

Yokogawa Electric Corporation

Transformation 2017

Financial Results for 1st Half of Fiscal Year 2017

November 7, 2017

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President and Chief Executive Officer

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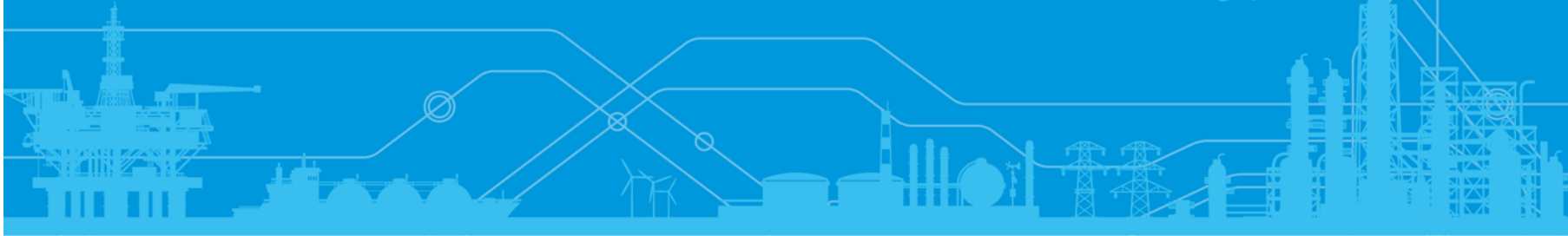
Satoru Kurosu

Director, Executive Vice President
Premium Solutions & Service Business Headquarters

Yokogawa Electric Corporation

Transformation 2017

Financial Results for 1st Half of Fiscal Year 2017



November 7, 2017

Junichi Anabuki

Director, Senior Vice President
Accounting & Treasury Headquarters

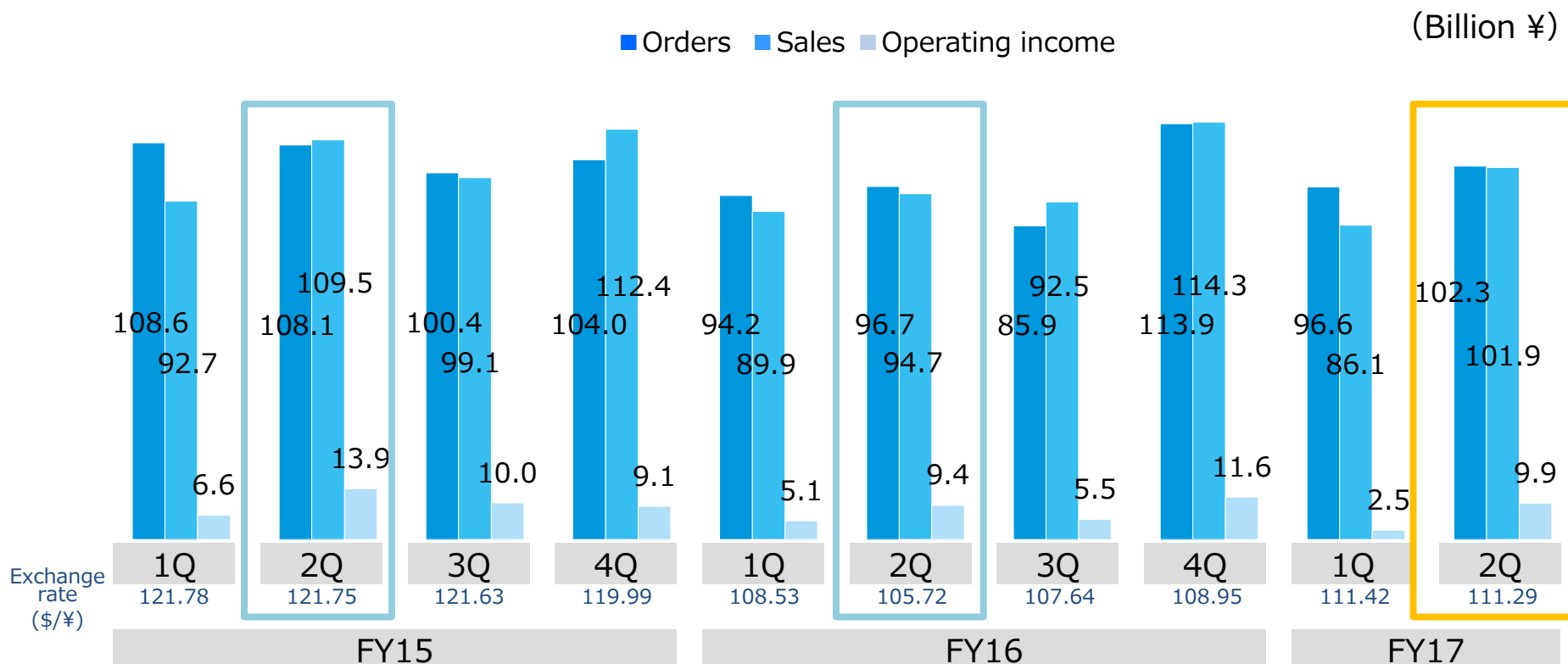
Summary of FY17 1H Results

- Orders and sales were up, due mainly to the weak yen.
 - Operating income was down due to a decrease in the gross margin ratio and an increase in the SG&A ratio.
 - Impact of the weak yen:
→ Orders +¥7.8 billion, sales +¥7.3 billion, operating income +¥1.4 billion
- (Billion ¥)

		FY16 1H	FY17 1H	Difference	Growth rate	Impact of exchange rate
Orders		190.9	198.9	+8.0	+4.2%	+7.8
Sales		184.6	188.0	+3.4	+1.8%	+7.3
Operating income		14.5	12.4	(2.1)	-13.3%	+1.4
Ordinary income		14.9	12.3	(2.6)	-16.3%	+1.7
Profit attributable to owners of parent		10.3	9.6	(0.7)	-6.5%	+1.5
Exchange rate (¥)	1 U.S. dollar	105.72	111.29	+5.57	-	-

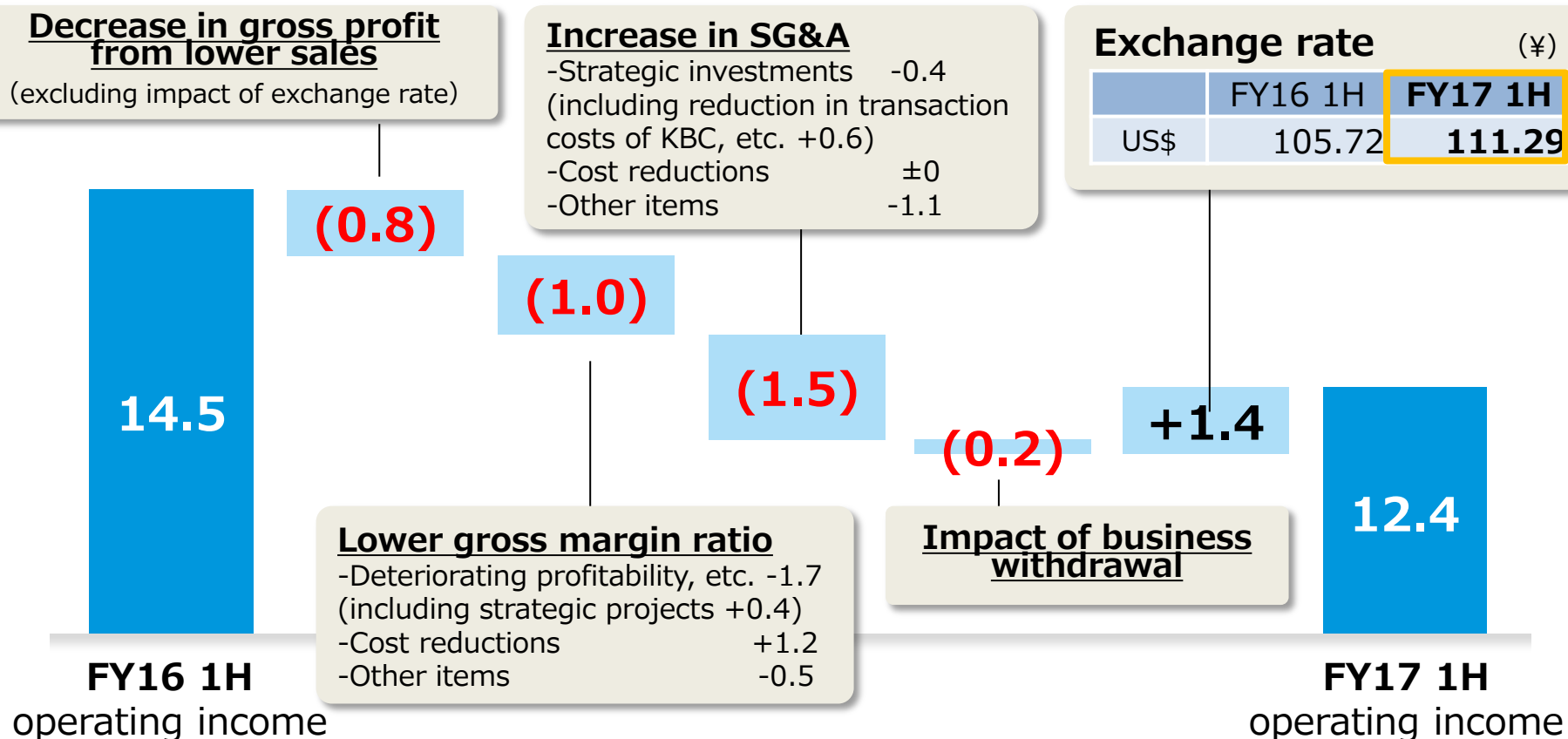
Quarterly Financial Results

- Sales and operating income tend to be higher in 2Q and 4Q, and this trend is particularly strong in the Japanese control segment.



Analysis of Operating Income (FY16 1H/FY17 1H comparison)

(Billion ¥)



Non-operating/Extraordinary Income and Expenses

(Billion¥)

	FY15 1H	FY16 1H	FY17 1H
Operating income	20.5	14.5	12.4
Non-operating income	1.7	1.5	1.6
Non-operating expenses	1.2	1.1	1.7
Ordinary income	21.0	14.9	12.3
Extraordinary income	0.9	0.2	2.5
Extraordinary expenses	0.2	0.1	0.1
Income before tax	21.7	15.0	14.7
Tax, etc.	5.6	4.7	5.1
Profit attributable to owners of parent	16.1	10.3	9.6

→ FY17:
 - Gain on sale of non-current assets: 1.8
 - Gain on sale of investment securities: 0.7

(Effective tax rate)

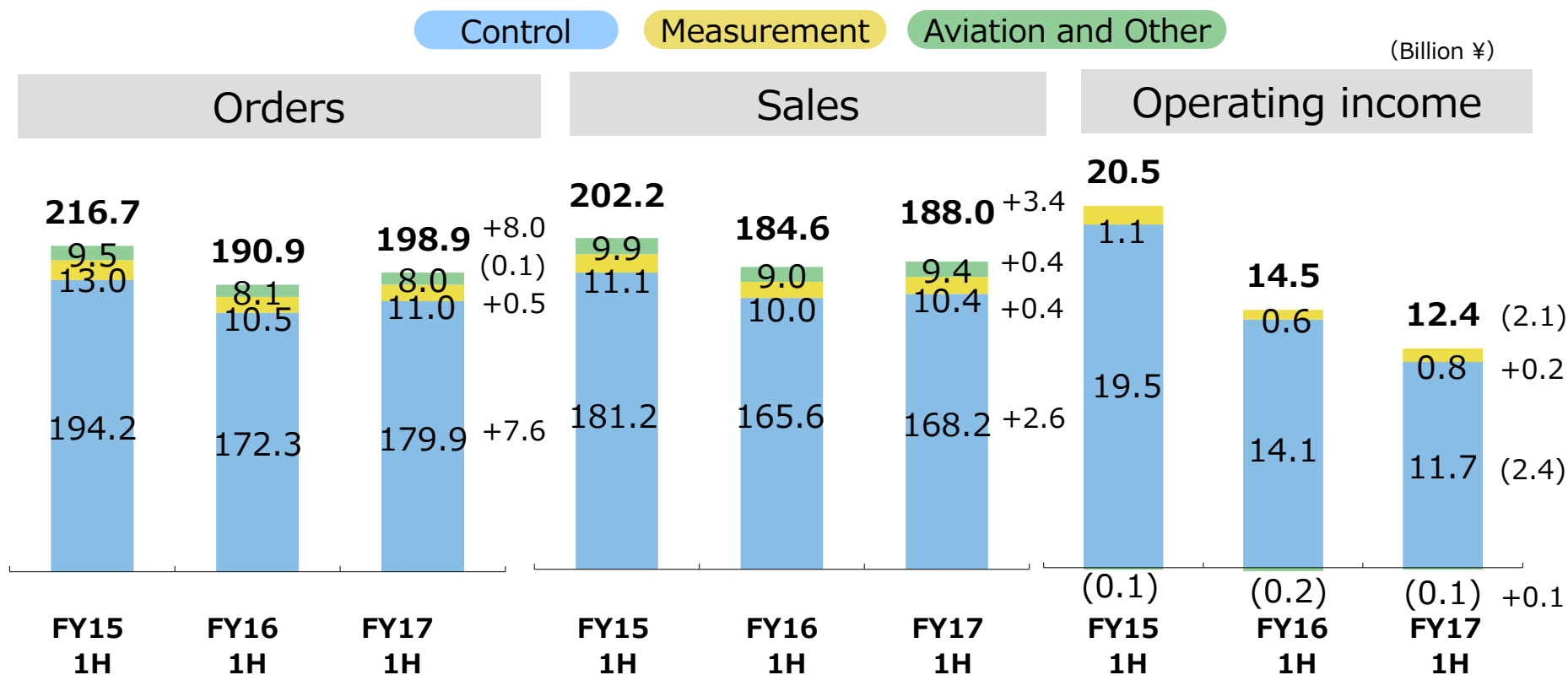
22.2%

28.4%

30.0%

FY16 1H/FY17 1H Comparison for Orders, Sales, and Operating Income by Segment

- Control: Orders and sales were up, due mainly to the weak yen, but operating income was down due to deteriorating profitability and an increase in SG&A expenses, which included transient items, etc.
- Impact of the weak yen:
→ Orders +¥7.4 billion, sales +¥6.9 billion, operating income +¥1.3 billion
- Measurement/Aviation and Other: Orders, sales, and operating income were nearly unchanged from FY16 1H.

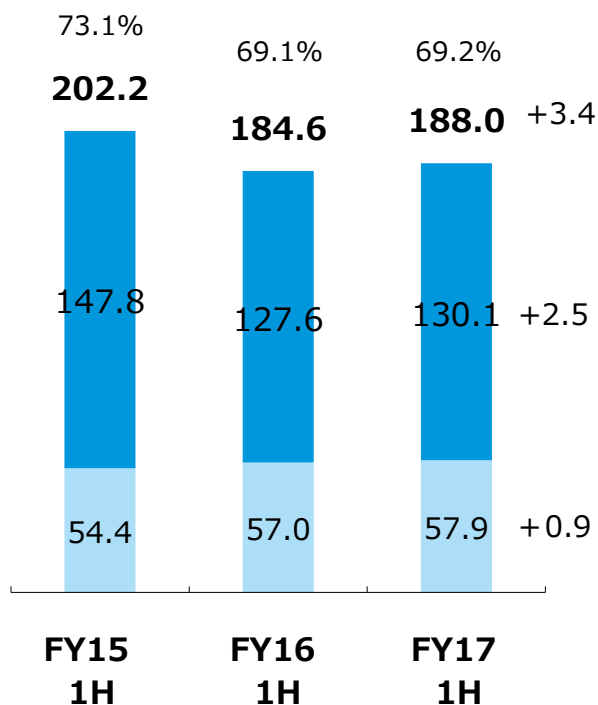


Trend of Global Sales

-The percentage of sales generated outside Japan was up due to the weak yen.

Total (Billion ¥)

■ Japan ■ Outside Japan



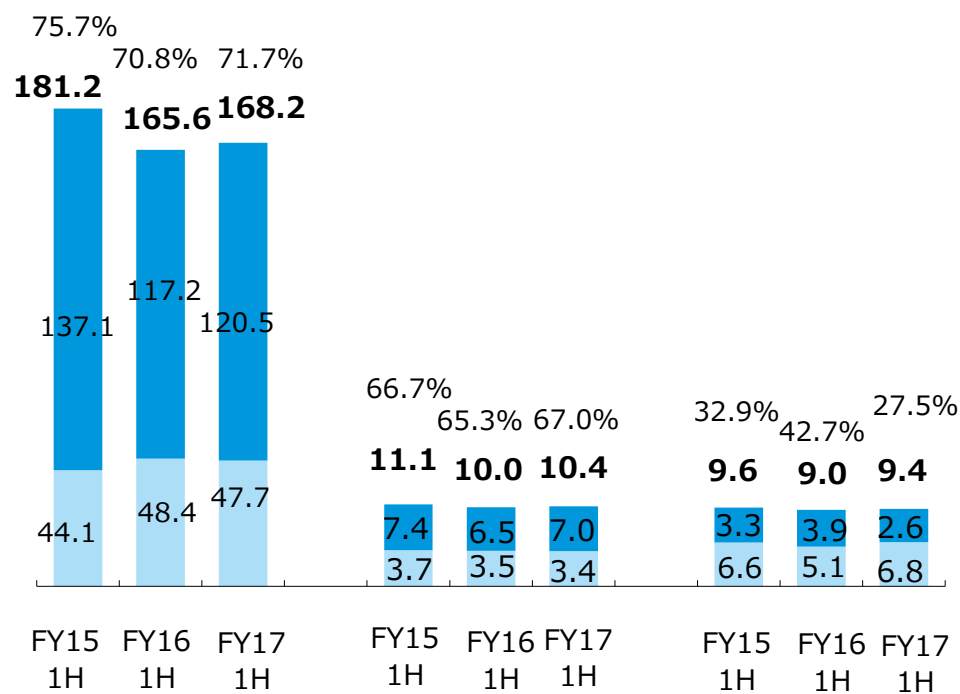
By segment (Billion ¥)

Control

Measurement

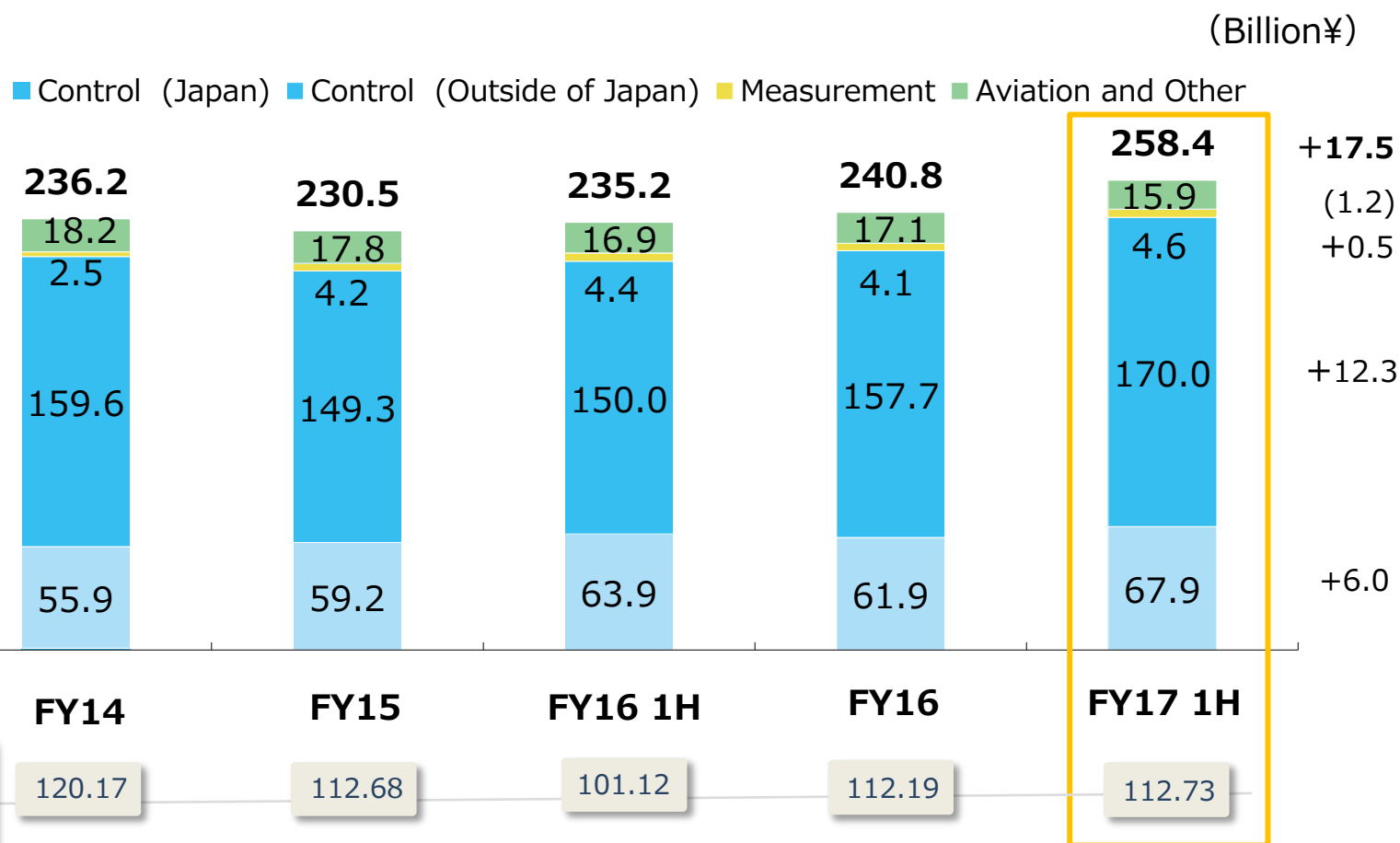
Aviation and Other

■ Japan ■ Outside Japan



Order Backlog Trend by Segment

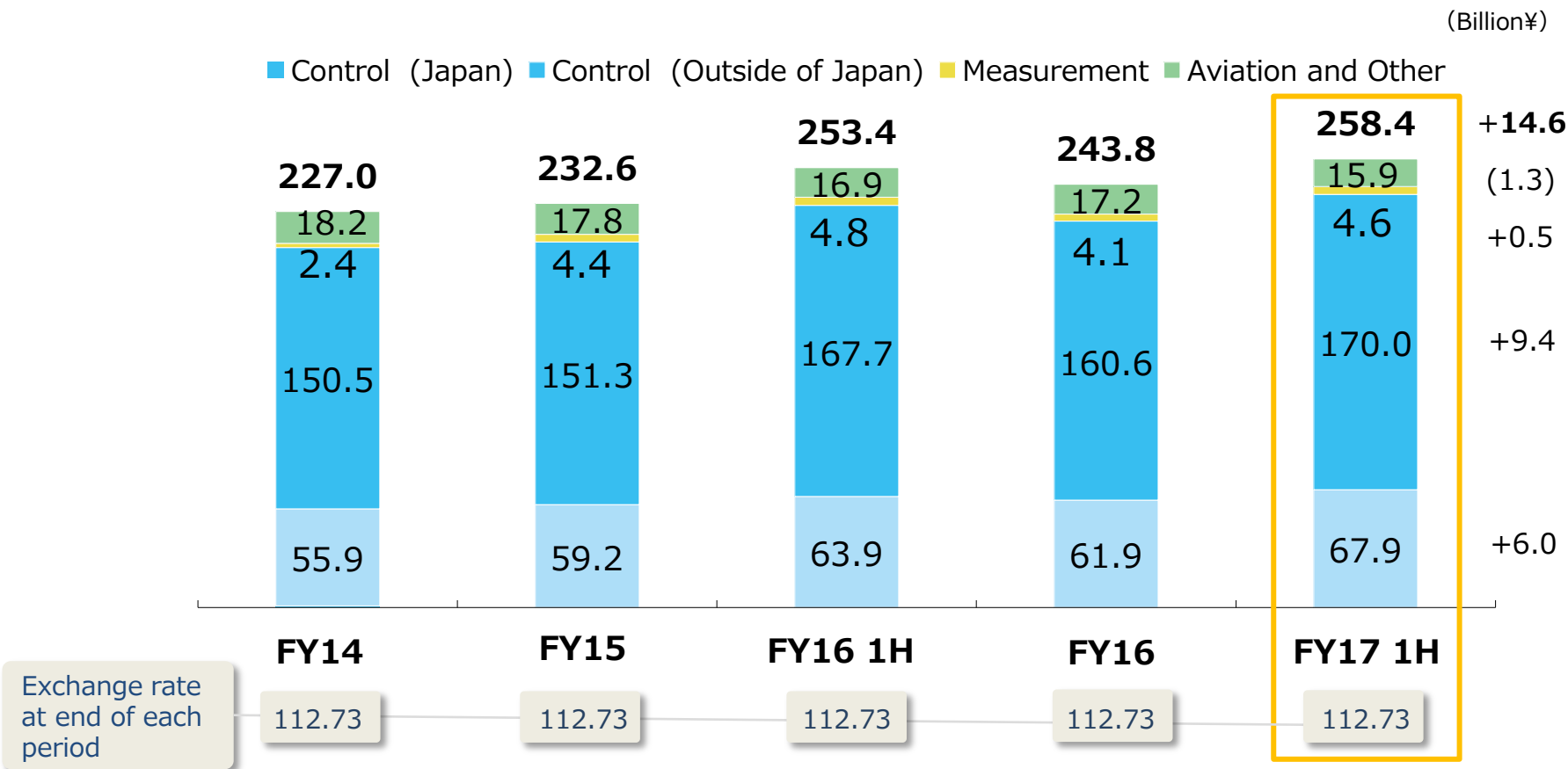
- We continue to have a large order backlog.



* Destination-based

<Reference> Order Backlog Trend by Segment (Using FY17 1H exchange rate)

- Also when the impact of the exchange rate is excluded, the order backlog shows the same general upward trend.



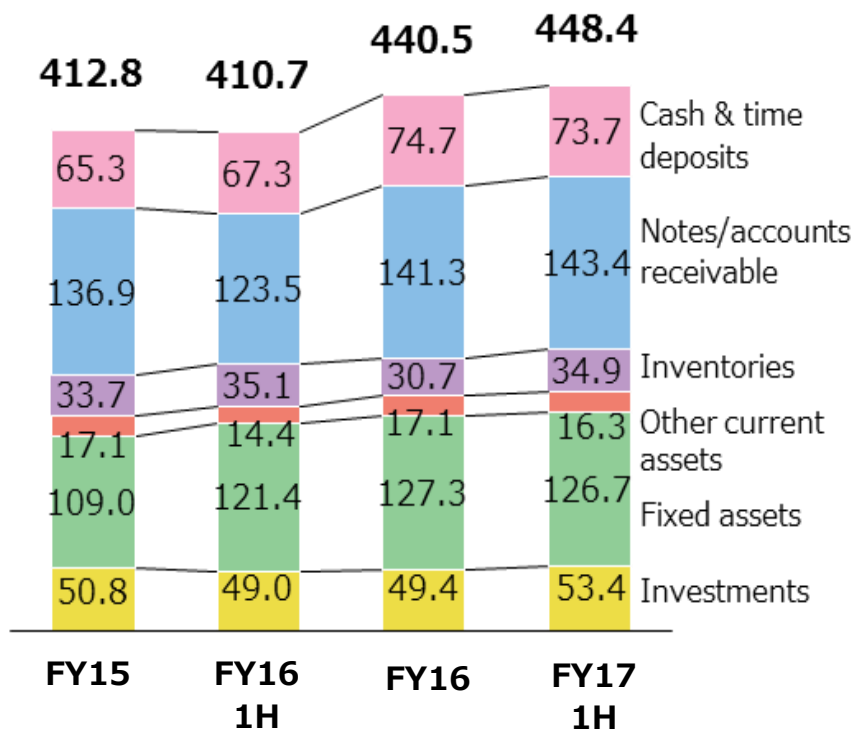
* Destination-based

Trend of Balance Sheet

- There were no significant changes.

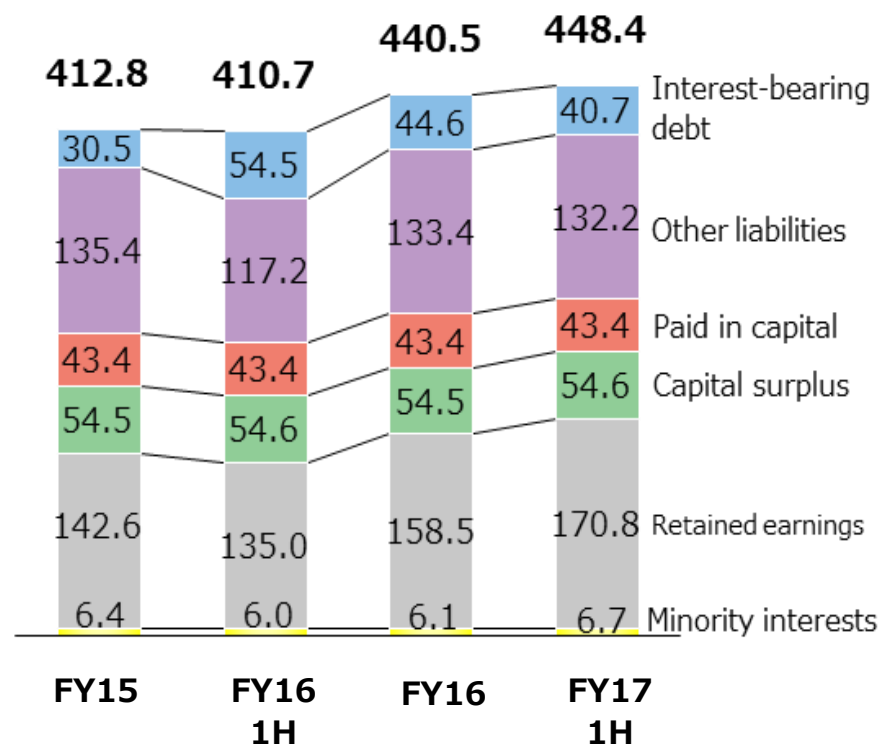
Assets

(Billion ¥)



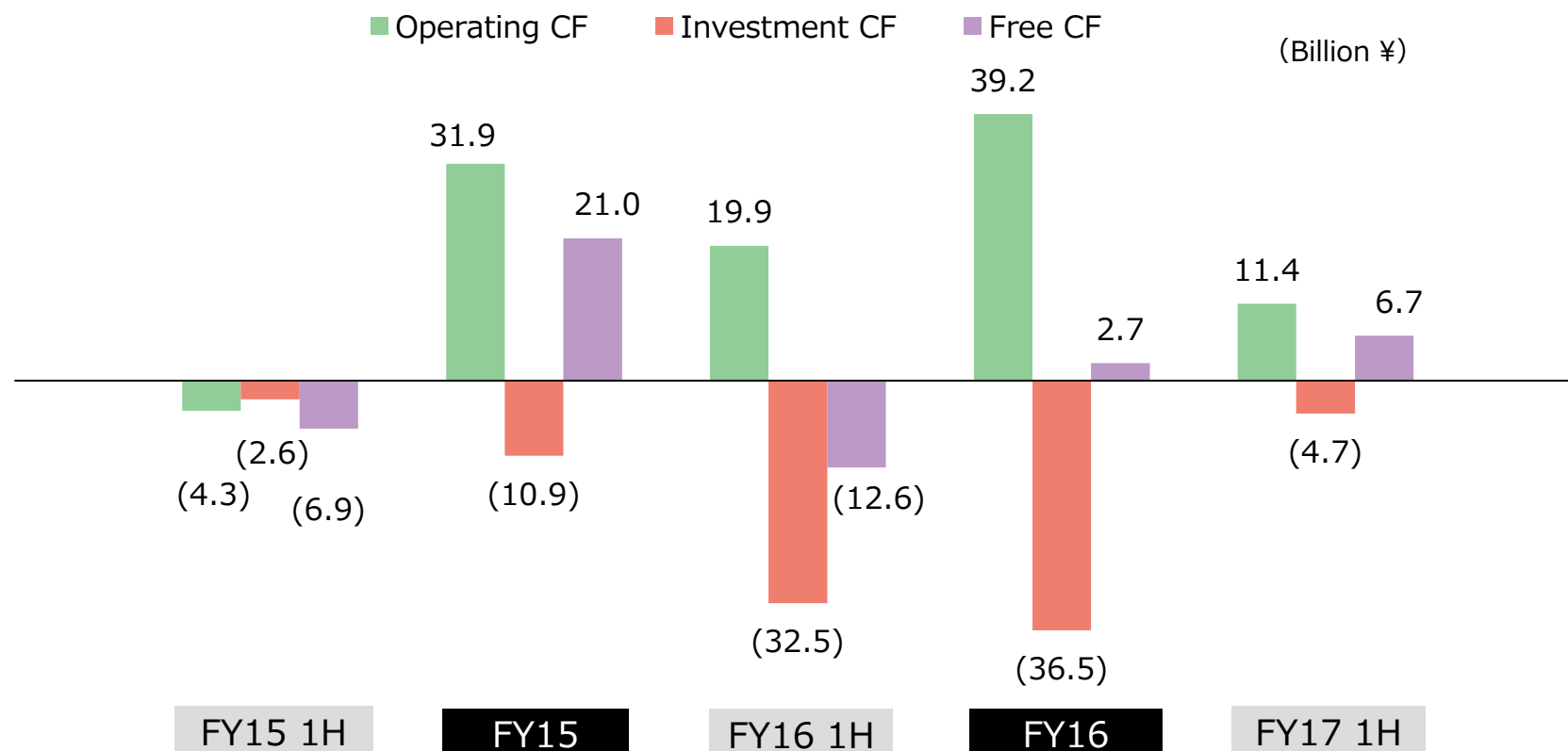
Liabilities and equity

(Billion ¥)



Trend of Cash Flow

- The investment cash flow for FY16 1H was impacted by the KBC acquisition (26.6 billion yen).



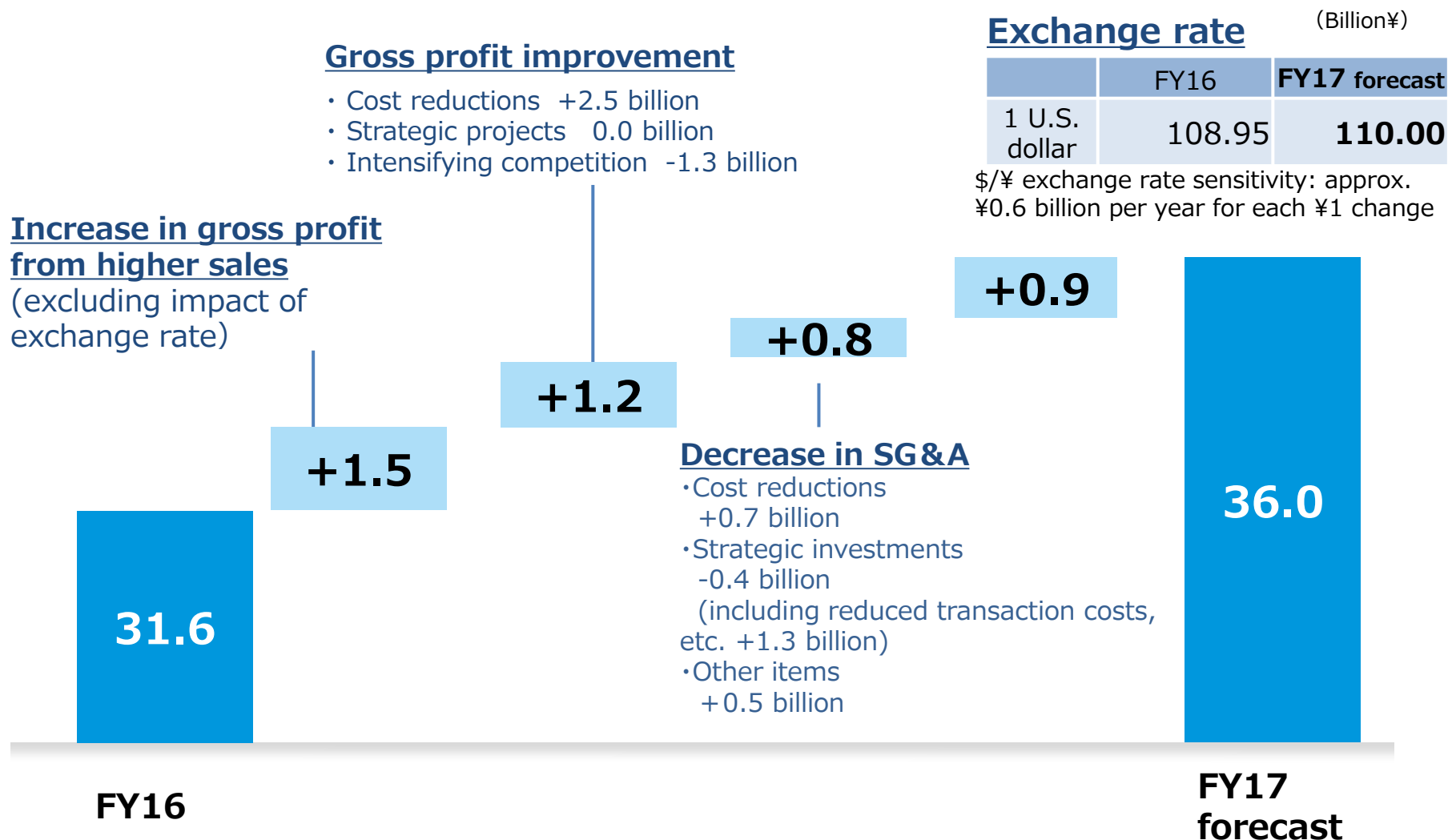
FY17 Forecast (No change)

- We are projecting a year-on-year increase in orders, sales, and profits.

(Billion¥)

	FY15 (A)	FY16 (B)	FY17 forecast(C)	Difference (C-B)	Growth rate (C÷B-1)
Orders	421.1	390.7	400.0	+ 9.3	+ 2.4%
Sales	413.7	391.4	400.0	+ 8.6	+ 2.2%
Operating income	39.6	31.6	36.0	+ 4.4	+ 13.9%
ROS (%)	9.6	8.1	9.0	+0.9 pts	—
Ordinary income	40.7	33.0	35.5	+ 2.5	+ 7.5%
Profit before income taxes	41.9	35.5	37.5	+ 2.0	+ 5.6%
Tax, etc.	11.7	9.7	10.5	+0.8	+8.2%
Profit attributable to owners of parent	30.2	25.8	27.0	+ 1.2	+ 4.8%
EPS (¥)	114.01	96.44	101.04	+ 4.60	—
Exchange rate	1\$ = ¥119.99	¥108.95	¥110	+ 1.05	—

Factors Accounting for Increase/Decrease in FY17 Operating Income (No change)



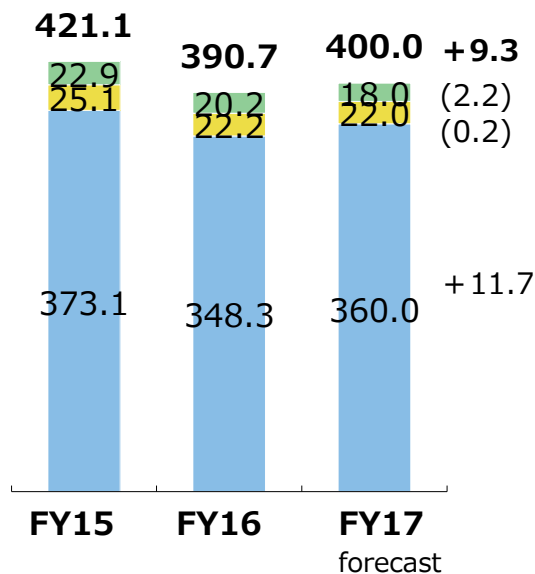
FY17 Forecast for Orders, Sales, and Operating Income by Segment (No change)

- Control: We are projecting a year-on-year increase for orders, sales, and profits.
- Measurement: Orders and sales are expected to remain unchanged year on year, while profit is expected to increase.
- Aviation and other: Orders and sales are projected to decline due to factors such as a decline in demand for marine navigation instruments.

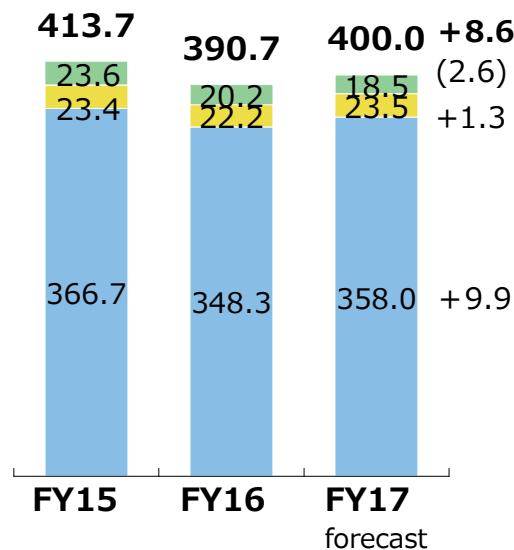
■ Control ■ Measurement ■ Aviation and Other

(Billion¥)

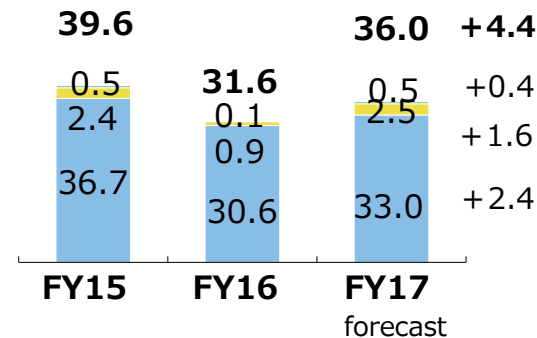
Orders



Sales



Operating income

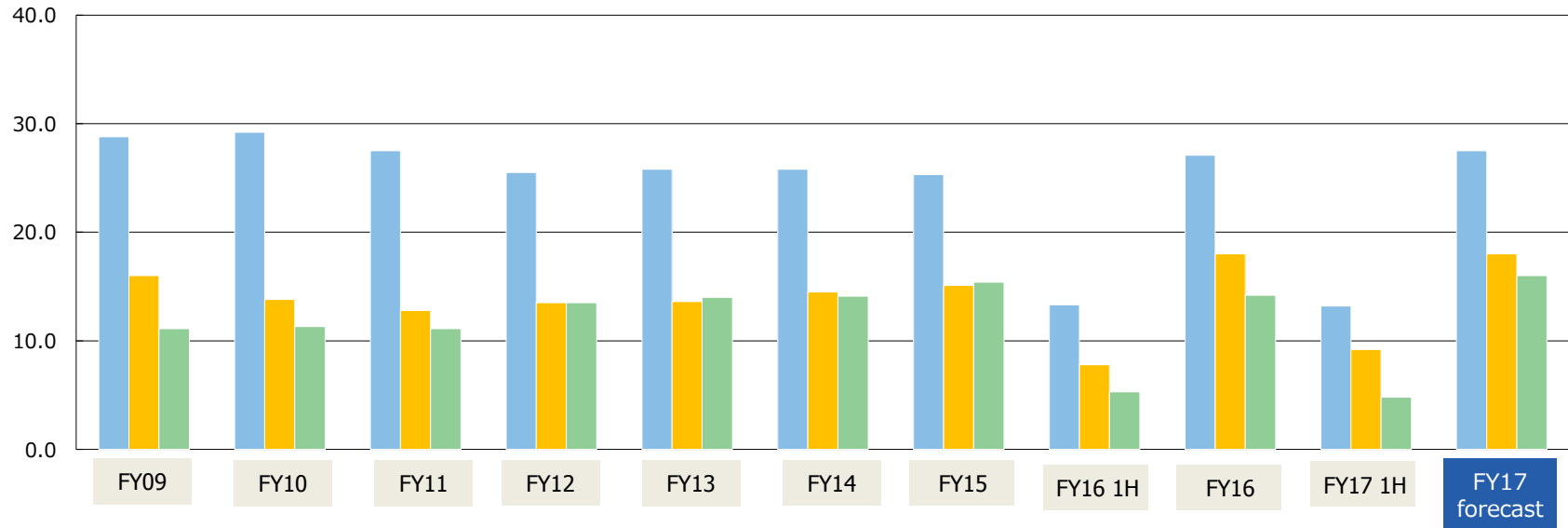


Trend of R&D Expenses, Depreciation, and CAPEX

- Progressing as planned

(Billion¥)

■ R&D ■ Depreciation ■ CAPEX



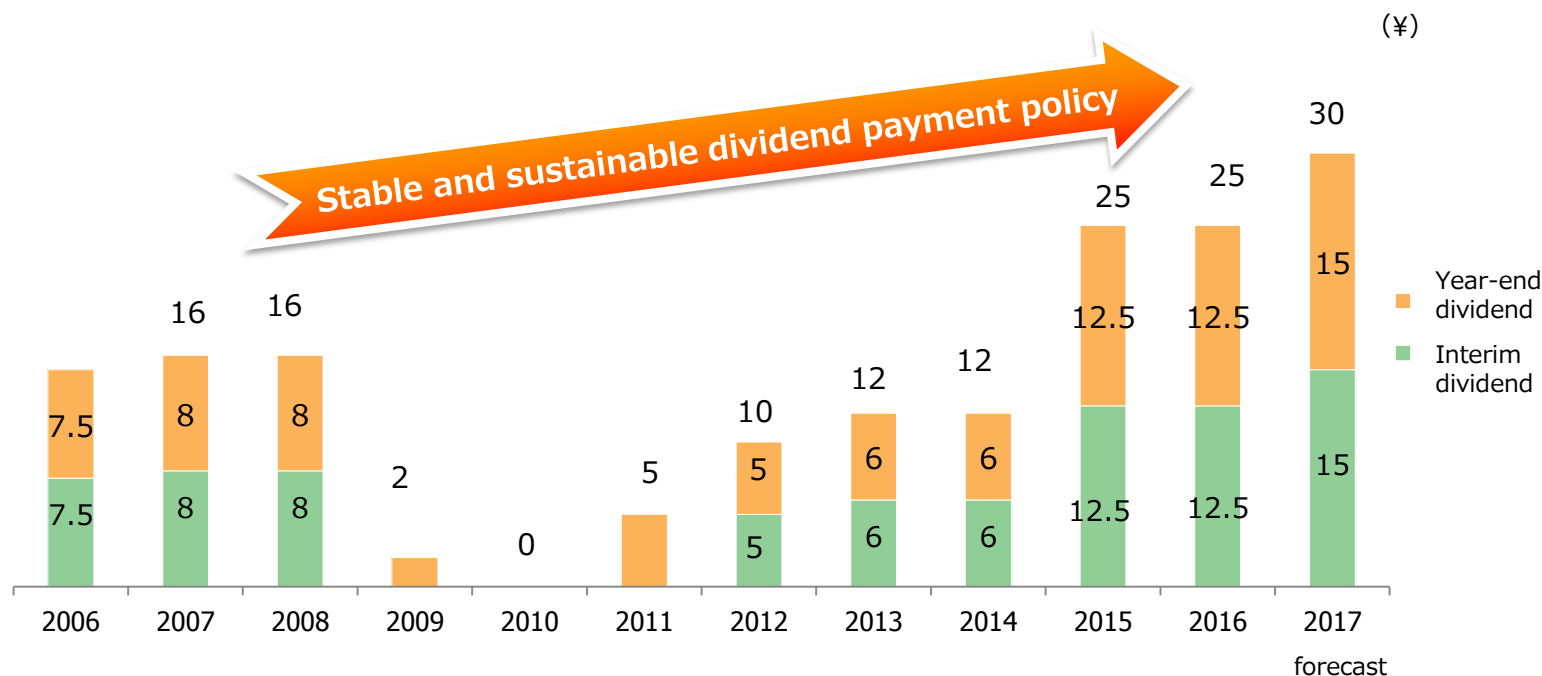
	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16 1H	FY16	FY17 1H	FY17 forecast
R&D expenses (% of sales)	9.1%	9.0%	8.2%	7.3%	6.6%	6.4%	6.1%	7.2%	6.9%	7.0%	6.9%
Depreciation (% of sales)	5.1%	4.2%	3.8%	3.9%	3.5%	3.6%	3.6%	4.9%	4.6%	4.9%	4.5%
CAPEX (% of sales)	3.5%	3.5%	3.3%	3.9%	3.6%	3.5%	3.7%	2.9%	3.6%	2.6%	4.0%

Dividend

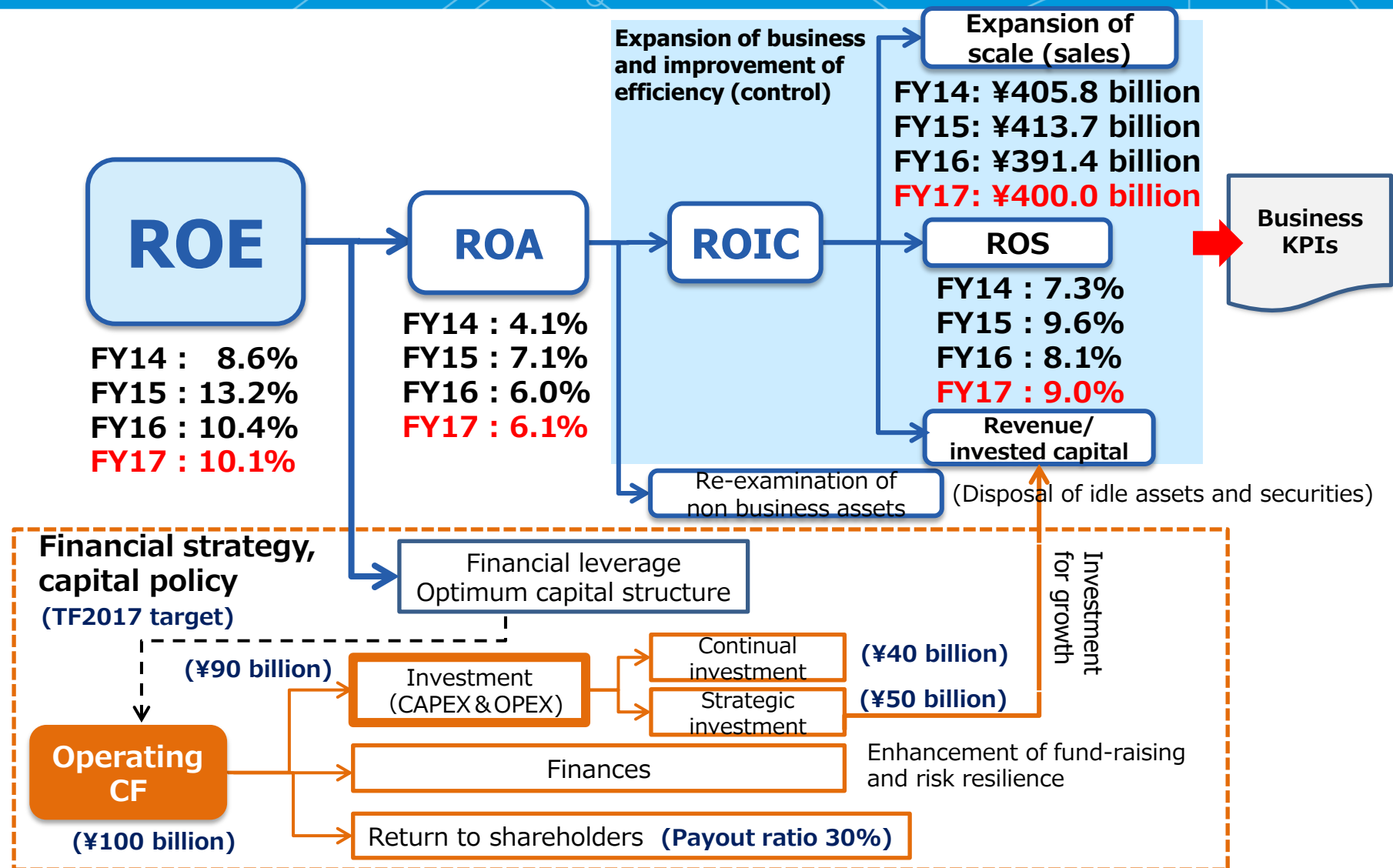
- Interim dividend set at ¥15.0

FY16: ¥25 (payout ratio 25.9%)

FY17: ¥30 (payout ratio 29.7%)



KPIs (No change)



Yokogawa Electric Corporation

Transformation 2017

- Current situation / Plan for final year of TF2017 -

- Current situation
- Review of FY17 action plan
- Plan for final year of TF2017

November 7, 2017

Takashi Nishijima

President and Chief Executive Officer

Current Situation

- Based on our assessment of the order trend and other factors, the market appears to be bottoming out.
- Prospects for our business remain unclear due to domestic / international political and economic concerns.

Market conditions

OPEX related investment by our customers to improve the profitability of manufacturing operations is picking up, but CAPEX is down and FIDs* have been postponed due to the prolonged decline in crude oil prices.

Industries

Our downstream business (chemicals, petrochemicals, etc.) is stable, but some of our customers in the upstream segment are increasingly cautious about making investments.

Regions

Regional differences: Market conditions are strong in Japan and mixed overseas. Orders are up (excluding impact of business transfers and foreign exchange).

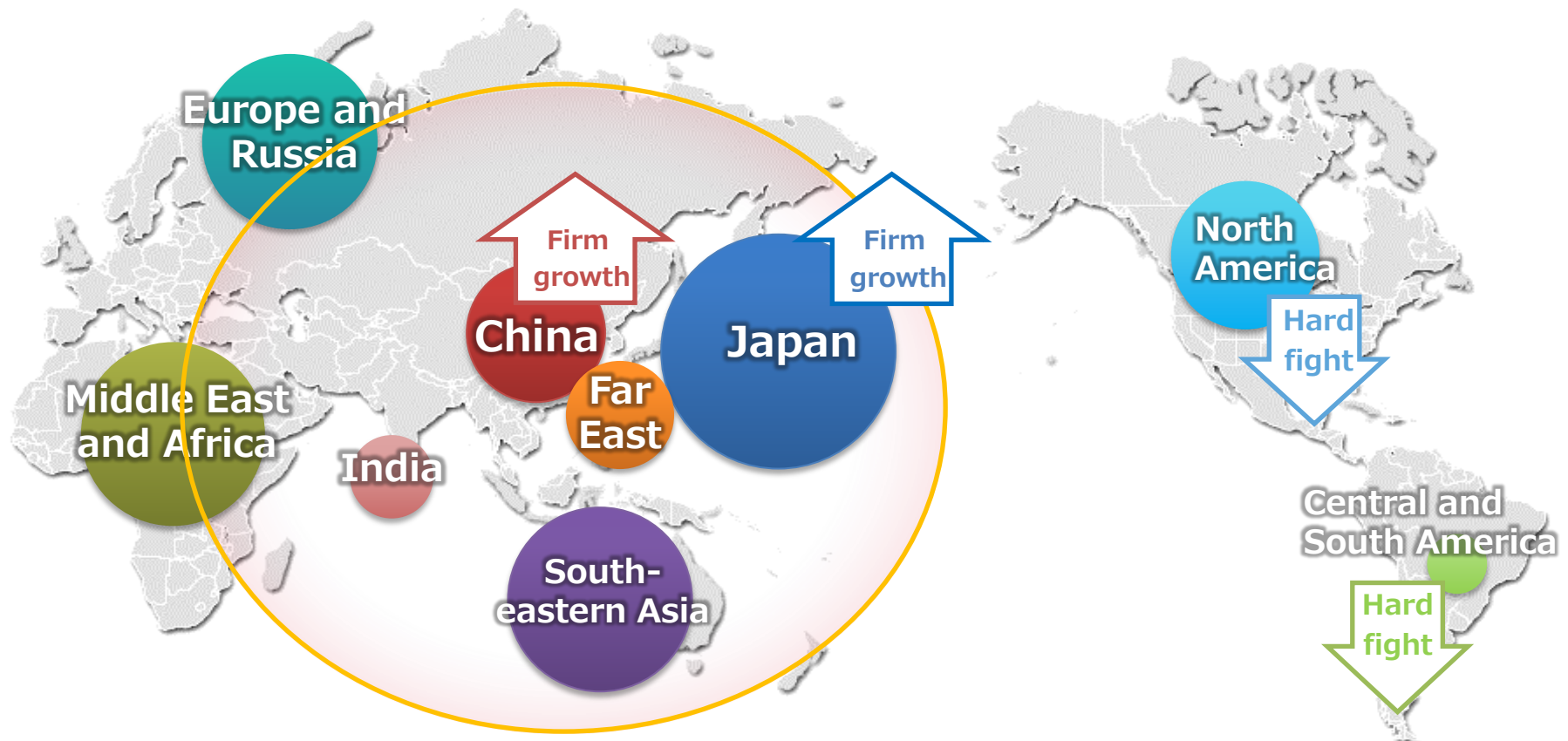
*** FID=Final Investment Decision**

Trend of Control Business Orders by Region

Industries

Regions

- Japan: Continued strong growth
- Middle East and Africa: Project orders remain unchanged, but competition is intensifying
- China: Market conditions remain strong
- North America: Product business has recovered, but continue to be in hard fight due to the shrinking big projects

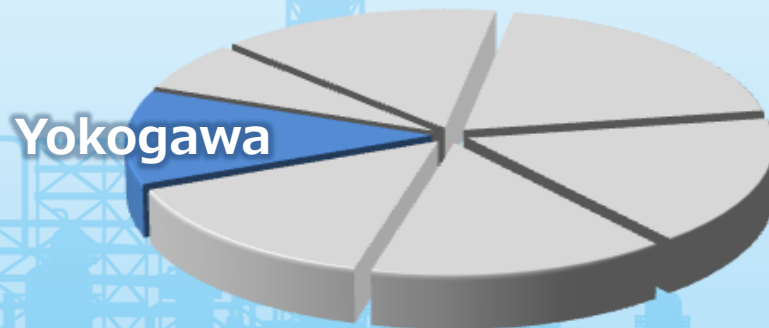


Source: Company data

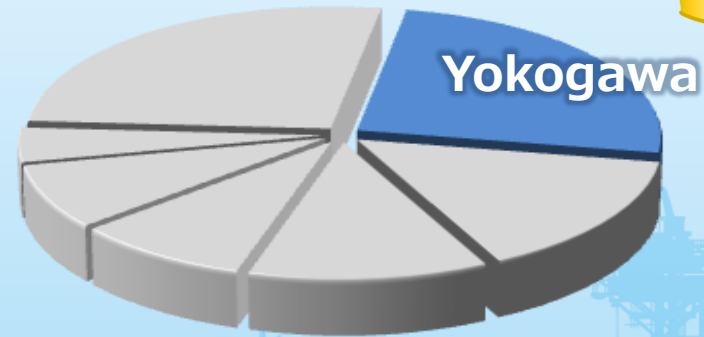
2016 DCS Market Share/Industry Breakdown

Industries

Global DCS market
(market size US\$14.21bn)



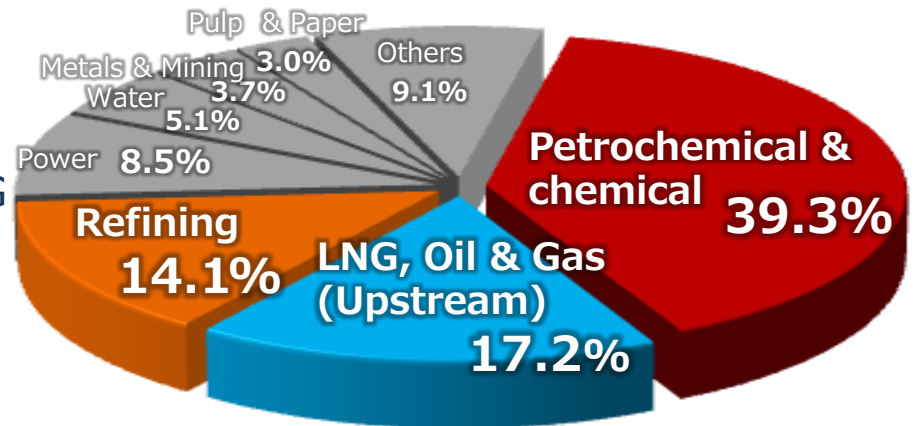
Asia DCS market
(market size US\$4.69bn)



Source: ARC Distributed Control Systems Global Market Research Study

<Yokogawa DCS sales>

- 54% of total control business
- Includes engineering, software, etc.
- Strongest in downstream industries
- Half of upstream sales (17.2%) are LNG related
- Installed base of more than 25,000 systems in approx. 100 countries



Source: Company data

FY17 Management Policy

– Aiming to further growth by accelerated transformation –

Three commitments

1

Increasing orders

Focusing on our customers
(Business solution capability)

2

Improving profitability

Cost reduction

3

Strategic investment

Value creation

Action Plan

Three commitments

1 Increase sales

- Make full use of the Group's capabilities to provide business solutions (through synergy with KBC and other organizations)
- Target more industries in Japan and roll out Japan success cases in other markets
- Focus on the global chemical market

2 Improve profitability

- Reduce costs by optimizing global logistics
- Reduce SG&A expenses by eliminating redundant functions in overseas RHQs
- Increase efficiency by upgrading IT infrastructure (CRM and other systems)

3 Make strategic investments

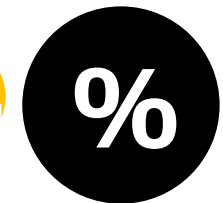
- Create IIoT platform for Yokogawa's forte businesses
- Launch GRANDSIGHT (value co-creation environment) in Japan
- Start co-innovation activities

Progress & assessment

Concentrate in 2H
Recoverable



Concentrate in 2H
Reinforce monitoring



Cost advance
Emphasis on return



Priority Action Plan

– Final cost reduction targets –

- Focus on reducing costs in areas not related to sales

	FY14 results	FY15 results	FY16 1H results	FY16 results	FY17 1H results	FY17 revised target	FY17 initial target
Cost reduction (In relation to FY14)	—	¥5.7 billion	Cumulative result ¥7.2 billion (¥1.5 billion)	Cumulative result ¥10.8 billion (¥5.1 billion)	Cumulative result ¥11.8 billion (¥1.2 billion)	Cumulative target ¥14 billion (¥3.2 billion)	Approx. ¥20 billion (¥10 billion)
COGS ratio	58.3%	57.3%	56.0%	56.8%	56.5%	56.5%	57% or lower
SG&A ratio	34.4%	33.1%	36.1%	35.1%	<u>36.9%</u>	34.5%	32.8% or lower (excluding strategic investment)
Operating income-to-sales ratio	7.3%	9.6%	7.9%	8.1%	6.6%	9.0%	10.2%

Plan for Final Year of TF2017

- Although our sales target is aggressive, we will aim to maximize top line by steadily accumulating sales.



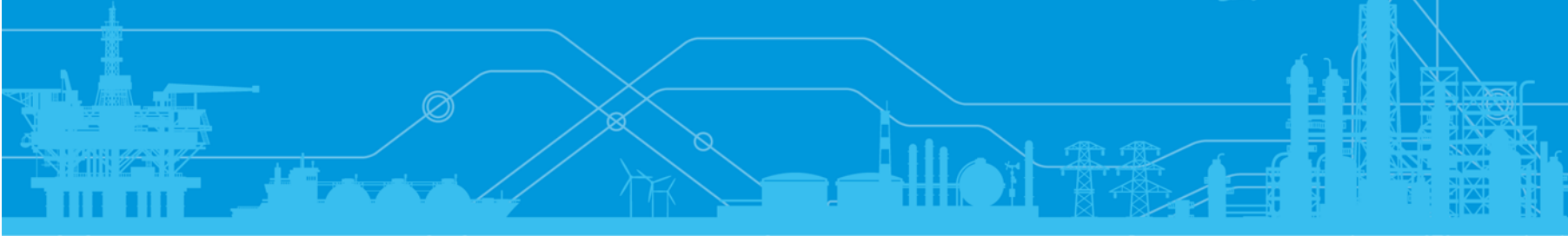
- We will accelerate our efforts to reduce costs, and thereby establish a basis for our business that is not dependent on increasing sales.



- We will achieve the initial targets of ROA: more than 6% and EPS: more than 100 yen, and will then proceed to the next stage.

Yokogawa Electric Corporation

Yokogawa's Challenges to Create Value for Customers



November 7, 2017

Satoru Kurosu

Director, Executive Vice President

Premium Solutions & Service Business Headquarters

Presenter's Career at Yokogawa

- Apr. 1983 Joined the Company
- Apr. 2006 Vice President, Head of Marketing Center,
IA Business Headquarters
- Apr. 2007 Senior Vice President, Head of IA Business Headquarters
- Apr. 2009 Senior Vice President, Head of Global Business Headquarters
- Apr. 2010 President of Yokogawa Engineering Asia Pte. Ltd.
- Apr. 2011 Senior Vice President of the Company, Head of IA Marketing Headquarters
- Jun. 2011 Director and Senior Vice President, Head of IA Marketing Headquarters
- Apr. 2013 Director and Executive Vice President,
President of Yokogawa Electric International Pte. Ltd.
- Apr. 2014 Director and Executive Vice President, Head of Solution Service Business Headquarters,
President of Yokogawa Electric International Pte. Ltd.
- Apr. 2015 Director and Executive Vice President, Head of Solution Service Business Headquarters
- Apr. 2017 Director and Executive Vice President,
Head of Premium Solutions and Service Business Headquarters (present),
Member of World Business Council for Sustainable Development (WBCSD)



Industry challenges and responses

Industry challenges

Pursuit of profits to ensure survival

Changing business environment

Digital transformation

Fluctuation in supply and demand

Protecting the environment

Changing workforce

Industry responses

▶ Optimization of TOTEX and maximization of product value

▶ Adapting to change and business innovation

▶ Smart manufacturing and decision making

▶ Flexible production and logistics

▶ Green production

▶ Knowledge transfer

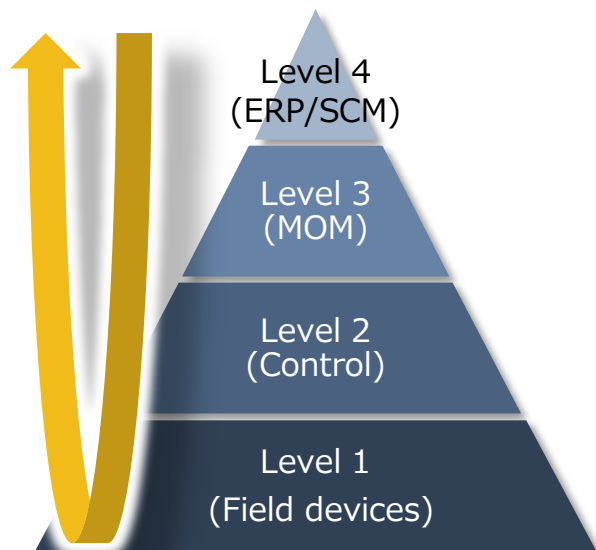
Comprehensive solution value from business management to plant operations

- Rapid implementation of strategy
- Mitigation of integration risks
- Continuous improvement

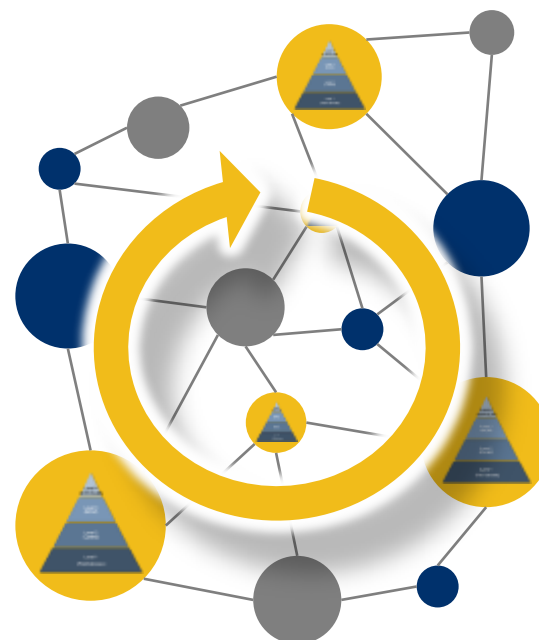


Responding to disruptive change through creation of integrated solutions that add value

**Layered architecture
(Traditional)**



**Networked architecture
(Vertical & horizontal integration)**



Co-innovation for customer business processes

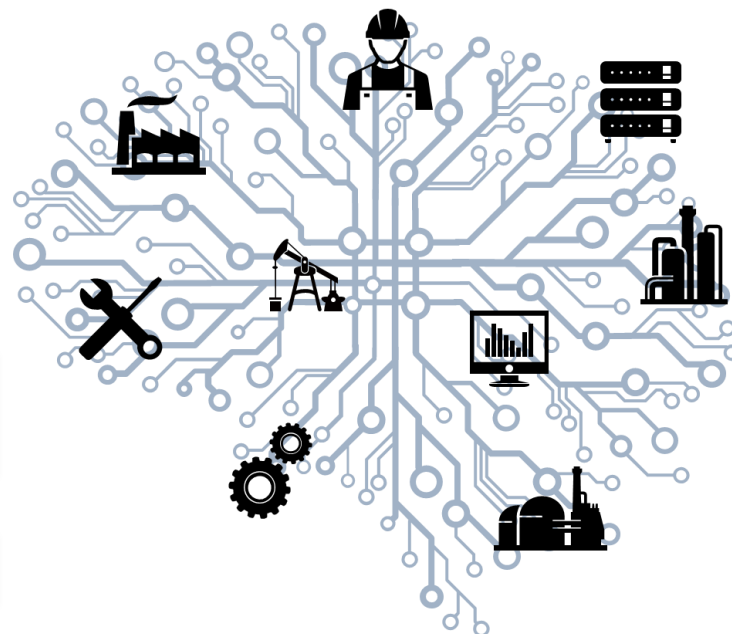
Synaptic Business Automation™

Co-innovation with customers
to drive agile and adaptive management.

Synaptically synthesize everything
such as people, systems, data, services, and supply chains.

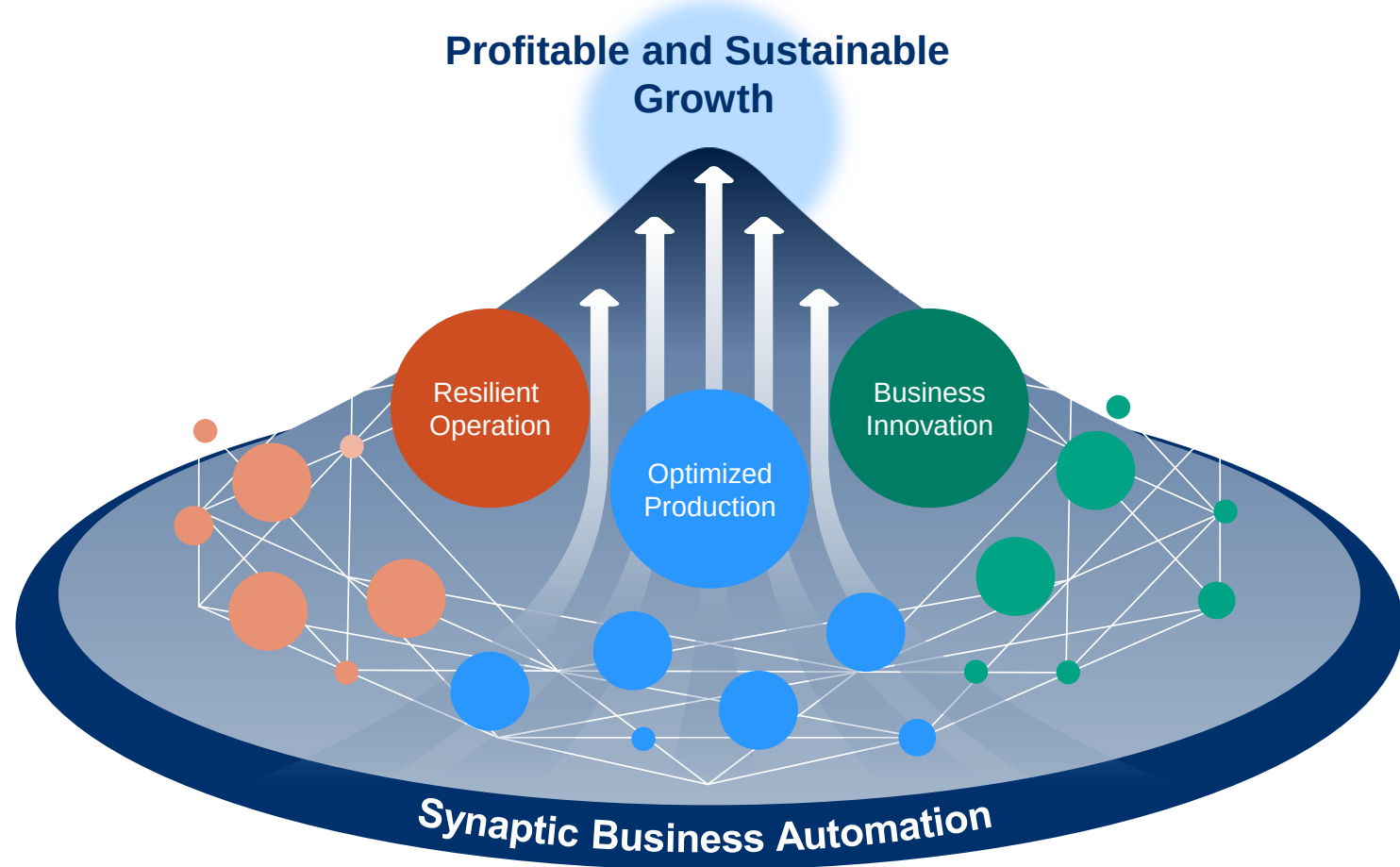
Deliver optimum answers through our **domain knowledge**
and **proven solutions/services**.

Create **sustainable value** for customers.



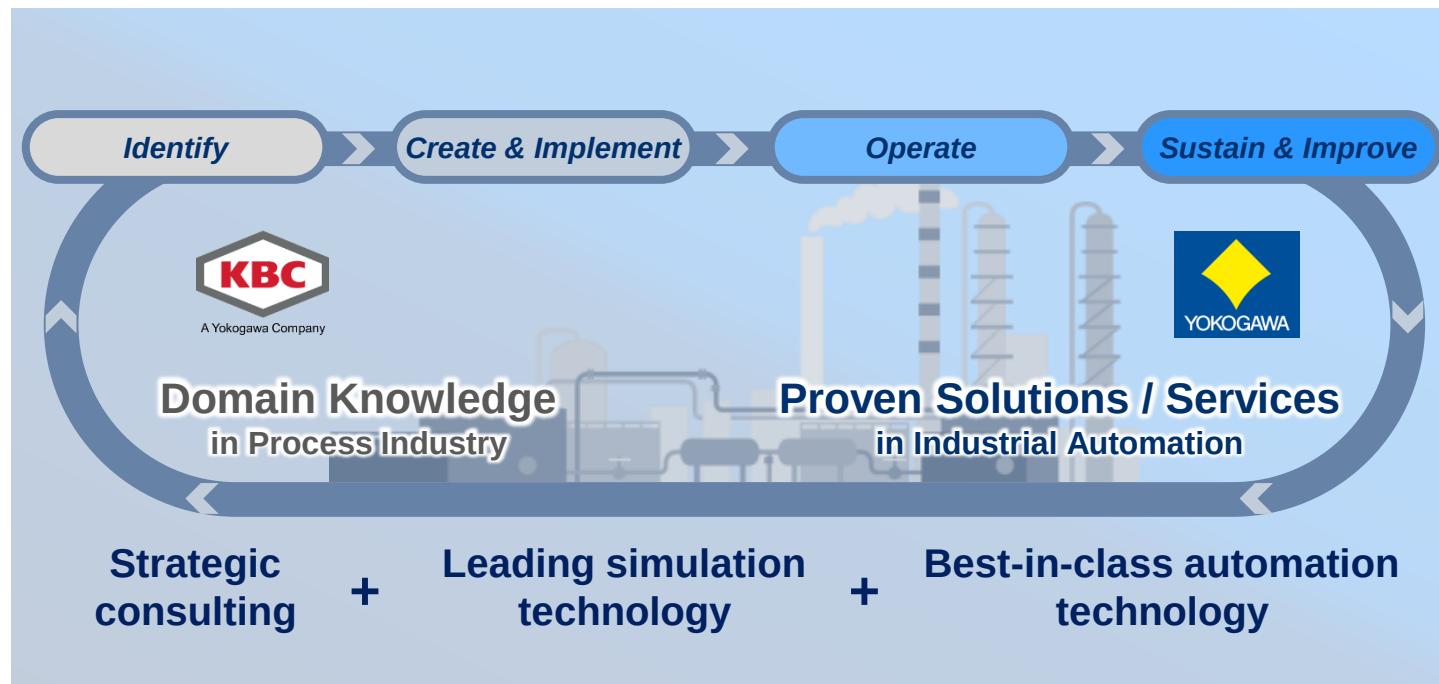
The value of Synaptic Business Automation

**Working together to create sustainable value
for customers**



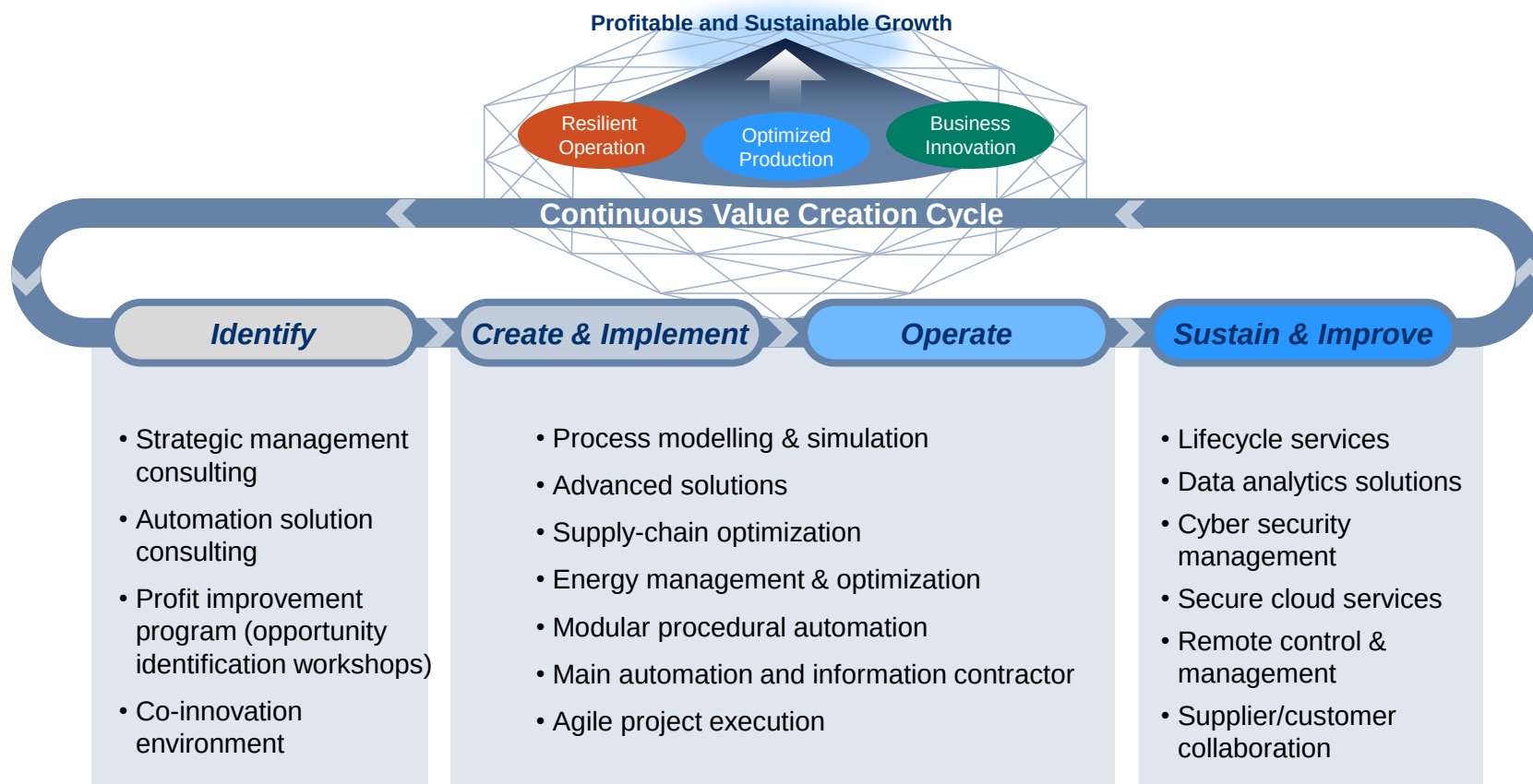
Continuous value creation for customers

Offering of continuous value creation across the entire lifecycle of a customer's business



Key enablers of Synaptic Business Automation

Provide optimal solutions across the entire lifecycle of a customer's business



OpX™ (Operational Excellence) consulting

Proven consulting methodology with domain knowledge

Strategic Planning

- Business strategy
- Leadership
- Business performance management
- Enterprise risk management
- Organizational effectiveness

Safe, Reliable & Profitable Operations

- Supply chain optimization
- Asset operations & optimization
- Asset management & integrity
- Operational risk management



KBC OpX™ model

Value co-creation
workshop

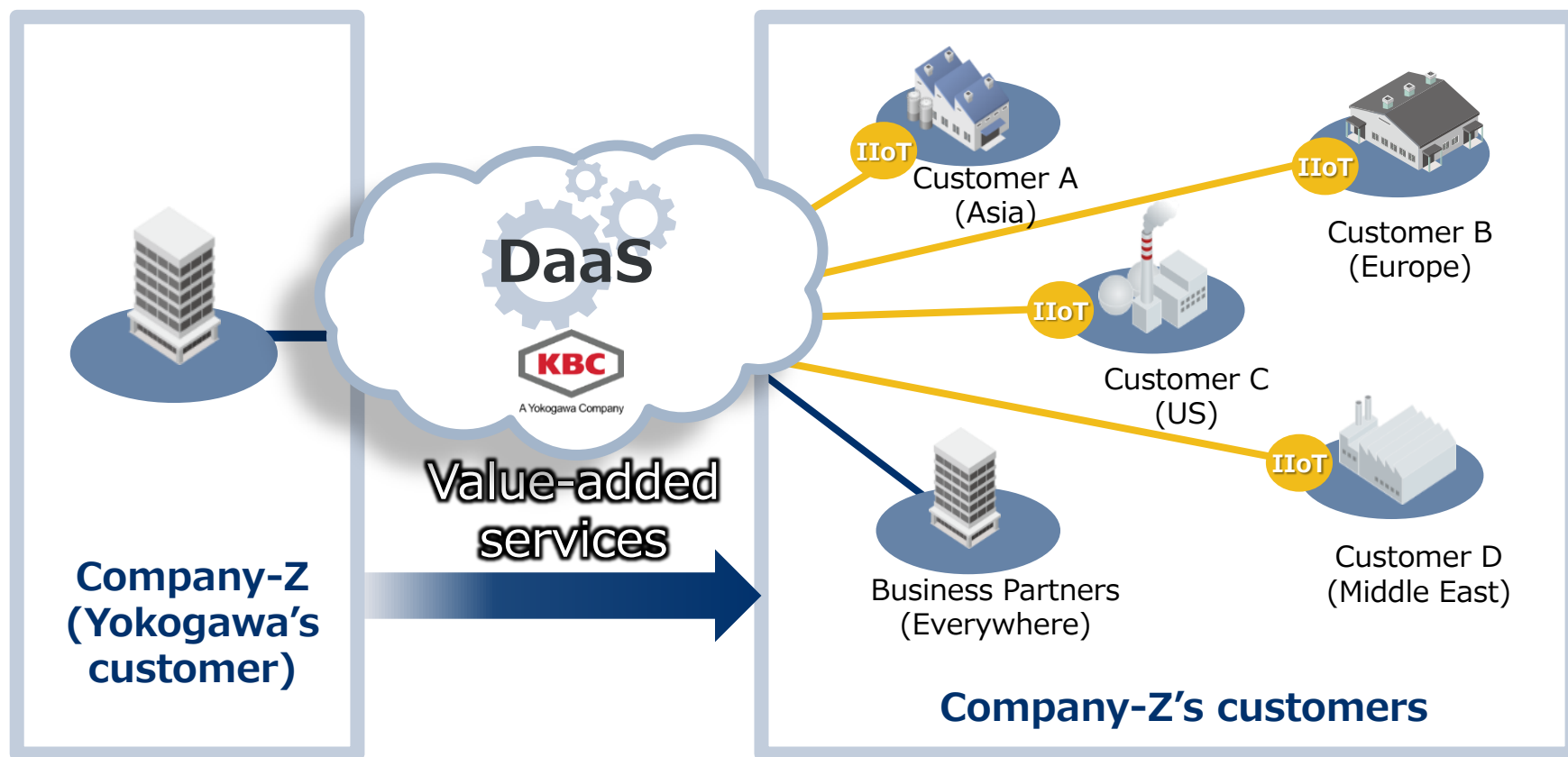
Real-time remote performance monitoring with advisory service

- Achieve production performance as planned
- Remote monitoring with advisory service by KBC consultants



Supply chain visibility & collaboration services

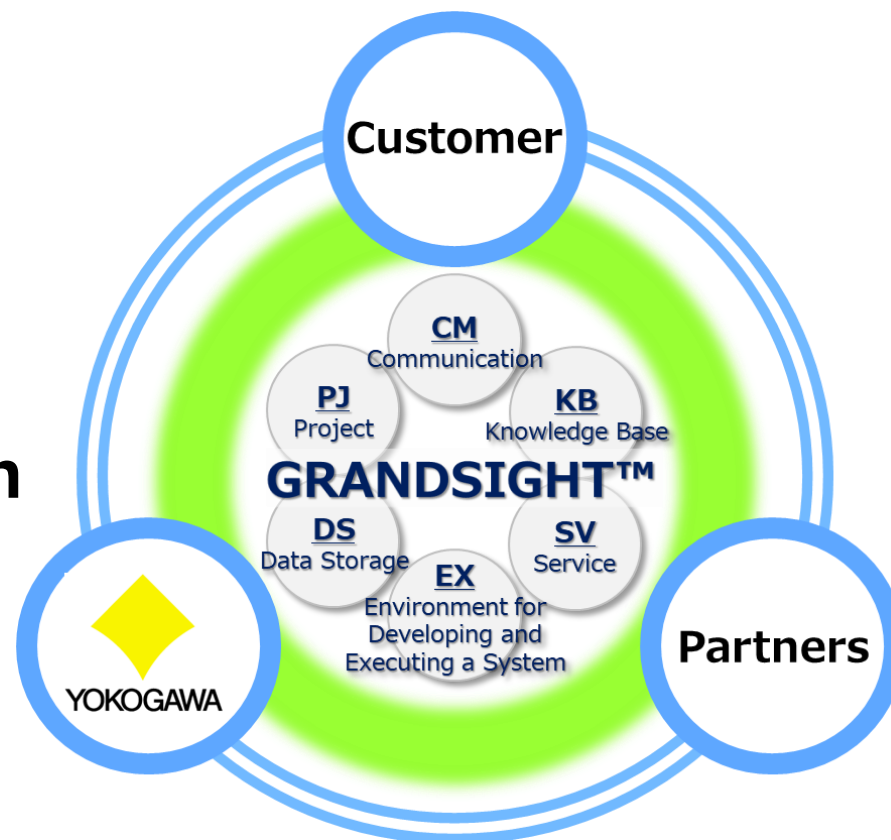
Provide value-added services to manufacturers by utilizing proven private cloud environment



DaaS: Data as a Service

Value co-creation environment - GRANDSIGHT™

- Make collaborative projects more creative and efficient
- Make intensive use of cloud environment with IIoT technology



Signing of strategic partnership agreement by Baker Hughes(BHGE) & KBC

- Baker Hughes(BHGE) and KBC have signed a strategic partnership
- Combining the GE Predix IIoT platform and KBC's simulation and modeling technology to provide process simulation, asset performance, management, and operation software solutions to the oil & gas industry



A Yokogawa Company

Press release

BAKER HUGHES, A GE COMPANY AND KBC, A YOKOGAWA COMPANY PARTNER TO PROVIDE INTEGRATED PROCESS AND OPERATIONAL SOFTWARE SOLUTIONS TO THE OIL AND GAS INDUSTRY

- *BHGE and KBC sign strategic partnership bringing together industry-leading Asset Performance Management and Process Simulation digital capabilities across the value chain*
- *Combining KBC's Petro-SIM process simulation capabilities and deep domain expertise with BHGE's analytics, digital twins, fullstream software and the GE Predix platform, with united cloud-based solutions to increase process safety, efficiency and production*

Business growth through customer value creation

**Gain insight into customer
management issues by approaching
customers' top management**



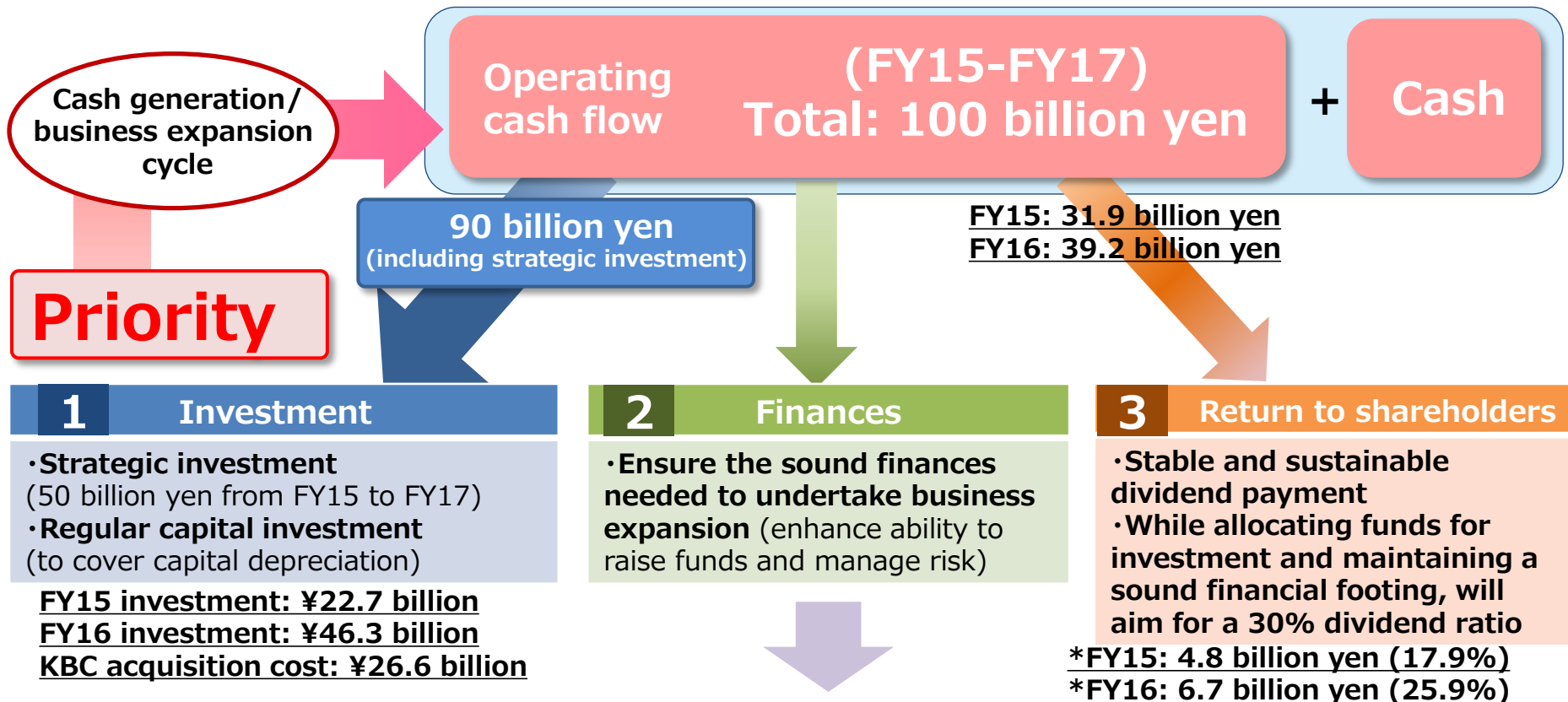
**Provide optimal solutions across
the entire business lifecycle**

Create customer value through co-innovation

Appendix

- Financial Strategy, Capital Policy
- News
- Trend of Stock Price

Appendix: Financial Strategy, Capital Policy (No change)



Optimum capital structure

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

Appendix: News

(From August 9 to November 7)

- Sept.
- Yokogawa Solution Service Corporation releases Data Driven Modeling for Optimization (DDMO) solution in Japan to systematize expertise of skilled plant workers and thereby minimize manufacturing costs and maintain quality
 - Release of CV8000 high-throughput cytological discovery system for the faster discovery of new drugs and improved efficiency in biomedical research
 - Yokogawa Electric Corporation included in Dow Jones Sustainability Asia Pacific (DJSI Asia Pacific), a global environment, social, and governance (ESG) stock index



CellVoyager® CV8000

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

- Oct.
- Yokogawa Electric Corporation, Yokogawa Solution Service Corporation, and NTT Communications launch trial to demonstrate use of IoT/AI technology in an advanced manufacturing operation
 - Release of CENTUM® VP R6.05 integrated production control system with new processor module and enhanced engineering function
 - Yokogawa Electric Corporation rated A- (second highest grade) in Carbon Disclosure Project (CDP) climate change report

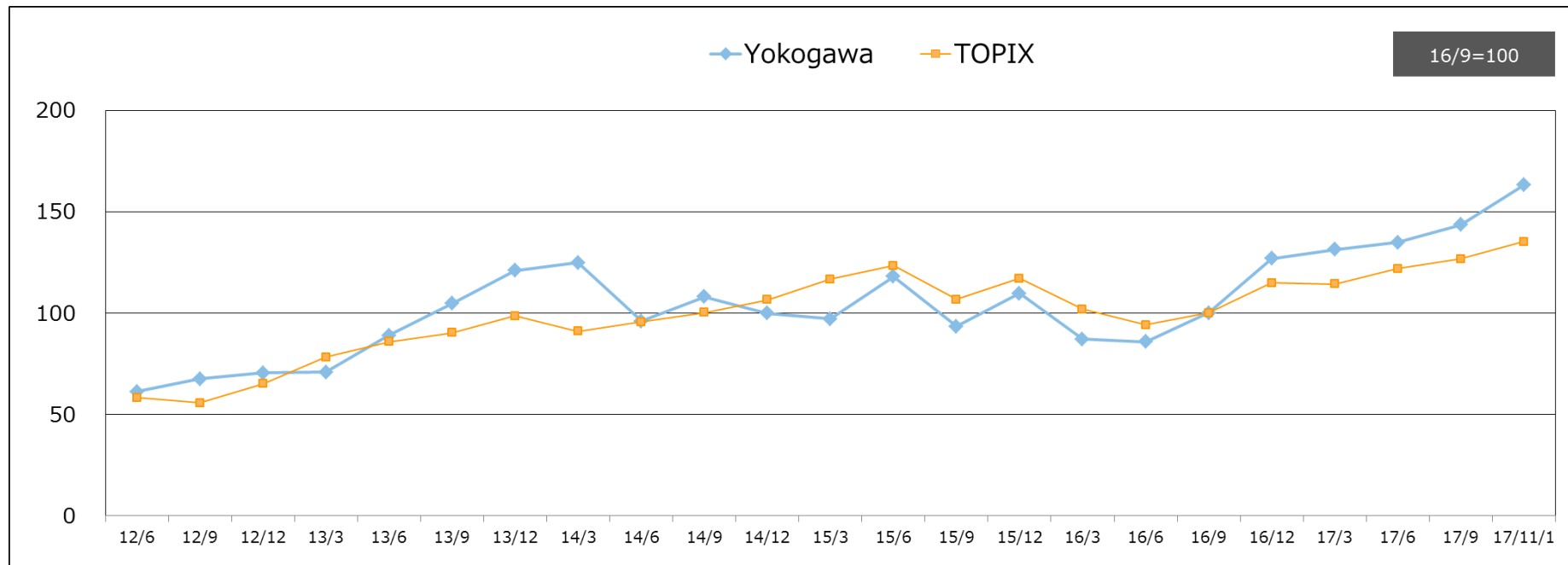


CENTUM® VP R6.05

- Nov.
- Announcement of Synaptic Business Automation concept for industrial automation and control business

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

Appendix: Trend of Stock Price



(¥)

	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	16/12	17/3	17/6	17/9	17/11/1
Yokogawa	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	1,693	1,752	1,801	1,916	2,178
TOPIX	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	1,518	1,512	1,611	1,674	1,786

	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	16/12	17/3	17/6	17/9	17/11/1
Yokogawa	61	68	70	71	89	105	121	125	96	108	100	97	118	93	110	87	86	100	127	131	135	144	163
TOPIX	58	56	65	78	86	90	98	91	96	100	106	117	123	107	117	102	94	100	115	114	122	127	135

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.

Yokogawa undertakes no obligation to publicly update or revise any forward-looking statements after the issue of this document except as provided for in laws and ordinances.

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The information has not been restated to reflect the revision of the initially allocated acquired costs that was decided upon finalization of the tentative accounting treatment.

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