

Transformation 2017

Yokogawa Electric Corporation

Financial Results for 3rd Quarter of Fiscal Year 2017

February 6, 2018

Contents

1. Financial Results for 3rd Quarter of Fiscal Year 2017

Junichi Anabuki

Director, Senior Vice President
Accounting & Treasury Headquarters

2. Current Situation / Future of the KBC Group

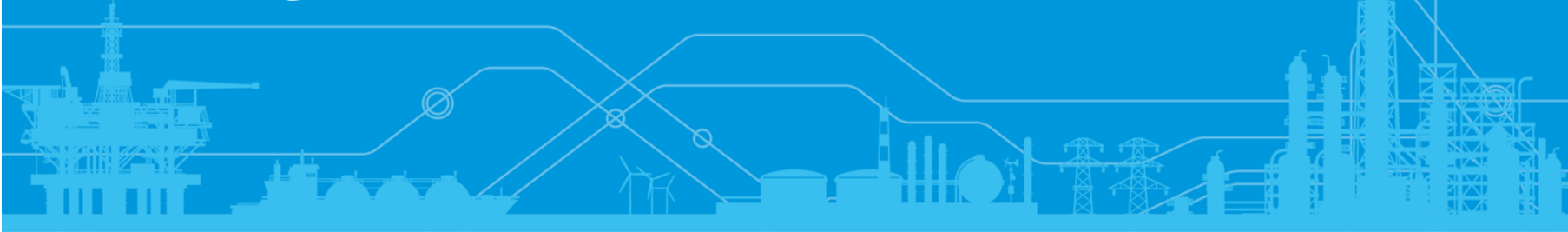
Takashi Nishijima

President and Chief Executive Officer

Yokogawa Electric Corporation

Transformation 2017

Financial Results for 3rd Quarter of Fiscal Year 2017



February 6, 2018

Junichi Anabuki

Director, Senior Vice President
Accounting & Treasury Headquarters

Summary of FY17 1Q-3Q Results

- Orders and sales were up, due to weak yen and recovery in overseas demand.
- Although the allowance for doubtful accounts was recorded, operating income increased due to the impact of increased sales and weak yen.
- Extraordinary income: ¥5.7 billion, extraordinary losses (including impairment loss): ¥9.4 billion
- Impact of weak yen:
 - Orders +¥11.0 billion, sales +¥11.2 billion, operating income +¥2.3 billion

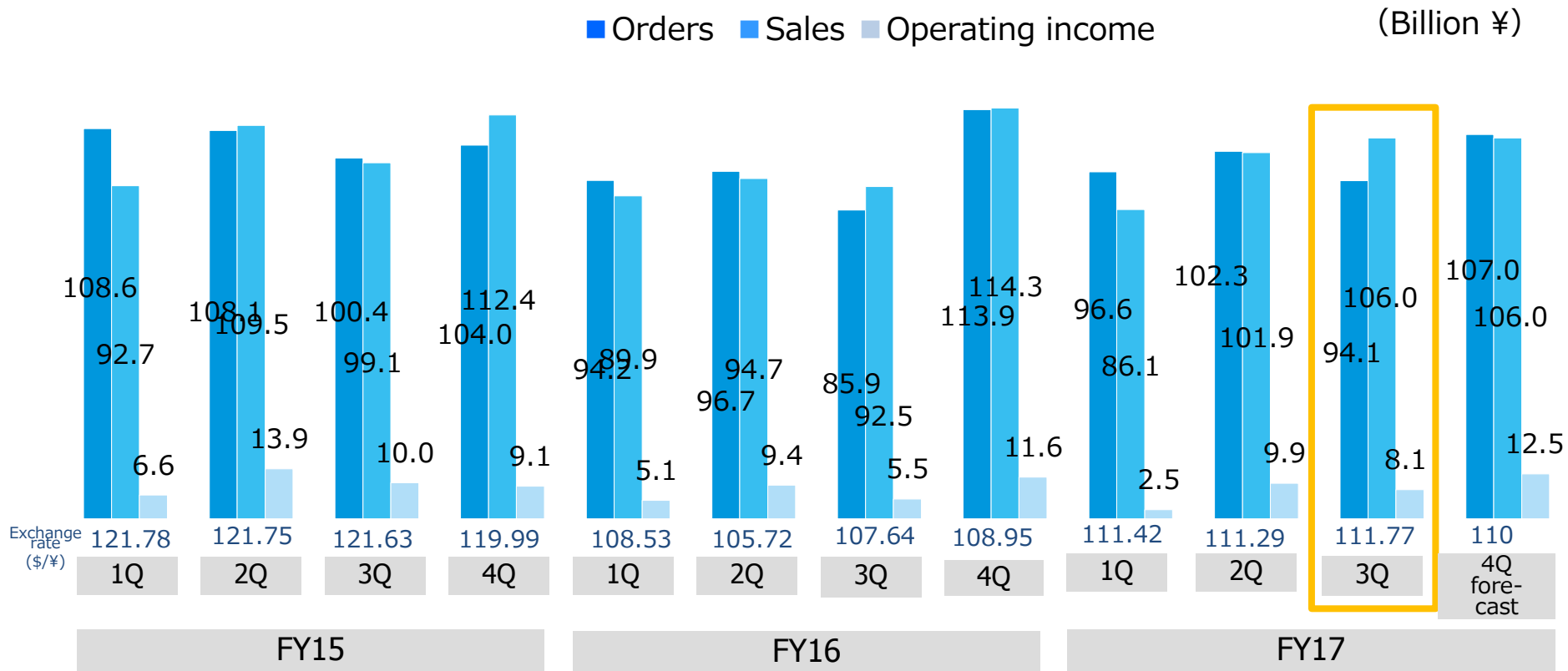
For the details on the allowance for doubtful accounts and impairment loss, please refer to the [“Notice Regarding the Recording of Extraordinary Losses \(Impairment Loss\) and Adjustments to the Consolidated Business Forecast for the Year Ending March 31, 2018”](#) that was released on this date (February 6, 2018).

(Billion ¥)

		FY16 1Q-3Q	FY17 1Q-3Q	Difference	Growth rate	Impact of exchange rate
Orders		276.8	293.0	+16.2	+5.9%	+11.0
Sales		277.1	294.0	+16.9	+6.1%	+11.2
Operating income		20.0	20.5	+0.5	+2.8%	+2.3
Ordinary income		22.0	20.5	(1.5)	-6.7%	+2.8
Profit attributable to owners of parent		17.1	8.7	(8.4)	-49.4%	+2.5
Exchange rate (¥)	1\$	107.64	111.77	+4.13	-	-

Quarterly Financial Results

- A new record for 3Q sales was set in FY17 3Q.
- 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 1Q-3Q/FY17 1Q-3Q comparison)

(Billion¥)

Increase in gross profit from higher sales
(excluding impact of exchange rate)

+4.1

(0.8)

(1.7)

(2.7)

(0.7)

+2.3

20.0

20.5

Increase in SG&A

- Strategic investments -0.6
(including reduction in transaction costs of KBC, etc. +0.6)
- Cost reductions ±0
- Other items -1.1

Exchange rate

	FY16 3Q	FY17 3Q
US\$	107.64	111.77

Allowance for doubtful accounts at KBC

Lower gross margin ratio

- Deteriorating profitability, etc. -1.9
(including strategic projects +0.3)
- Cost reductions +1.6
- Other items -0.5

Impact of business withdrawal / other items

FY16 1Q-3Q
operating income

FY17 1Q-3Q
operating income

Non-operating/Extraordinary Income and Expenses

(Billion¥)

	FY16 1Q-3Q	FY17 1Q-3Q
Operating income	20.0	20.5
Non-operating income	3.3	2.5
Non-operating expenses	1.3	2.5
Ordinary income	22.0	20.5
Extraordinary income	2.4	5.7
Extraordinary expenses	0.2	9.4
Income before tax	24.2	16.8
Tax, etc.	7.1	8.1
Profit attributable to owners of parent	17.1	8.7

→FY16: Foreign exchange gains: ¥0.9 billion

→FY17: Foreign exchange loss: ¥1.2 billion

FY17:

→Gain on sale of non-current assets: ¥2.1 billion
Gain on sale of investment securities: ¥3.6 billion

→FY17: Impairment loss: ¥9.1 billion

(*Goodwill and etc. of KBC Advanced Technologies Limited and Industrial Evolution, Inc: ¥8.9 billion)

(Effective tax rate)

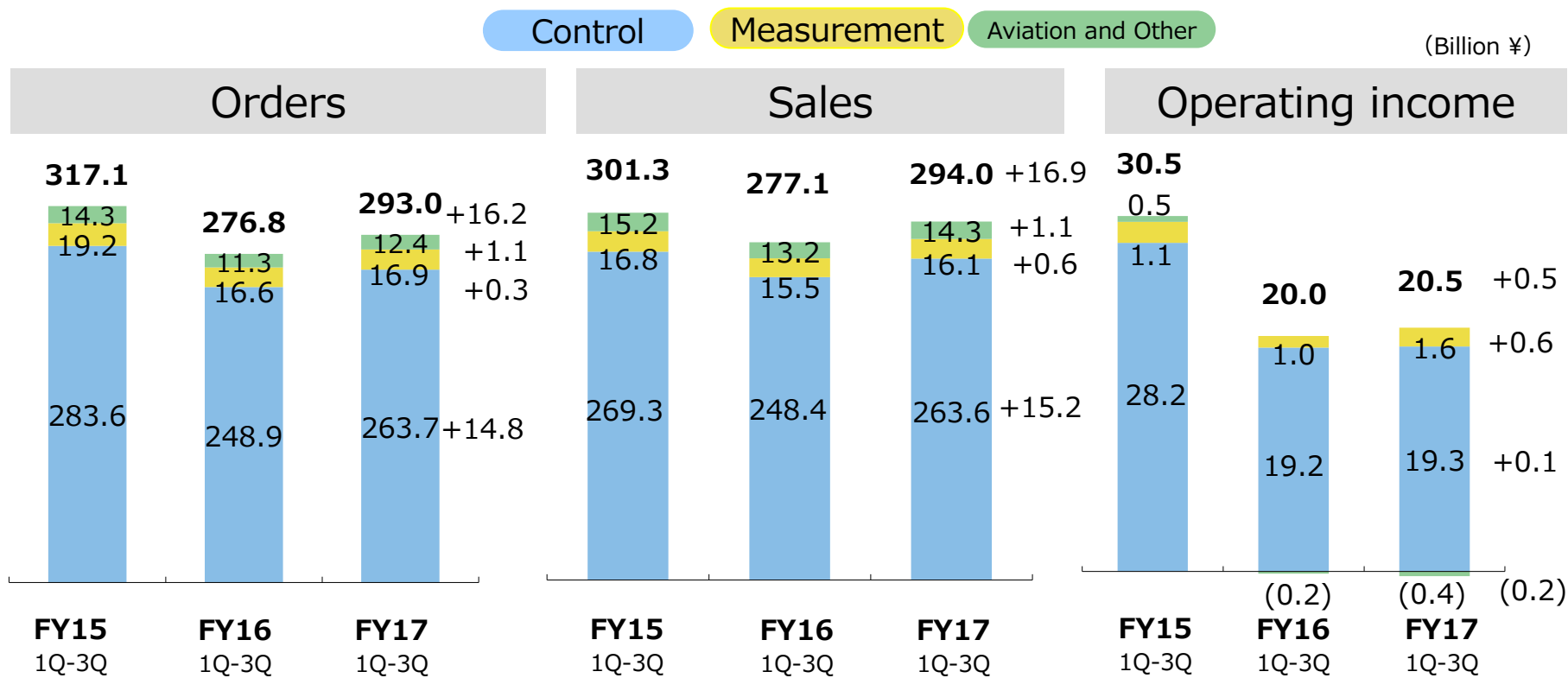
26.7%

42.0%

FY16 1Q-3Q/FY17 1Q-3Q Comparison for Orders and Sales by Segment

<Control>

- Orders and sales were up, due to weak yen and recovery in overseas demand.
- Impact of the strong yen:
 - Orders +¥10.3 billion, sales +¥10.5 billion, operating income +¥2.2 billion
- Although the allowance for doubtful accounts was recorded, operating income increased.



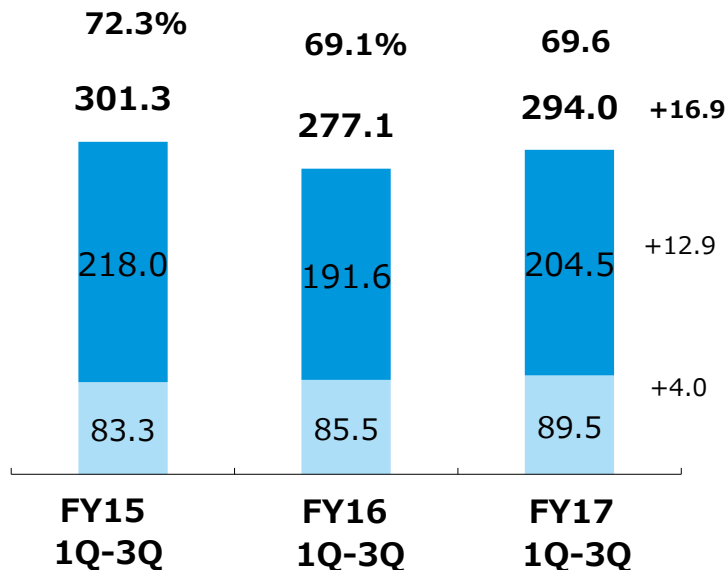
Trend of Global Sales

- Control sales are steadily increasing both in Japan and in other markets.

(Billion¥)

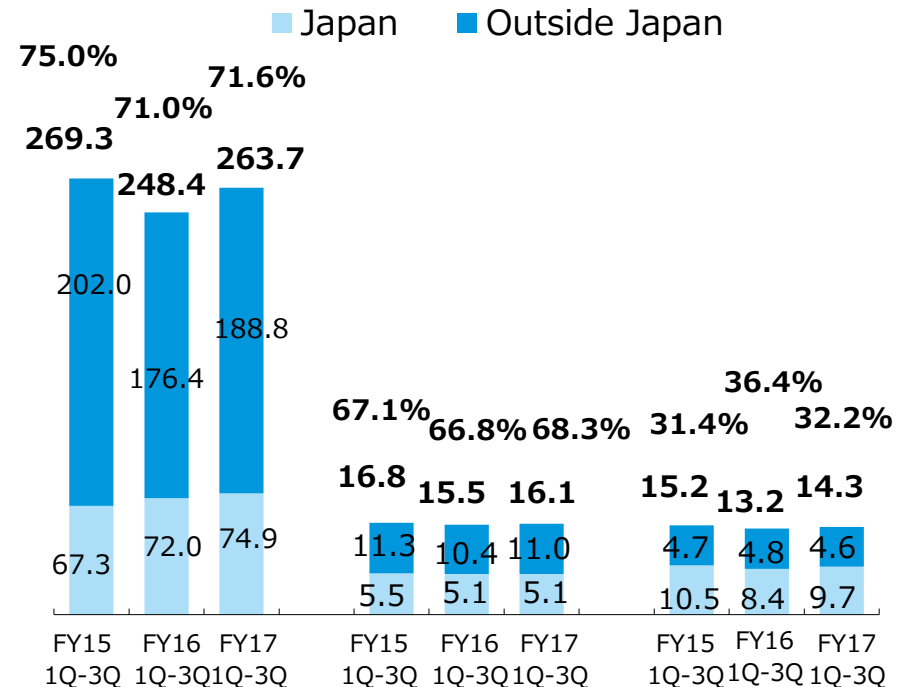
Total

■ Japan ■ Outside Japan



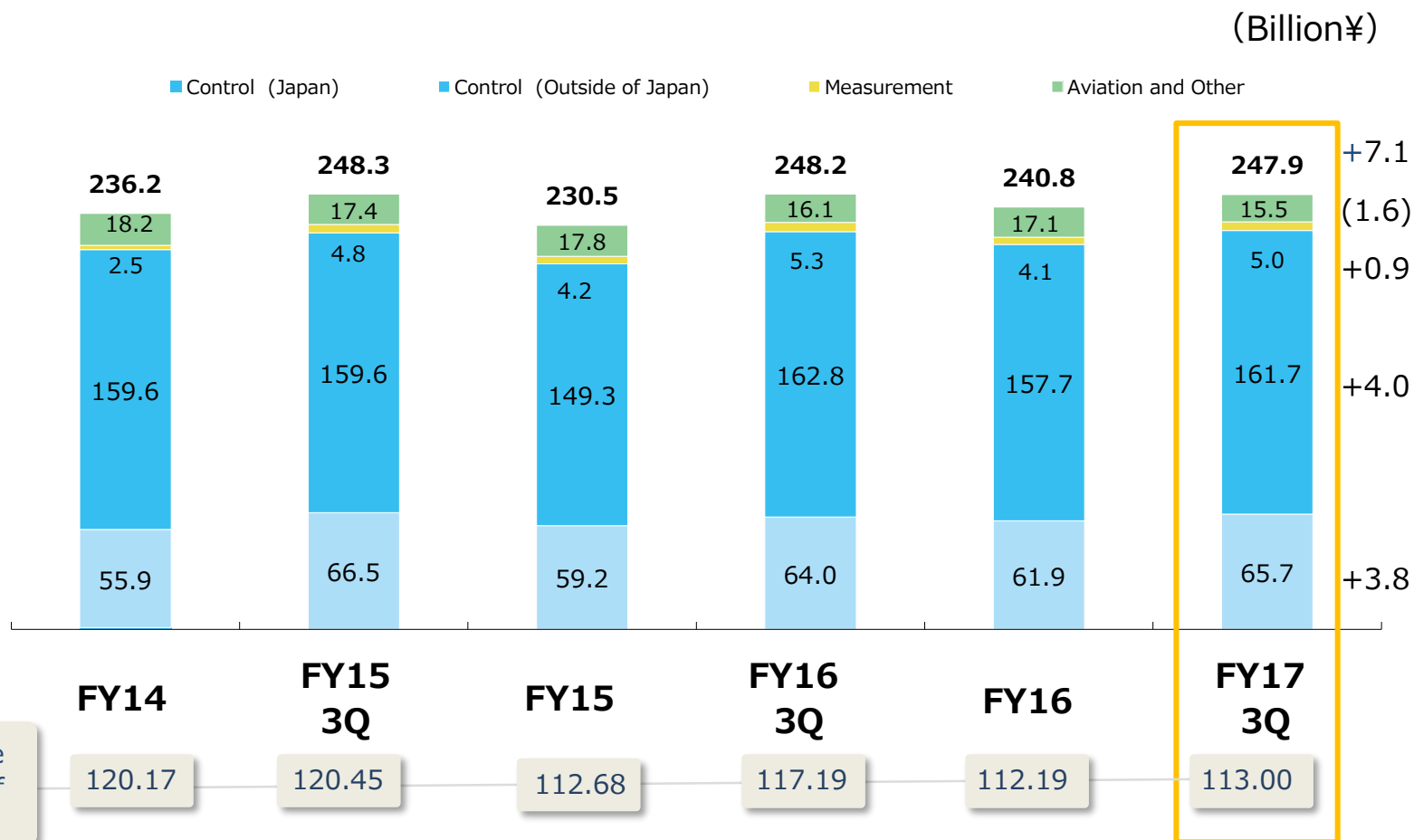
By segment

Control Measurement Aviation and Other



Order Backlog Trend by Segment

- We continue to have a large order backlog.

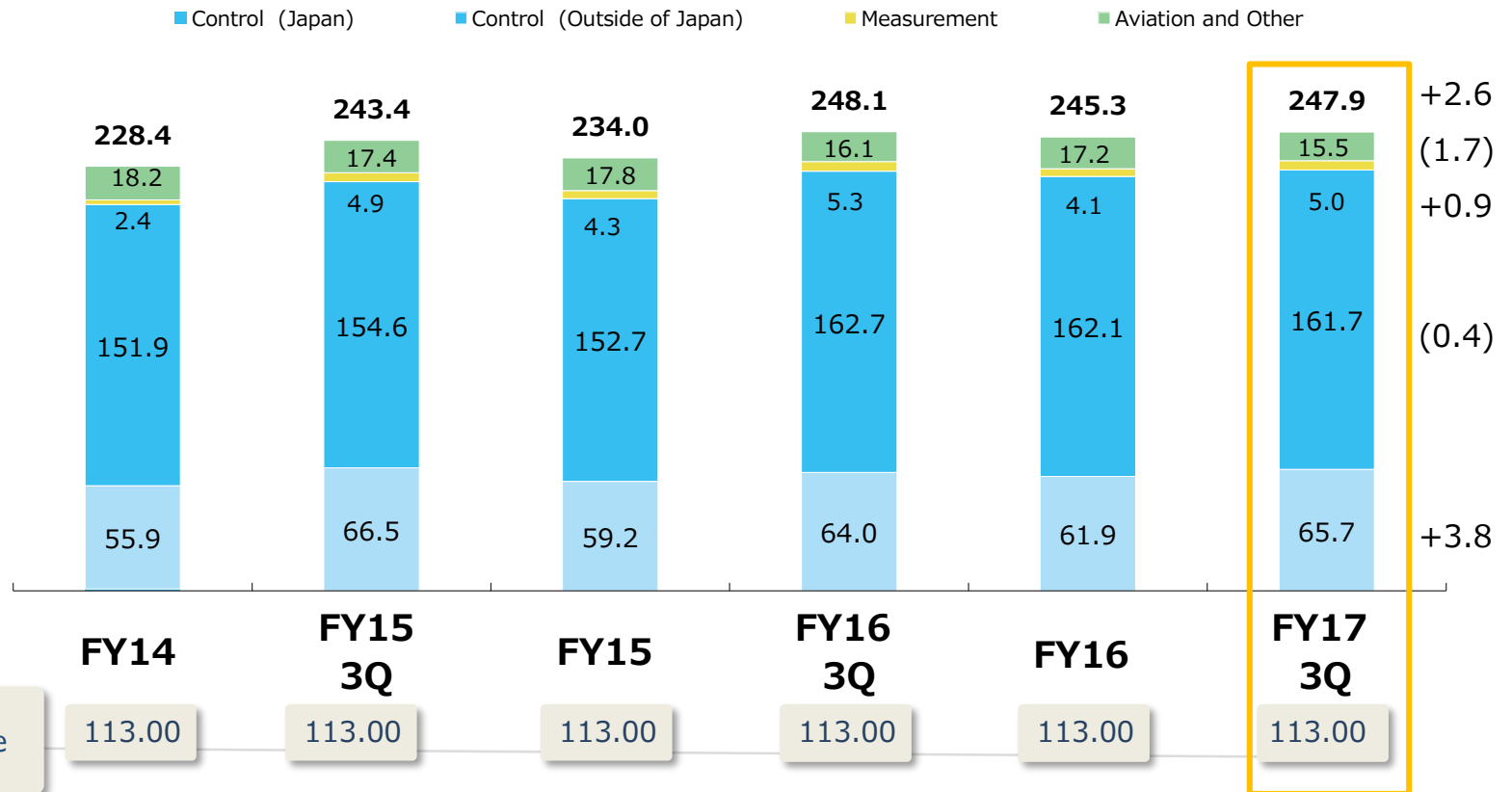


<Note: Past data revised based on a standard review>

<Reference> Order Backlog Trend by Segment (Using FY17 3Q exchange rate)

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

(Billion¥)



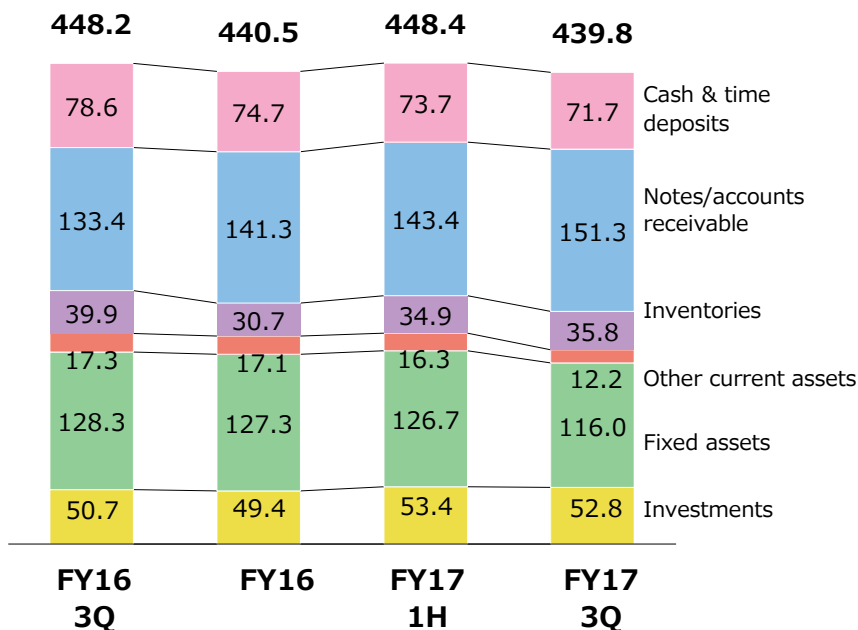
<Note: Past data revised based on a standard review>

Trend of Balance Sheet

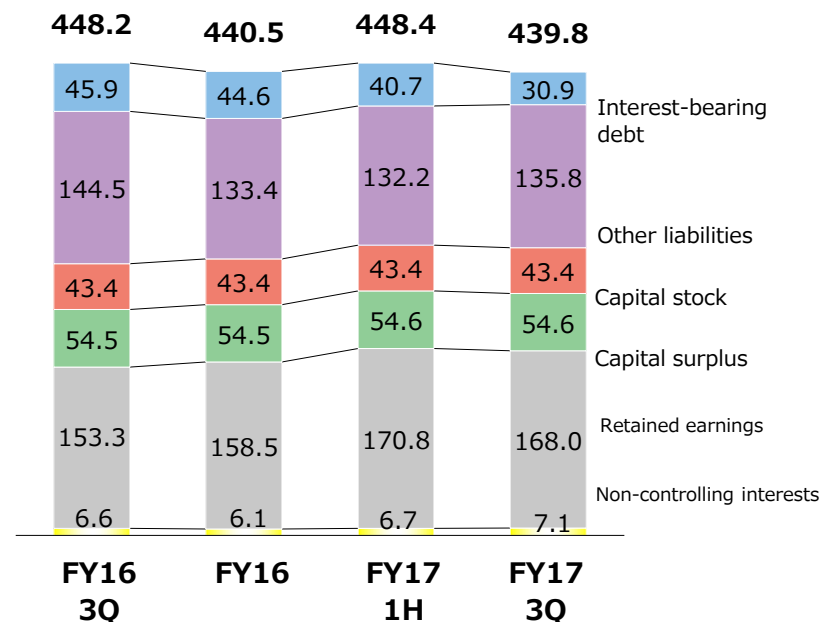
- Total assets were down ¥8.6 billion due mainly to factors such as the decrease in goodwill arising from recognition of the impairment loss.
- Total liabilities were down ¥6.2 billion due to a decrease in loans payable.

(Billion ¥)

Assets



Liabilities and net assets



FY17 Forecast → Change from May 10, 2017

- The forecast for operating income has been adjusted downward due to the recognition of the allowance for doubtful account and the impairment loss. (Billion¥)

	FY16 (A)	FY17 forecast (5/10 B)	FY17 forecast (2/6 C)	Difference (C-A)	Growth rate (C/A-1)
Orders	390.7	400.0	400.0	+9.3	+2.4%
Sales	391.4	400.0	400.0	+8.6	+2.2%
Operating income	31.6	36.0	33.0	+1.4	+4.5%
ROS (%)	8.1	9.0	8.3	+0.2 pts	—
Ordinary income	33.0	35.5	34.0	+1.0	+3.1%
Profit before income taxes	35.5	37.5	30.0	(5.5)	(15.5%)
Tax, etc.	9.7	10.5	10.0	+0.3	+3.1%
Profit attributable to owners of parent	25.8	27.0	20.0	(5.8)	(22.3%)
EPS (¥)	96.44	101.04	74.84	(21.60)	—
Exchange rate	1 U.S. dollar =	¥108.95	¥110.00	¥1.05	—

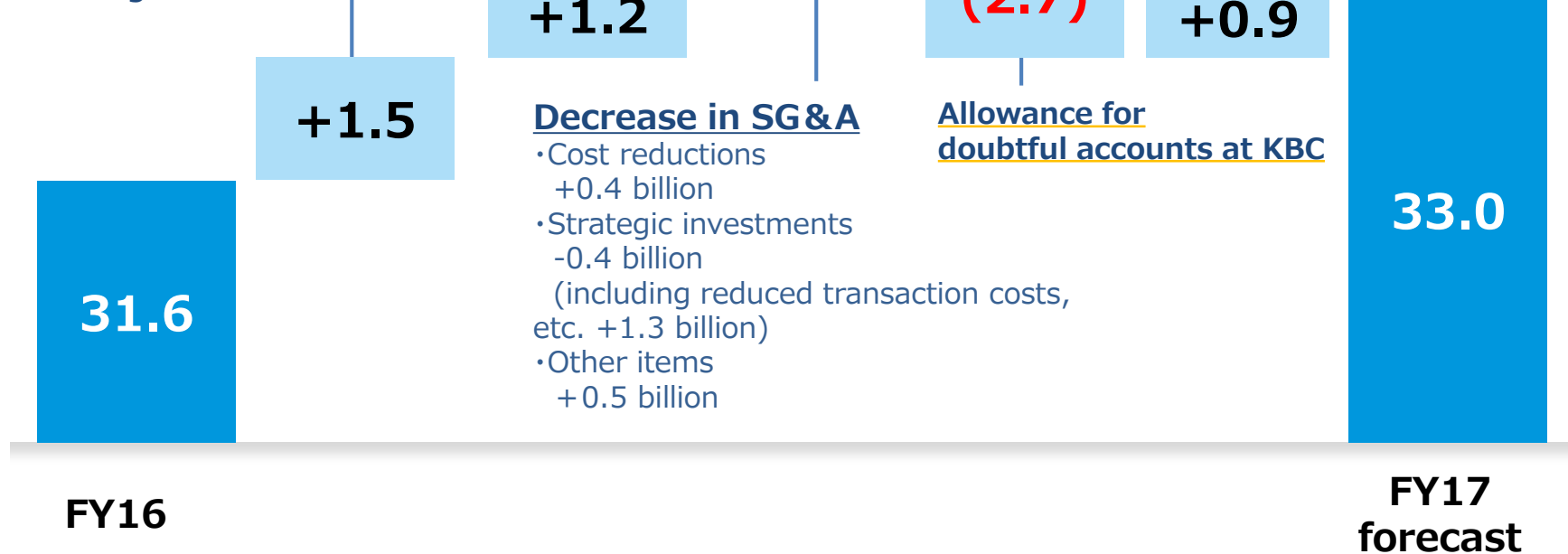
Factors Accounting for Increase/Decrease in FY17 Operating Income → Change from May 10, 2017

Gross profit improvement

- Cost reductions +2.5 billion
- Strategic projects 0.0 billion
- Intensifying competition -1.3 billion

Increase in gross profit from higher sales

(excluding impact of exchange rate)



Exchange rate

(Billion¥)

	FY16	FY17 forecast
1 U.S. dollar	108.95	110.00

\$/¥ exchange rate sensitivity: approx.
¥0.6 billion per year for each ¥1 change

FY17 Forecast for Orders, Sales, and Operating Income by Segment → Change from May 10, 2017

- Control: Operating income forecast was down ¥2.0 billion partly due to the recording of the ¥2.7 billion allowance for doubtful accounts.
- Measurement: The forecast for sales and operating income were down ¥1.5 billion and ¥0.5 billion, respectively, due to a delay in the recording of sales.
- Aviation and Other: Due to a change in the sales composition, the sales forecast was up ¥1.5 billion and the operating income forecast was down ¥0.5 billion.

Control

Measurement

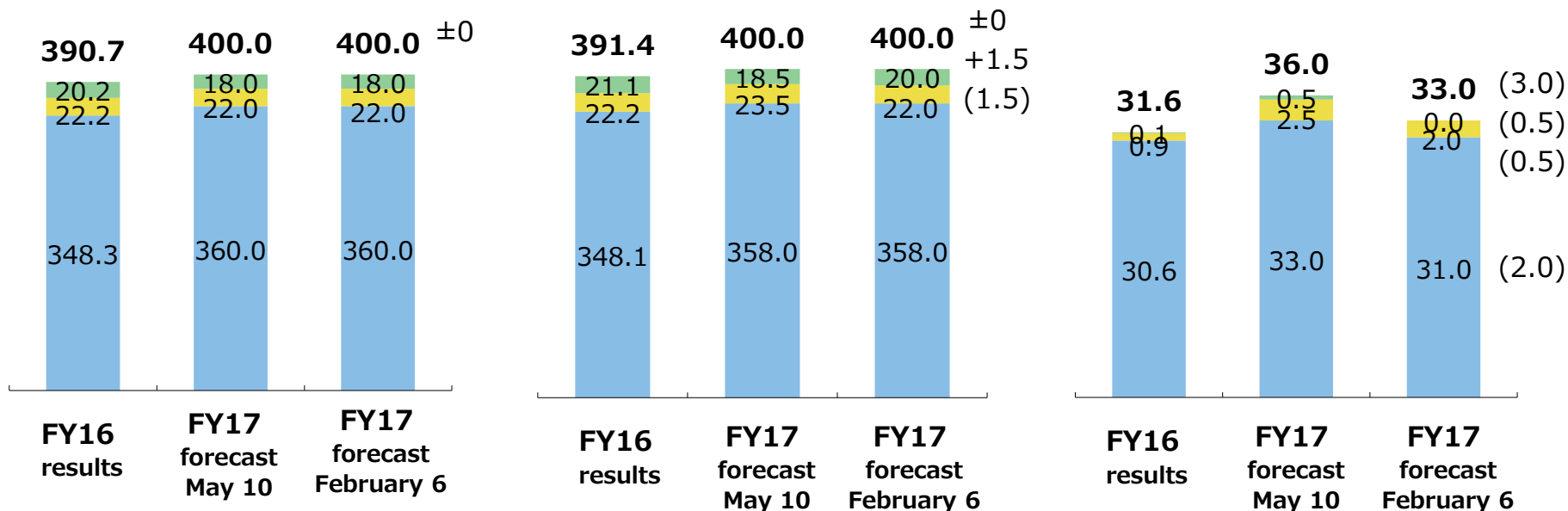
Aviation and Other

(Billion¥)

Orders

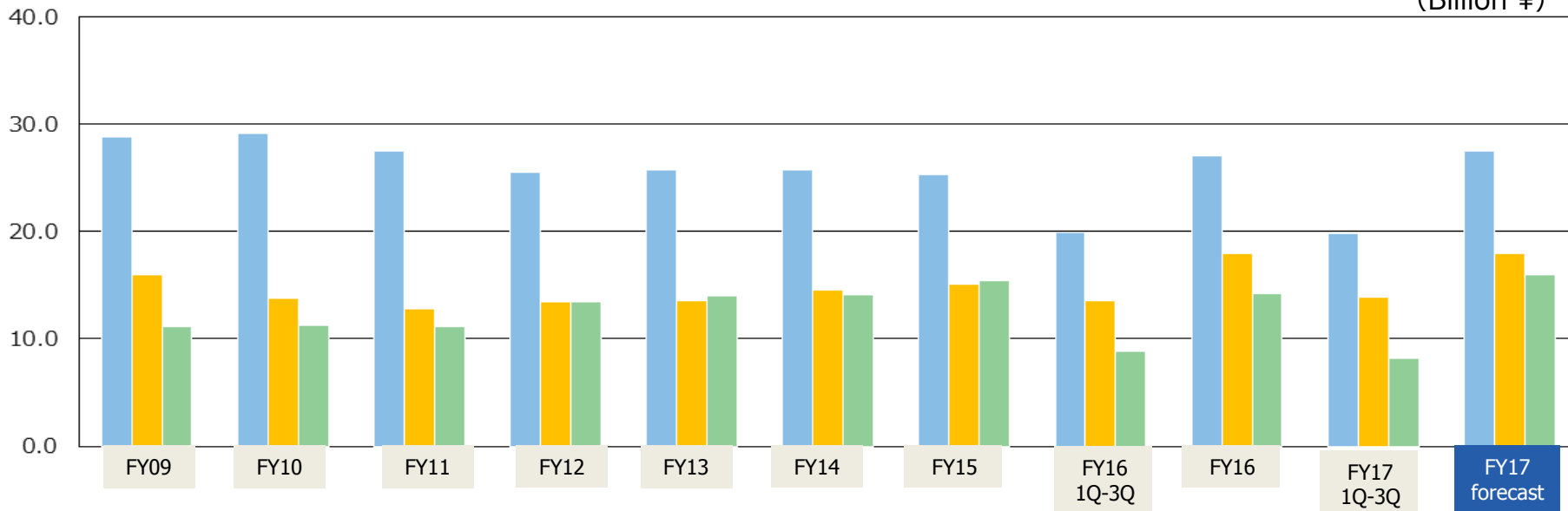
Sales

Operating income



R&D Expenses, Depreciation, and CAPEX

(Billion ¥)



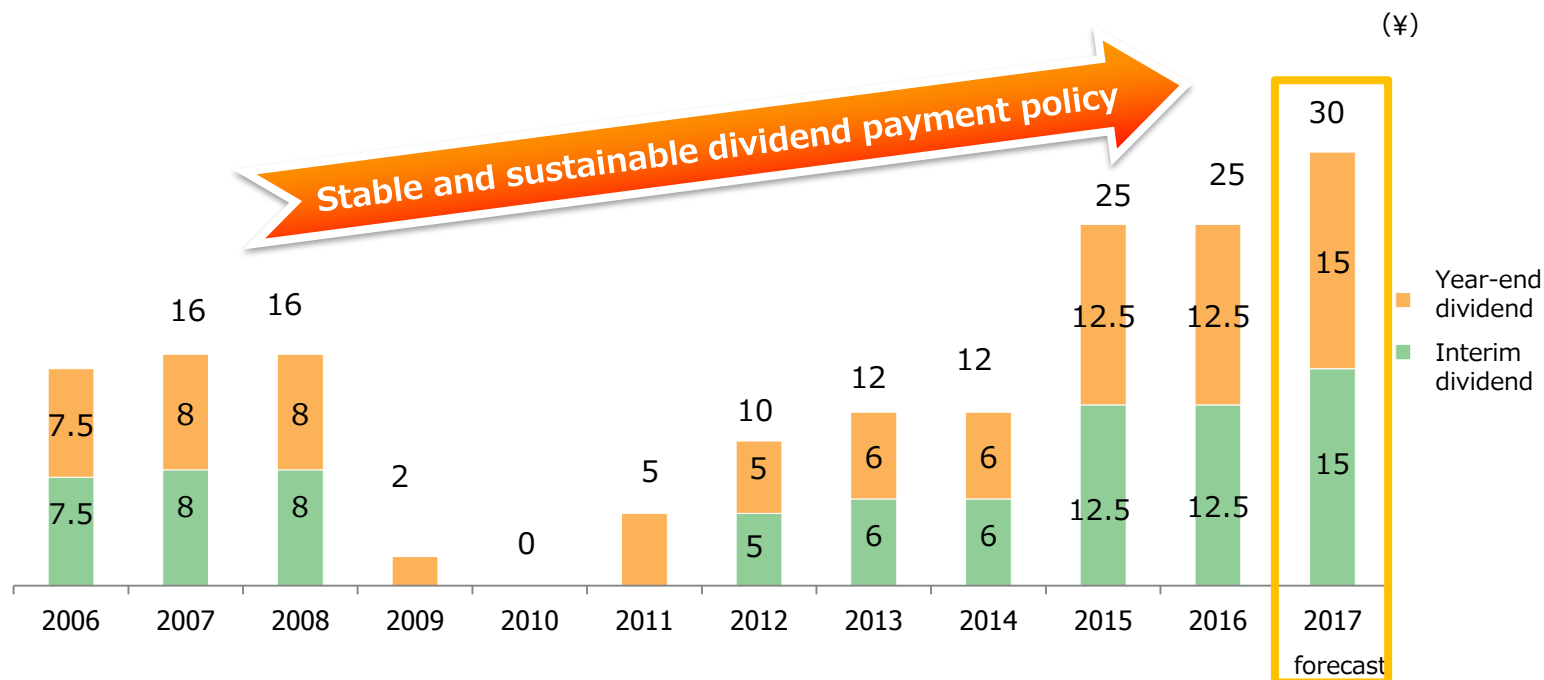
	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16 1Q-3Q	FY16	FY17 1Q-3Q	FY17 forecast
R&D expenses (% of sales)	28.8	29.2	27.5	25.5	25.8	25.8	25.3	19.9	27.1	19.8	27.5
	9.1%	9.0%	8.2%	7.3%	6.6%	6.4%	6.1%	7.2%	6.9%	6.7%	6.9%
Depreciation (% of sales)	16.0	13.8	12.8	13.5	13.6	14.5	15.1	13.6	18.0	13.9	18.0
	5.1%	4.2%	3.8%	3.9%	3.5%	3.6%	3.6%	4.9%	4.6%	4.7%	4.5%
CAPEX (% of sales)	11.1	11.3	11.1	13.5	14.0	14.1	15.4	8.8	14.2	8.2	16.0
	3.5%	3.5%	3.3%	3.9%	3.6%	3.5%	3.7%	3.2%	3.6%	2.8%	4.0%

Dividend

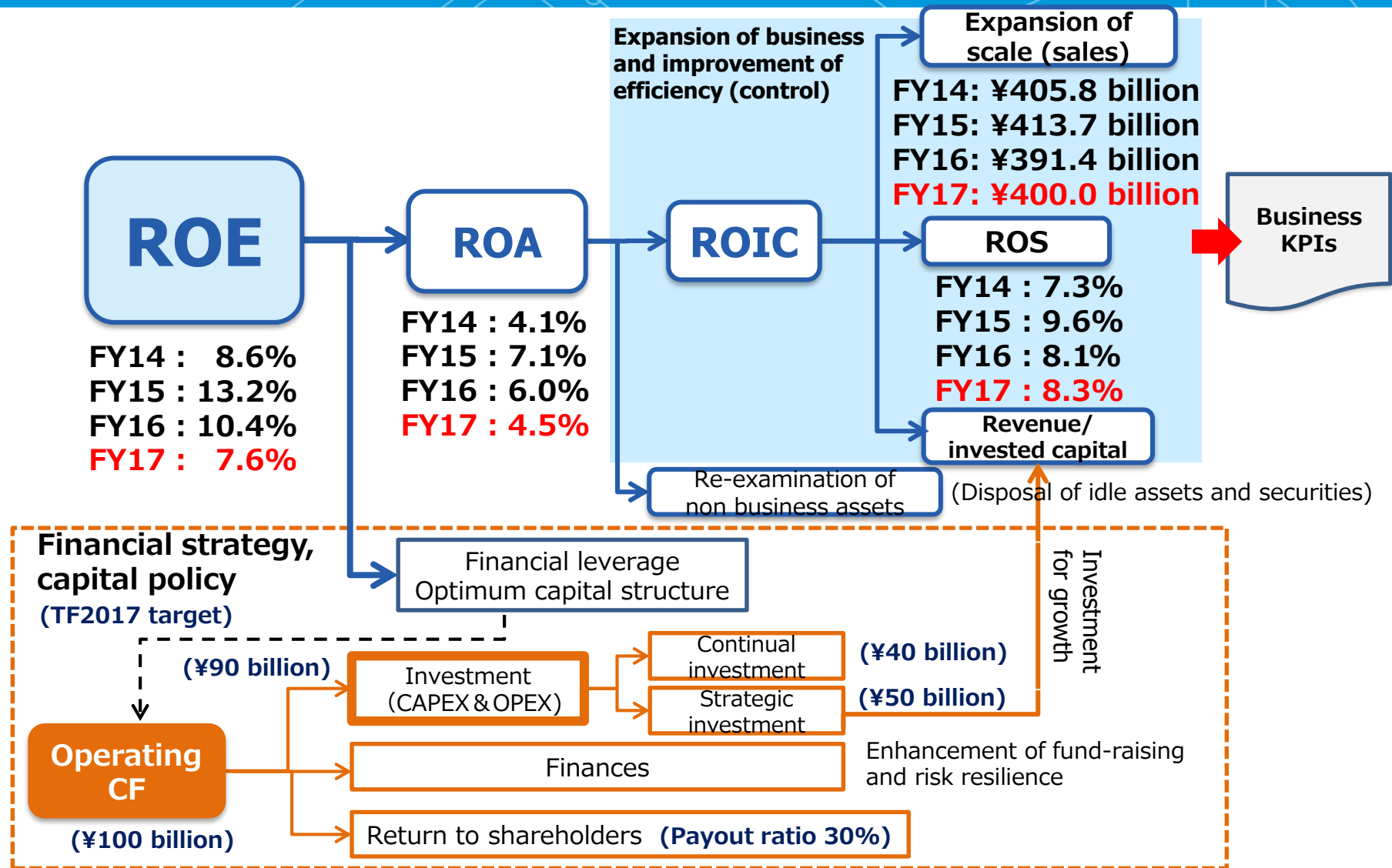
- The distribution of earnings to shareholders is a primary management concern.
- Therefore, there is no change in the dividend forecast.

FY16: ¥25 (payout ratio 25.9%)

FY17: ¥30 (payout ratio 40.1%)



KPIs → Change from May 10, 2017



Yokogawa Electric Corporation

Current Situation / Future of the KBC Group

- Current Situation
- Trend of Control Business Orders by Region
- Future of the KBC Group

February 6, 2018

Takashi Nishijima

President and Chief Executive Officer

Current Situation

- Certain geopolitical risks have materialized.
- An assessment of the orders trend and other factors strengthens our perception that the market is bottoming out.

Market conditions

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

Industries

Some of our customers in the upstream segment continue to be cautious about making investments, but our downstream business (chemicals, petrochemicals, etc.) remains stable.

Regions

Regional differences: Market conditions are strong in Japan and a moderate recovery is underway overseas. We are seeing organic growth (excluding impact of business transfers and foreign exchange) in orders.

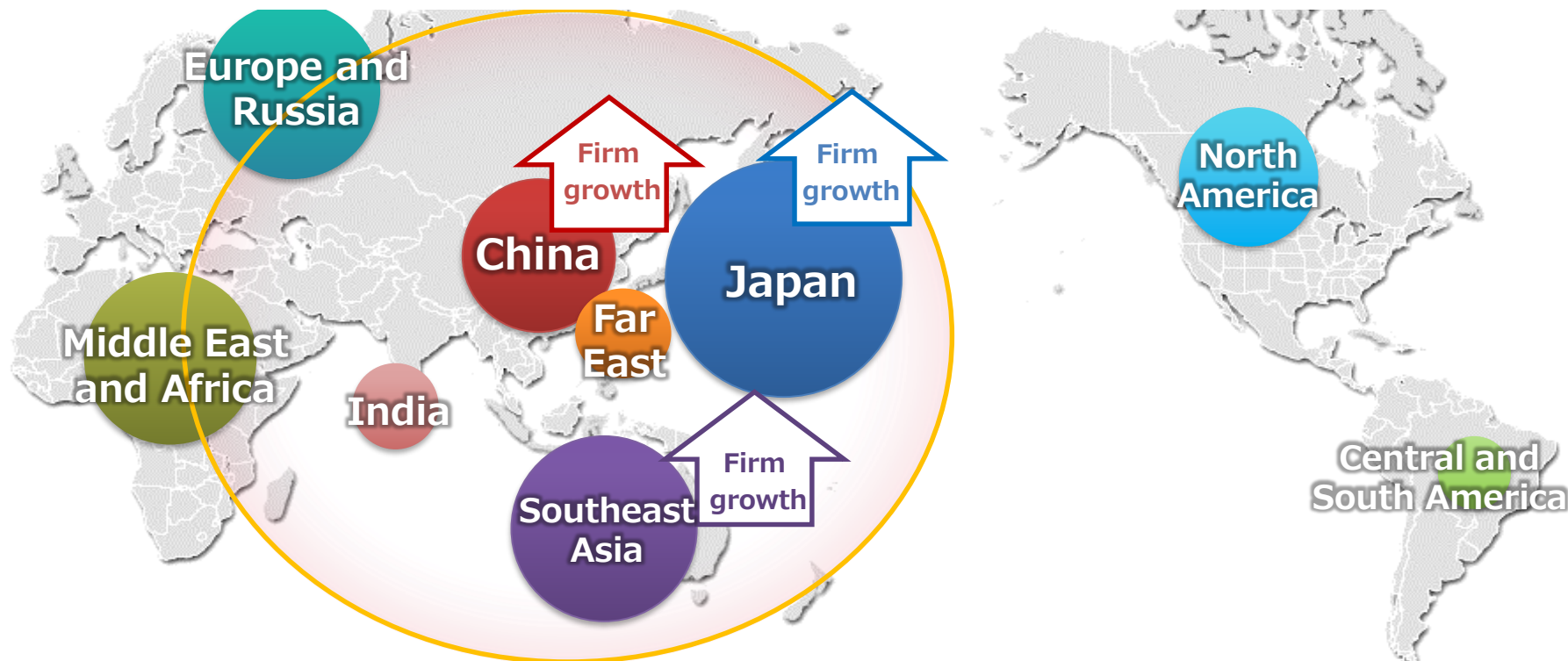
* FID=final investment decision

Trend of Control Business Orders by Region

Industries

Regions

- Japan: Continued strong growth
- Southeast Asia and China: Market conditions remain strong, and growth is particularly strong in China.
- Middle East and Africa: No major change in the amount of project orders, but competition continues to intensify.
- North America: In a hard fight for a shrinking number of big projects, but the product business has recovered.



Source: Company data

Future of the KBC Group

The KBC Group is essential to the Yokogawa Group's growth strategy.

This can be seen in the results that have begun to be achieved through our joint business activities targeting a shared customer base.



A Yokogawa Company



Expanding our business is a top management priority.

* Corporate name : Industrial Evolution, Inc.

■ Expanding the OPEX* solutions business by making maximum use of KBC's consulting capabilities

Expand their consulting business and establish a new revenue model
for industries other than refining.



Our next mid-term business plan will include measures for the implementation of KBC's business model throughout the Yokogawa Group.

* OPEX: Operating expenditure

Appendix

- News
- Trend of Stock Price

Appendix: News (from November 8 to February 6)

Nov. Yokogawa introduces AR-based SensPlus™ Buddy communication support service

Yokogawa releases vibration and temperature sensor, the first product in a new lineup of small wireless Sushi Sensor® for IIoT applications

Yokogawa to carry out detailed risk assessments for BASF in Asia and America



Sushi Sensor

Dec. Yokogawa receives special encouragement prize, a telework promotion award from the Japan Ministry of Health, Labour and Welfare

Yokogawa develops N-IO Standard Field Enclosure and control system virtualization platform

Jan. KBC signs consultancy agreement for integration of oil refineries in China's Shandong province

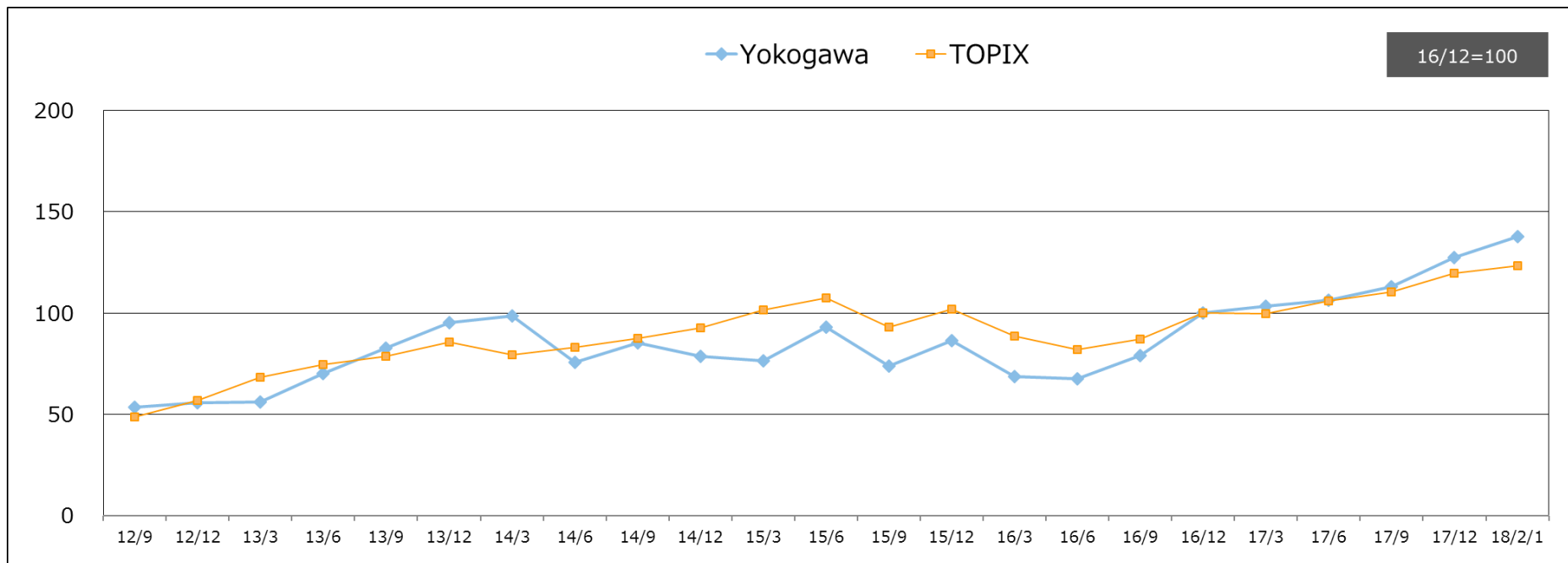
Yokogawa wins control system order for water source facilities in northwestern China's Dushanzi district

Yokogawa's annual report makes it onto the "excellent top 70" and "highly improved top 68" lists compiled by a group of Japanese investors at the request of the Government Pension Investment Fund (GPIF)

Yokogawa receives EPMS and SCADA order for Egypt's national gas grid.

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

Appendix: Trend of Stock Price



(¥)

	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	17/12	18/2/1
Yokogawa	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	2,158	2,334
TOPIX	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	1,817	1,870

	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	17/12	18/2/1
Yokogawa	53	56	56	70	83	95	98	76	85	79	76	93	74	87	69	68	79	100	103	106	113	127	138
TOPIX	49	57	68	75	79	86	79	83	87	93	102	107	93	102	89	82	87	100	100	106	110	120	123

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.

The copyright to all materials in this document is held by Yokogawa.

No part of this document may be reproduced or distributed without the prior permission of the copyright holder.

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.

IR Group, IR Department
Yokogawa Electric Corporation

Email: Yokogawa_Electric_IR6841@cs.jp.yokogawa.com

Phone: +81-422-52-6845

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