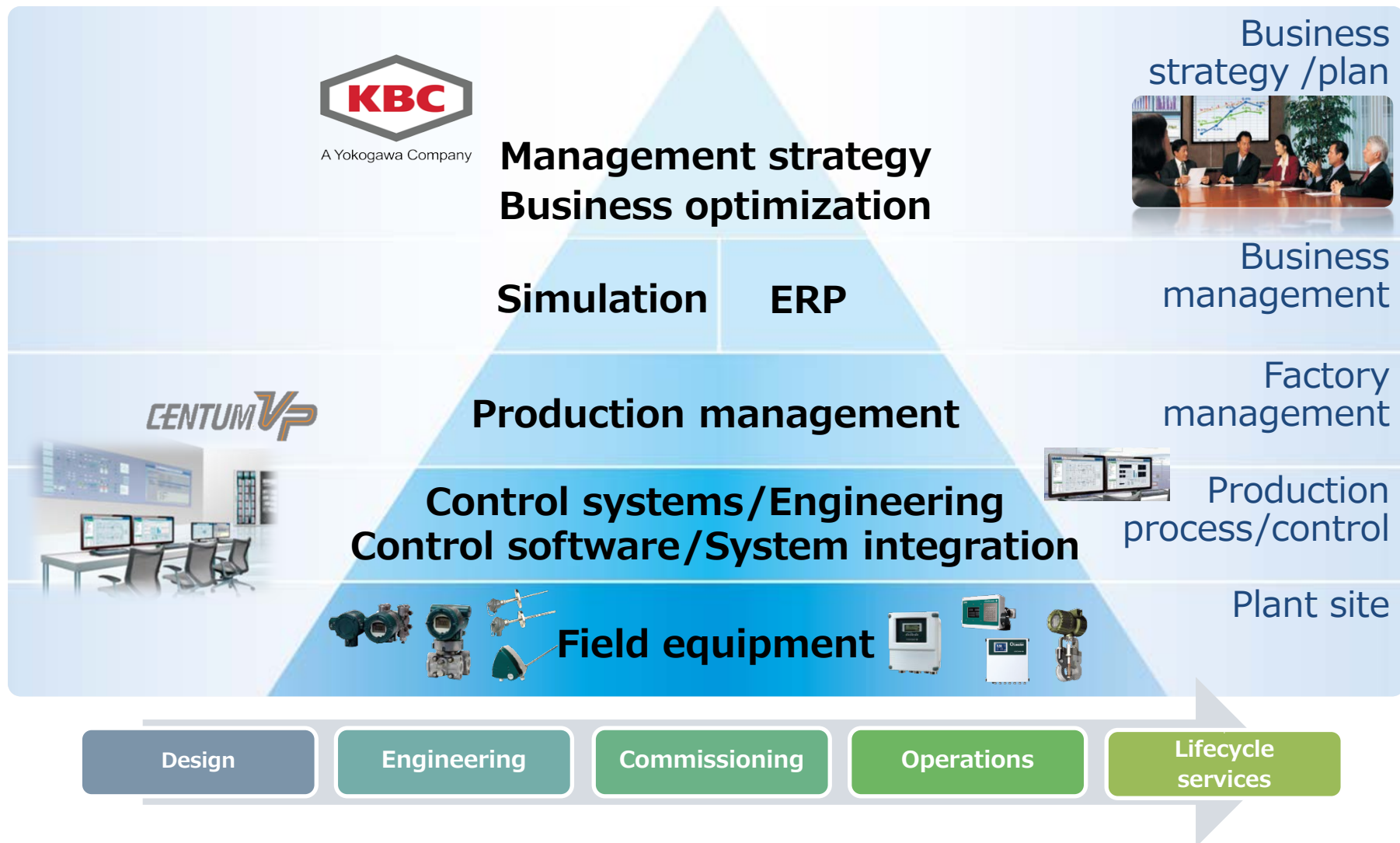
- Advances in intelligent manufacturing
- Changing roles of domestic factories
 - ✓ “Mother factory” for manufacturing in other countries
 - ✓ Flexible factory for high-mix low-volume manufacturing
 - ✓ Innovation factory for new technologies and new products



Source: Compiled using data from the Labor Force Survey.
(Ministry of internal affairs and communications)

Innovation

IA & Control Business Domains Covered by Yokogawa



Yokogawa's Strengths

● The four *GENs*

- Professionals who have extensive knowledge of the four *GENs*: *genba* (plant sites), *genbutsu* (actual things), *genjitsu* (current status), and *genchika* (localization)
- 24/7 support system

● Trust

- Reliable products with the same high quality, a long lifespan, and excellent environmental resistance all over the world
- Ability to optimize processes for both industry and society (engineering)
- Perseverance and persistence (ability to carry through projects)

● Co-creation

- Co-creating value with customers and serving as a provider of holistic solutions spanning everything from management to field operations
- Extensive knowledge of industries, manufacturing processes, and engineering
- Good citizenship (our corporate philosophy), the pursuit of harmony, and sharing the same goals as our customers

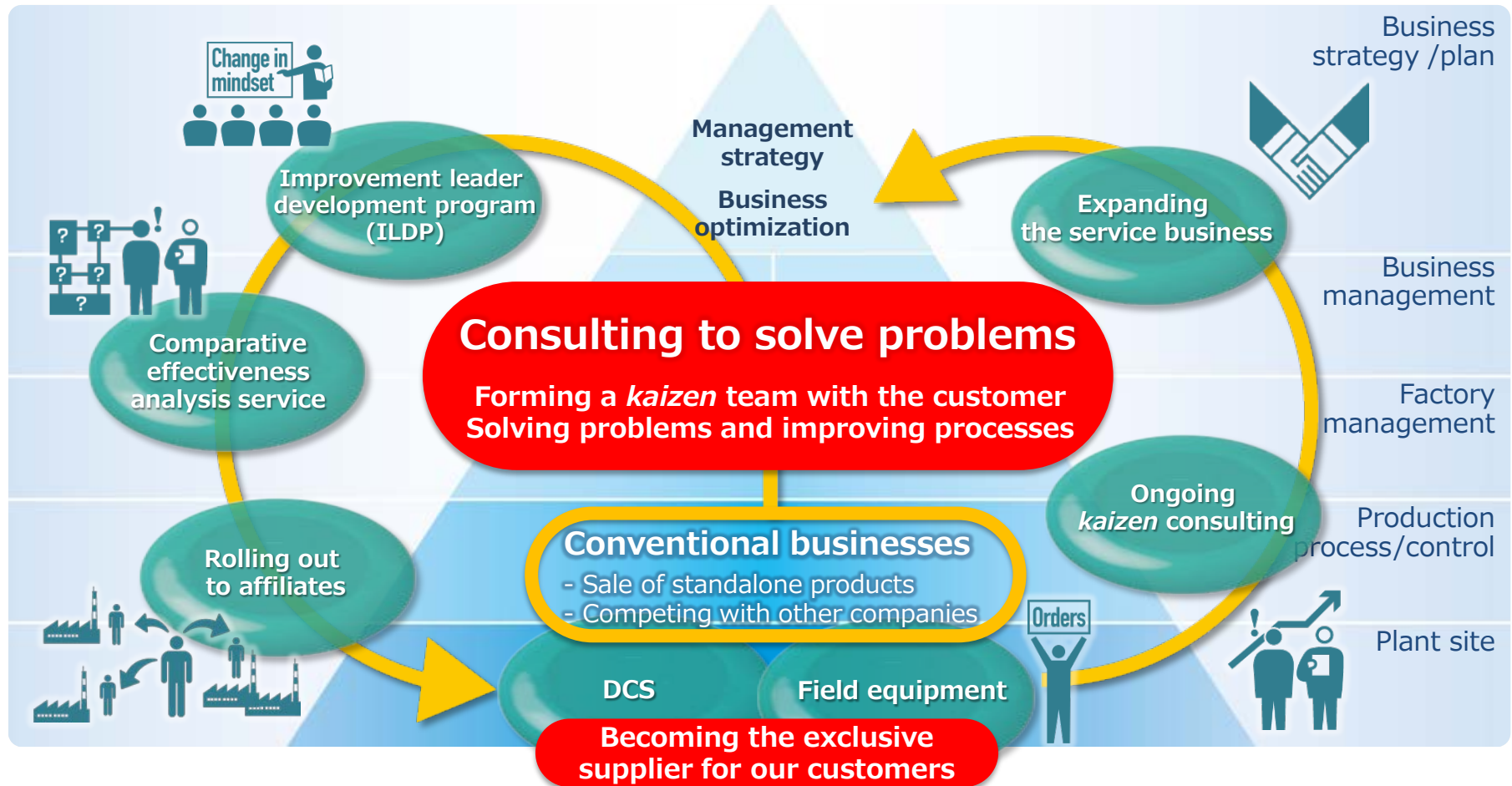
Success Cases

- **Case 1: Expanding the Value Chain for Existing Customers**
(customer: a chemical company)
- **Case 2: Developing New Customers through Consulting**
(customer: a beverage company)
- **Case 3: Expanding the Information Business**
(customer: Riken Keiki Co., Ltd.)

Case 1: Expanding the Value Chain for Existing Customers

Customer: a chemical company

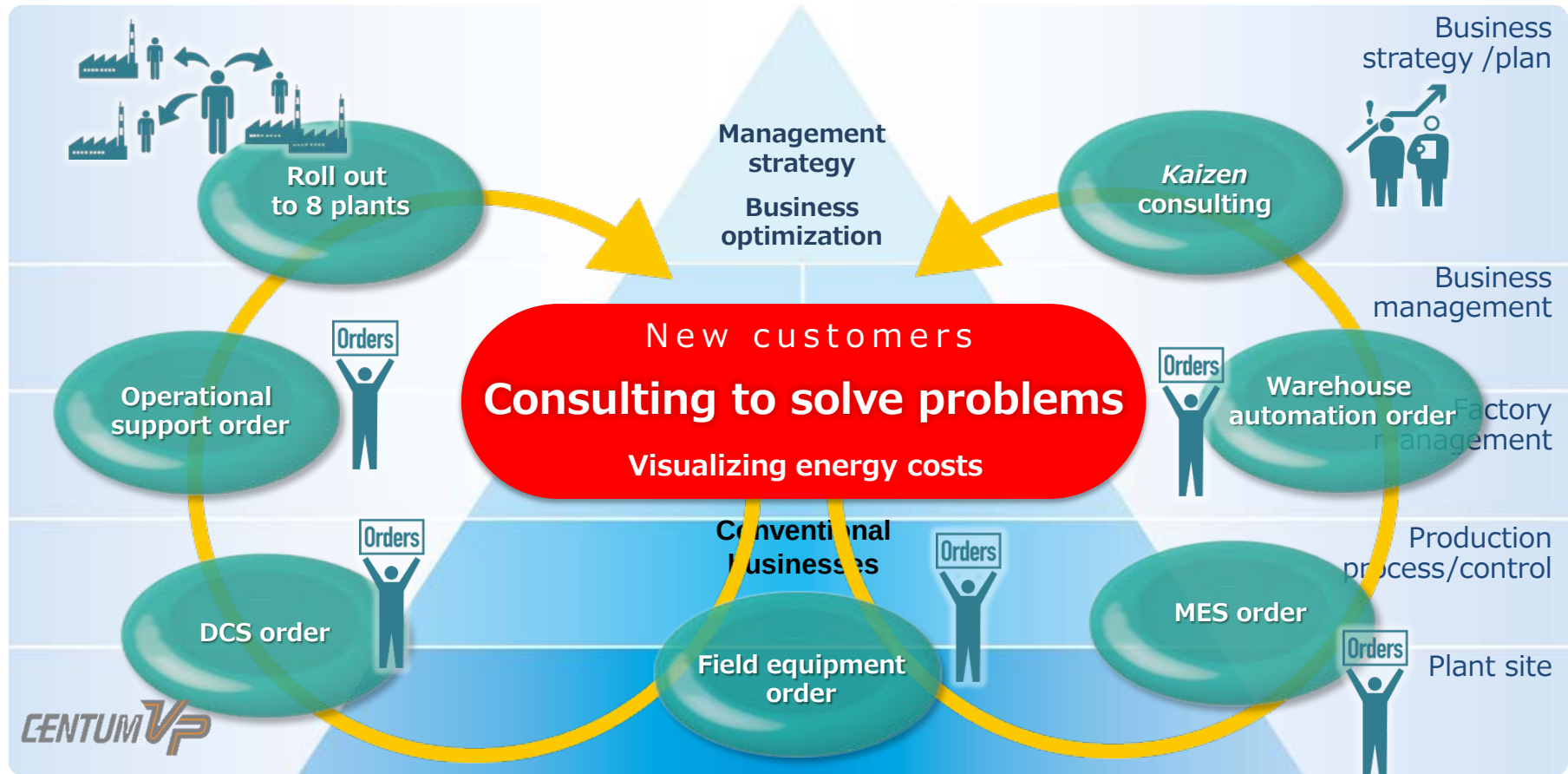
Value chain for increasing sales and improving profitability



Case 2: Developing New Customers through Consulting

Customer: a beverage company

By building trust,
Yokogawa captured a major customer from a competitor.



Case 3: Expanding the Information Business

Entering new industries

Paratechno Co., Ltd.



Smiles Co., Ltd.



Riken Keiki Co., Ltd.



Successes in supporting key business operations through the provision of after-sales services



Riken Keiki Co., Ltd.

- Leveraging its extensive industry knowledge, Yokogawa provided consulting for every aspect of this company's business operations.
 - Pre-sales *kaizen* business consulting
- Restructuring of company operations to improve profitability of service business
 - Consolidation of nationwide maintenance operations
 - Central management of parts inventory
 - Reduction of inventory and shortening of delivery lead times

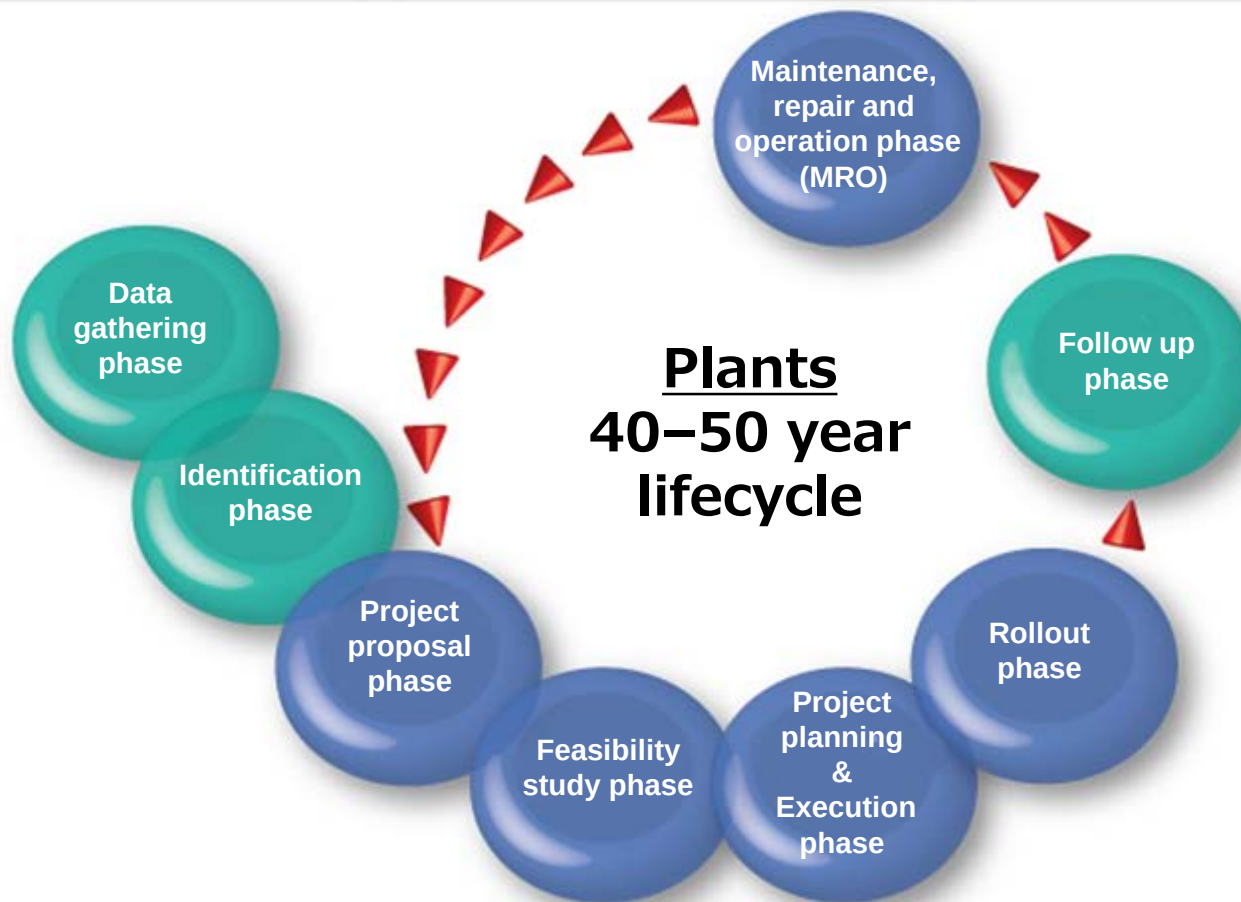
Company profile



Headquarters: Itabashi-ku, Tokyo
Operations: Headquarters, 2 plants, 21 offices, 32 service offices in Japan; operations in 7 other countries
C a p i t a l : 2.67 billion yen
S a l e s : 23.41 billion yen (FY2015)
B u s i n e s s : A major manufacturer of gas detectors and alarms (listed in first section of TSE)

Solution Service Business Cycle

Continued proposal of solutions and provision of support over the entire plant lifecycle



Results and Reasons for Steady Growth

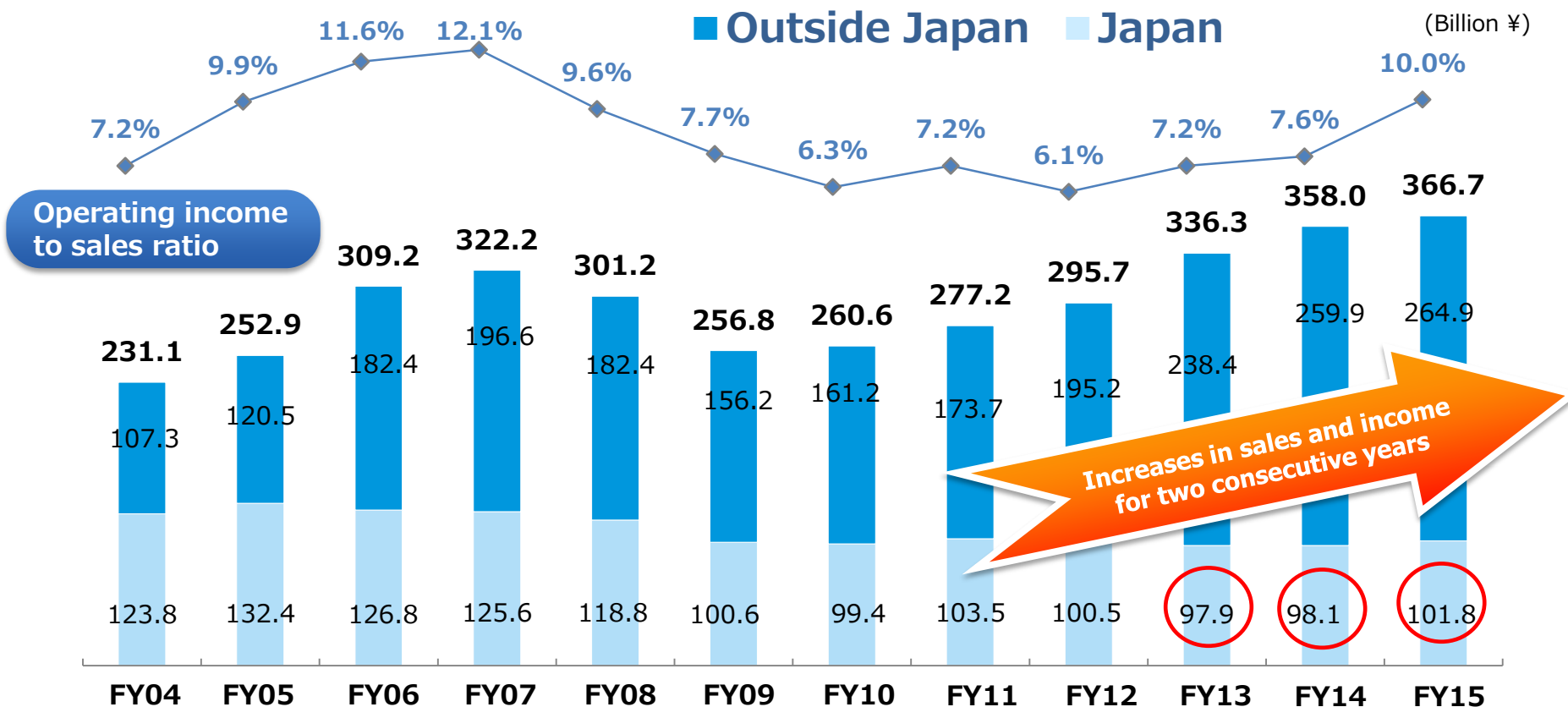
- Capturing a larger share of the Japanese market※
 - Even in a tough economy, winning orders for integration projects

(※Based on a company survey)

- Improving profitability
 - Integration of our three primary business functions has improved profitability (particularly for the information business).
 - Optimization of cost structure
 - Optimization of strategies for areas, industries, and products has enabled us to improve our site response (improved customer focus)



Trend of Global Sales in Control Segment

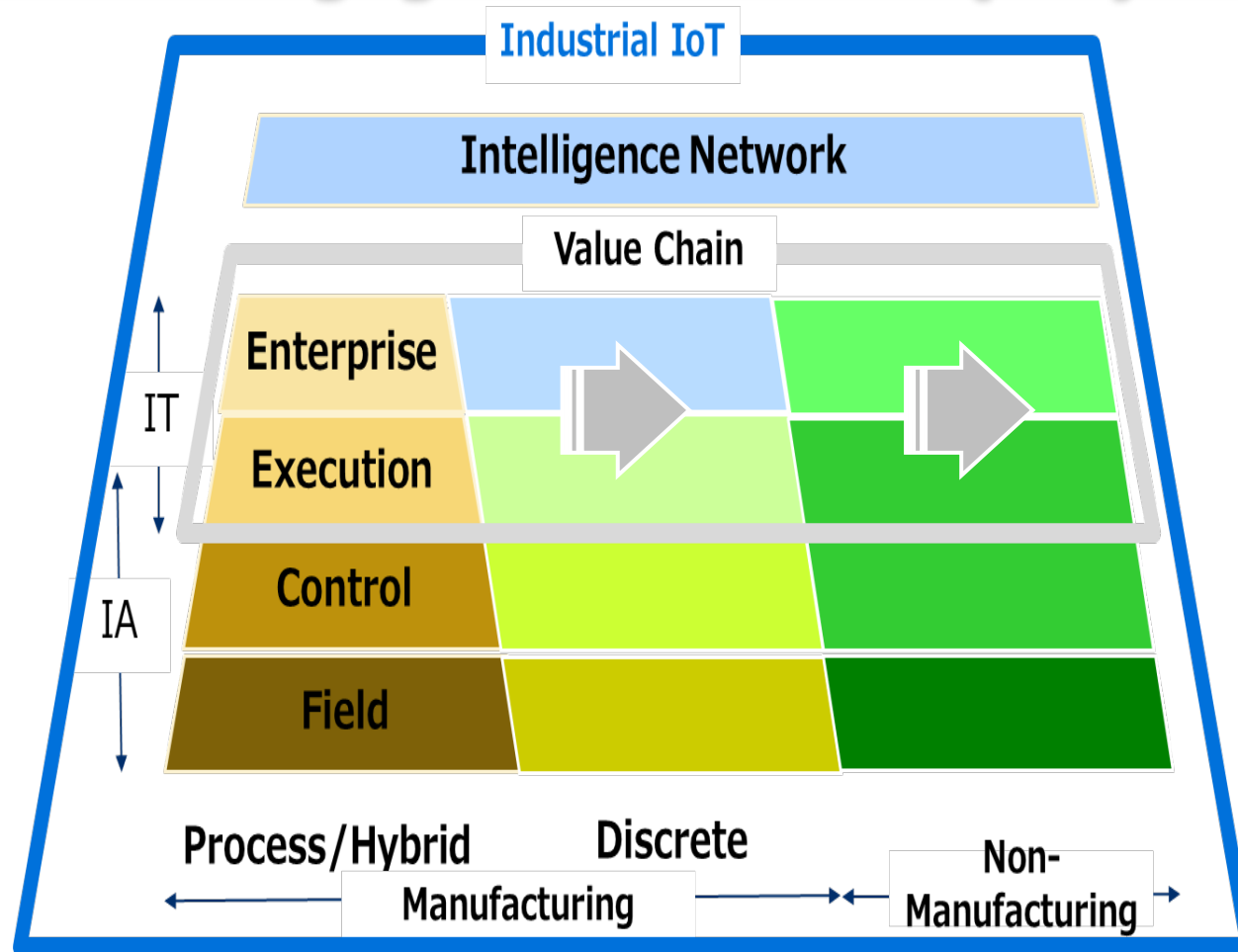


<Exchange rate>

		FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
US dollar	(Yen)	107.46	113.09	117.00	113.80	100.66	92.61	85.13	78.82	83.33	100.67	110.58	119.99

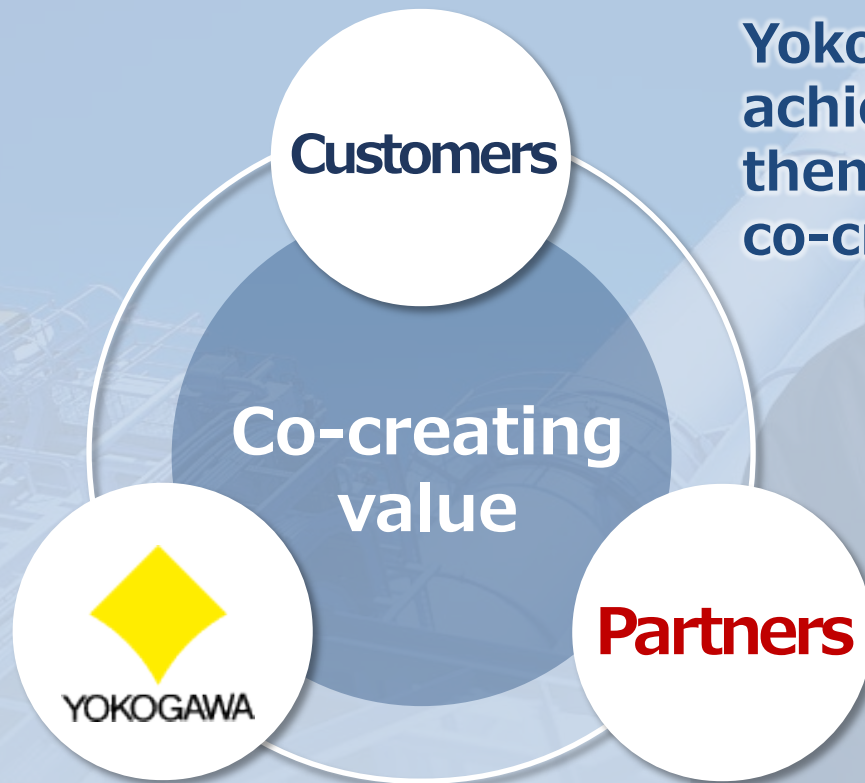
Future Development

Entering new business domains by leveraging the Industrial IoT (IIoT)



Future Development

Entering new business domains through alliances with other companies



Yokogawa will help its customers achieve their vision by working with them and its business partners to co-create value.

**Mitsubishi Research Institute, Inc.
Cisco Systems G.K.
Microsoft Japan Co., Ltd.**

Future Direction

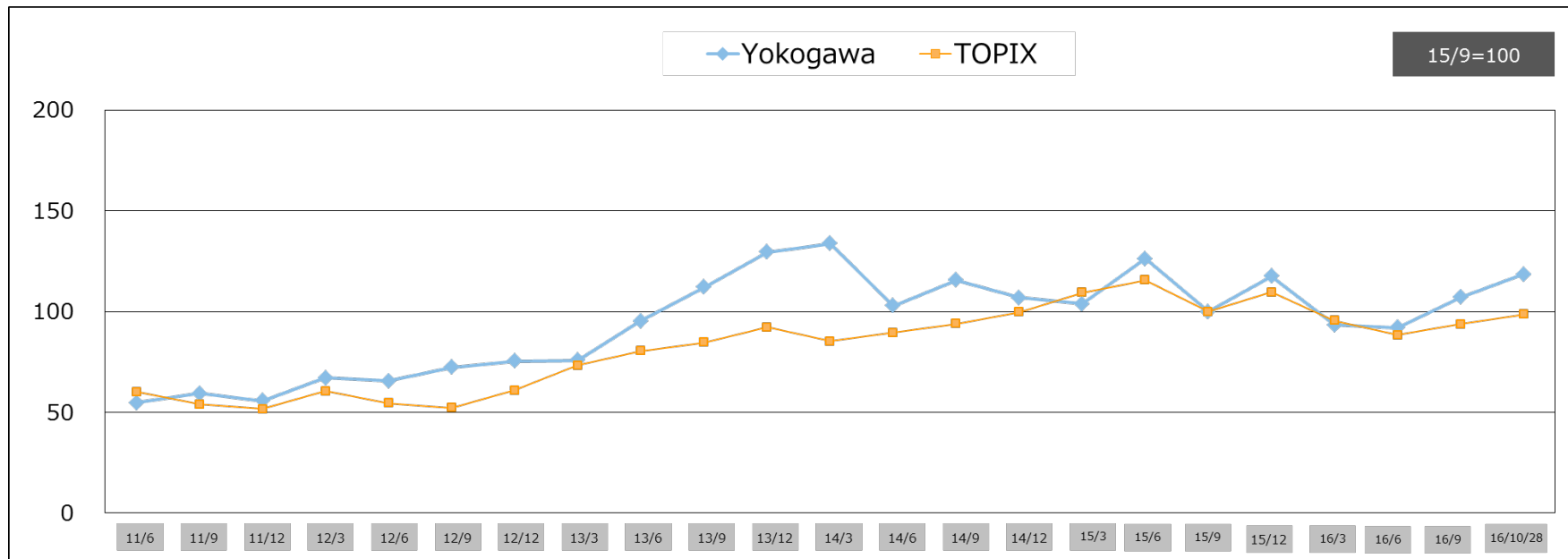
Outside
Japan

**Expand from Asia to the
world by leveraging
strengths refined in Japan**

Japan

Improve profitability

Appendix: Trend of Stock Price



(¥)

	11/6	11/9	11/12	12/3	12/6	12/9	12/12	13/3	13/6	13/9	13/12	14/3	14/6	14/9	14/12	15/3	15/6	15/9	15/12	16/3	16/6	16/9	16/10/28
Yokogawa	683	740	695	837	818	902	941	946	1,187	1,398	1,615	1,667	1,281	1,442	1,333	1,295	1,574	1,247	1,465	1,163	1,146	1,335	1,476
TOPIX	849	761	729	854	770	737	860	1,035	1,134	1,194	1,302	1,203	1,263	1,326	1,407	1,543	1,630	1,411	1,547	1,347	1,245	1,322	1,392

	11/6	11/9	11/12	12/3	12/6	12/9	12/12	13/3	13/6	13/9	13/12	14/3	14/6	14/9	14/12	15/3	15/6	15/9	15/12	16/3	16/6	16/9	16/10/28
Yokogawa	55	59	56	67	66	72	75	76	95	112	130	134	103	116	107	104	126	100	117	93	92	107	118
TOPIX	60	54	52	61	55	52	61	73	80	85	92	85	90	94	100	109	116	100	110	95	88	94	99

Appendix: News (From August 8 to November 1)

Aug. Yokogawa Meters & Instruments releases WT1800E high performance power analyzer with improved measurement accuracy and new functions

Sept. Acquisition of highest “L-boshi” certification for promotion of women’s career activities
Establishment of basic policy on health and productivity management
Yokogawa Solution Service’s equipment maintenance management system selected for use in biomass power station

Oct. Development of Process Data Analytics software for early detection of production quality issues
Release of ISA100 Wireless™-based vibrometer with high-speed data update cycle and long battery life
Yokogawa Solution Service launches edge computing-based service for monitoring of equipment malfunctions

Note: The month for each news item indicates when it was published.

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.

IR Group, Corporate Communications Department
Yokogawa Electric Corporation

Email: Yokogawa_Electric_IR6841@cs.jp.yokogawa.com

Phone: +81-422-52-5530

URL: <http://www.yokogawa.com/pr/ir/index.htm>