

Summary of Questions and Answers at Briefing on Financial Results for FY2018 1H

November 9, 2018

<FY18 1H results>

Q: What about changes in order size and contents in the Control segment?

A: If we divide the orders into large and small, small orders, centered on chemistry, continued their strong 1Q performance into 2Q. Large orders, while sluggish in 1Q, also performed strongly in 2Q. As a result, both large and small orders exceeded the previous year's. With overseas energy markets recovering after hitting bottom, we have seen a situation in which, following an increase in small orders, larger orders were gradually being received. However, there has basically been no major change in the composition ratio of large to small orders over the past few years.

Q: What about any LNG projects you are working on specifically, given the recovery in our customers' mindsets on CAPEX investment?

A: We will refrain from discussing the progress of individual projects. However, we have a track record in the LNG supply chain, and all projects closely related to EPC and end users, both new and existing facilities, will act with the goal of receiving orders.

Q: What about the gross profit margin and the progress of cost reductions?

A: Cost reductions are still ongoing through this fiscal year. In the first half of the year, the streamlining of engineering costs has shown steady results, but in the current year, we would like to also achieve reductions in logistics and procurement costs. These are efforts that take place throughout the year, and are scheduled to show results in the second half of the year. Going forward, we are aiming at a yearly target of 1.5 billion yen. The reason for the revision of the gross profit margin is that it made slightly conservative assumptions, such as factoring in the severity of price competition as a risk.

Q: What are the reasons behind the reduced profits in the Aviation and Other Business segment, and what are its future prospects?

A: The results from the first half-year period include an allowance for development

projects in the aviation business that require a great deal of manpower. Their impact will not persist into the next fiscal year. Regarding the Aviation and Other Business segment, there will be a negative impact in the next fiscal year due to the sale of a subsidiary, but a break-even is possible.

<FY18 forecast >

Q: What about the outlook for orders in the second half of the year?

A: We do not think there will be any deterioration in the market during the second half-year period. However, we are maintaining a cautious outlook for the second half of the year, such as by not including projects which may slip from the end of this fiscal year to the next, in the way that projects from last fiscal year slipped into the first half of this fiscal year.

Q: What about risk factors such as US-China trade friction and the situation in the Middle East?

A: There are three main points.

- (1) With an unstable situation in the Middle East, there is a possibility of reduction in projects and investment. However, the present situation is that our customers have also made plans in the long term, so unless there is a dramatic change that necessitates reviewing those plans, we view the risk as small.
- (2) In North America, while projects such as petrochemical complexes are anticipated in the future, we are concerned about possible delays in FID due to labor costs, hikes in raw material prices, etc.
- (3) In China, we do not feel that there have been any major changes to our business, but because market impacts that process industries receive from the economic environment have a delayed effect on discrete industries, we must continue to monitor the situation closely.

Q: What about returns to shareholders, including the annual dividend forecast being left unchanged?

A: We don't consider the dividend forecast something to be changed in conjunction with revisions to the performance forecast. In aiming for a payout ratio of 30% or more, we believe that it is necessary to determine what the net income for the year will ultimately

be before making a decision.

<Mid-term Business Plan “TF2020”>

Q: What about the response from customers in the solutions business?

A: We cannot give any specific examples without approval from the customers. However, in Japan we have examples of large orders on the scale of 500 million yen that consist solely of solutions and do not include any control systems. Overseas, we also have cases of orders of over a billion yen that entrust all manufacturing control to us. As well as working to achieve recognition from our customers not just as a supplier of DCS and safety systems, but as a partner that improves business processes and business performance, we will also accelerate the transformation of the business.

Q: What about the medium to long-term influence of fossil fuels as a whole?

A: Looking at fossil fuels in the medium to long-term, such as the shift in China from coal to natural gas, and the reduction in demand for oil as fuel for automobiles, we believe that global demand is heading towards renewable energy, with natural gas as a transitional period. That said, there are currently several plans for the construction of large oil refineries in India, the Middle East, and China, and there is a trend developing toward producing petrochemical products directly from crude oil, rather than gasoline for cars. There are similar movements not just in oil-producing countries, but also in the chemical companies and national oil companies of Southeast Asia, and we believe that this trend will continue for the time being. However, in the extended long term it seems certain that oil-related business will contract, and thus it will be necessary for YOKOGAWA to change the substance of its value-creation while enlarging the scope of its operations and expanding horizontally. We believe that we must create growth on this basis.

Note: 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. Some of the text in this document has been modified to aid understanding.