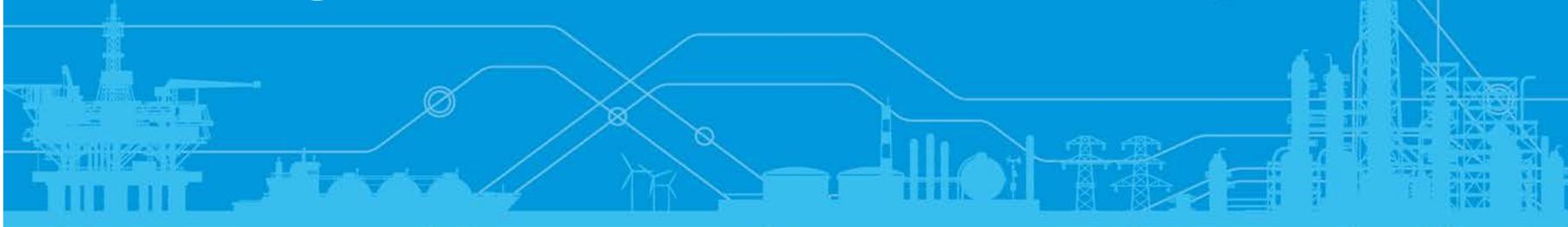


*Transformation 2017*

Yokogawa Electric Corporation

# Financial Results for 3rd Quarter of Fiscal Year 2016



**February 7, 2017**

**Junichi Anabuki**

Director, Senior Vice President  
Accounting & Treasury Headquarters

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# Summary of FY16 1Q-3Q Results

- Orders continue to be impacted by harsh market circumstances. Sales in Japan increased, but sales outside Japan were down due mainly to the stronger yen.
- Despite efforts to reduce costs, operating income fell as a result of the decline in sales, as well as the increase in one-time costs and the amortization of goodwill following the acquisition of KBC.
- Impact of strong yen:  
→ Orders down ¥25.6 billion, sales down ¥25.4 billion, operating income down ¥6.2 billion
- Impact of the KBC acquisition:  
→ Orders +¥5.6 billion, sales +¥7.8 billion, operating income -¥3.0 billion

(Billion ¥)

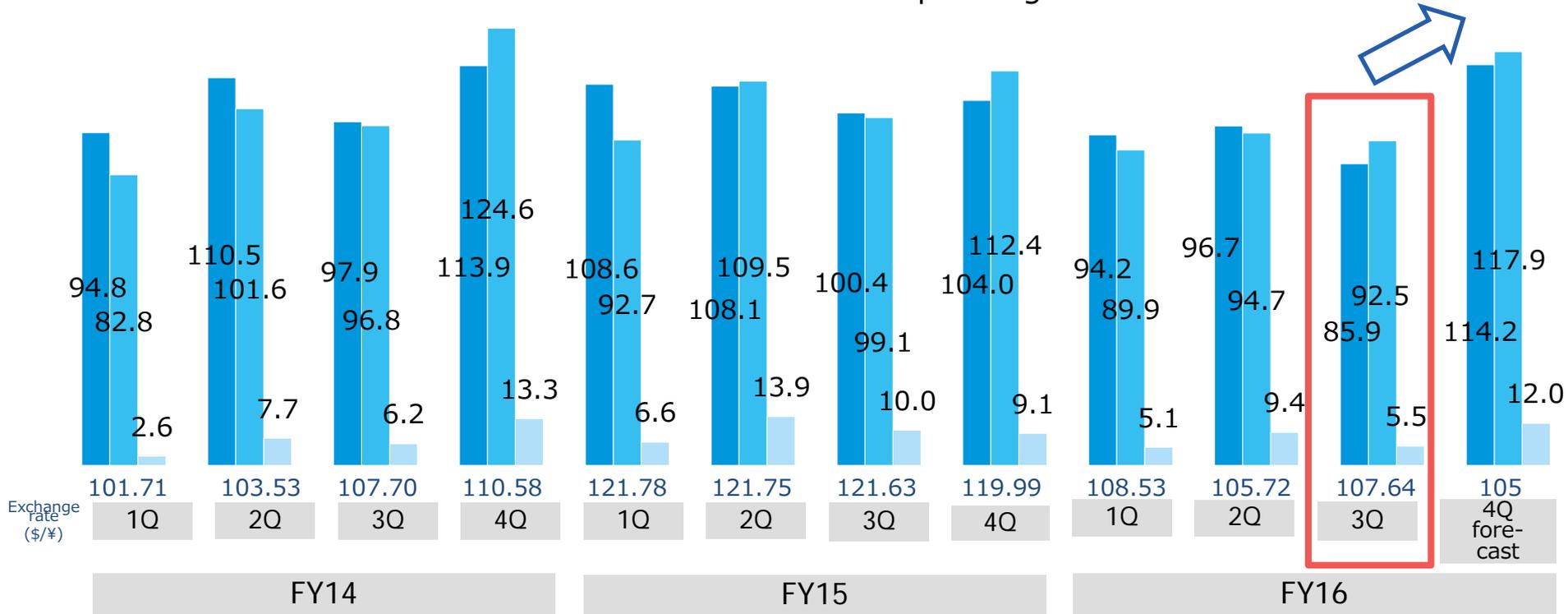
		FY15 1Q-3Q	FY16 1Q-3Q	Difference	Growth rate	Impact of exchange rate
Orders		317.1	<b>276.8</b>	(40.3)	-12.7%	(25.6)
Sales		301.3	<b>277.1</b>	(24.2)	-8.0%	(25.4)
Operating income		30.5	<b>20.0</b>	(10.5)	-34.4%	(6.2)
Ordinary income		31.7	<b>22.0</b>	(9.7)	-30.6%	(7.5)
Profit attributable to owners of parent		24.0	<b>17.1</b>	(6.9)	-28.7%	(6.7)
Exchange rate (¥)	1\$	121.63	<b>107.64</b>	(13.99)	-11.5%	-

# 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.

(Billion ¥)

■ Orders ■ Sales ■ Operating income



# Analysis of Operating Income (FY15 1Q-3Q/FY16 1Q-3Q comparison)

**Decrease in gross profit from lower sales**  
(excluding impact of exchange rate and M&A)

**Increase in SG&A**

- Strategic investments (1.4 billion)
- Cost reductions +1.2 billion
- Change to quarterly allocation of SG&A, etc. (0.6 billion)

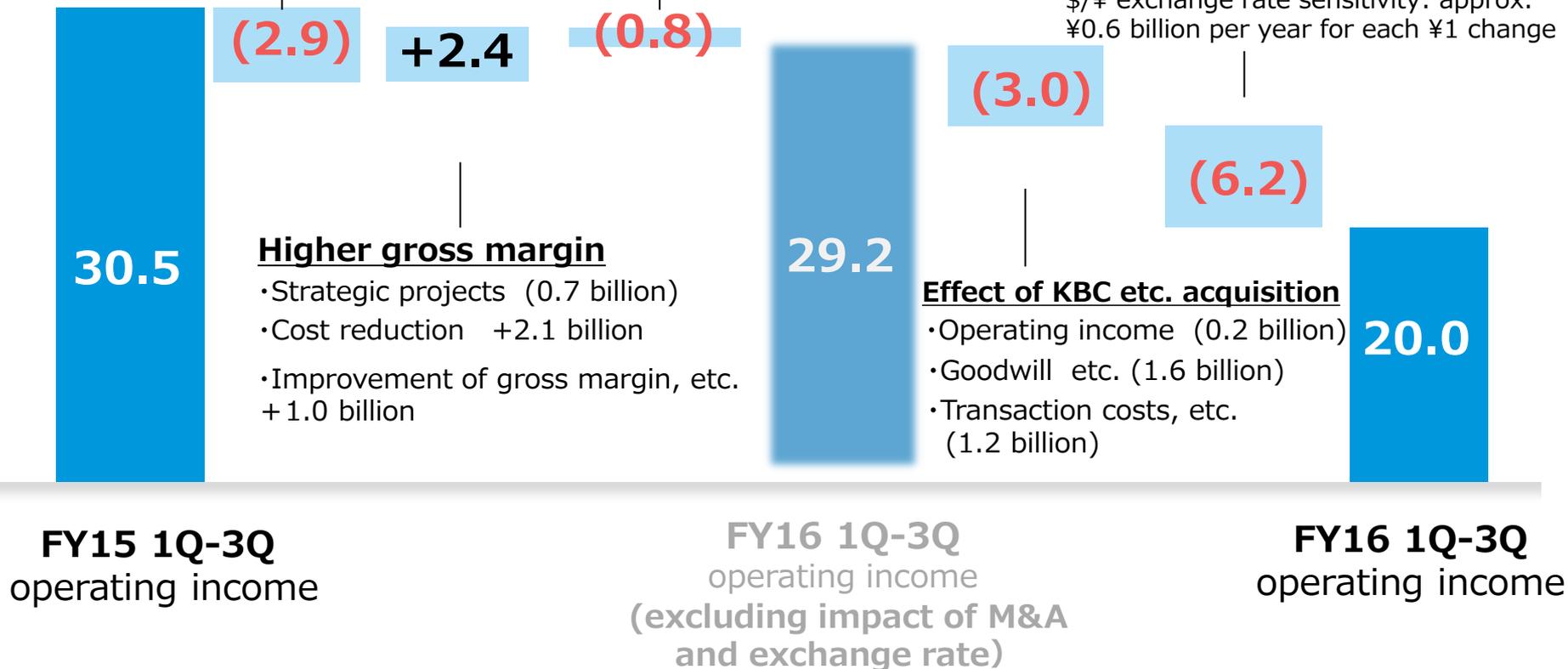
**Exchange rate**

(Billion¥)

(¥)

	FY15 1Q-3Q	FY16 1Q-3Q
1 U.S. dollar	121.63	<b>107.64</b>

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



# Non-operating/Extraordinary Income and Expenses

(Billion¥)

	FY15 1Q-3Q	FY16 1Q-3Q
Operating income	<b>30.5</b>	<b>20.0</b>
Non-operating income	2.9	3.3
Non-operating expenses	1.7	1.3
Ordinary income	<b>31.7</b>	<b>22.0</b>
Extraordinary income	1.6	2.4
Extraordinary expenses	0.2	0.2
Income before tax	<b>33.1</b>	<b>24.2</b>
Tax, etc.	9.1	7.1
Profit attributable to owners of parent	<b>24.0</b>	<b>17.1</b>

(Effective tax rate)

23.9%

26.7%

→FY15: Foreign exchange gains: ¥0.5 billion

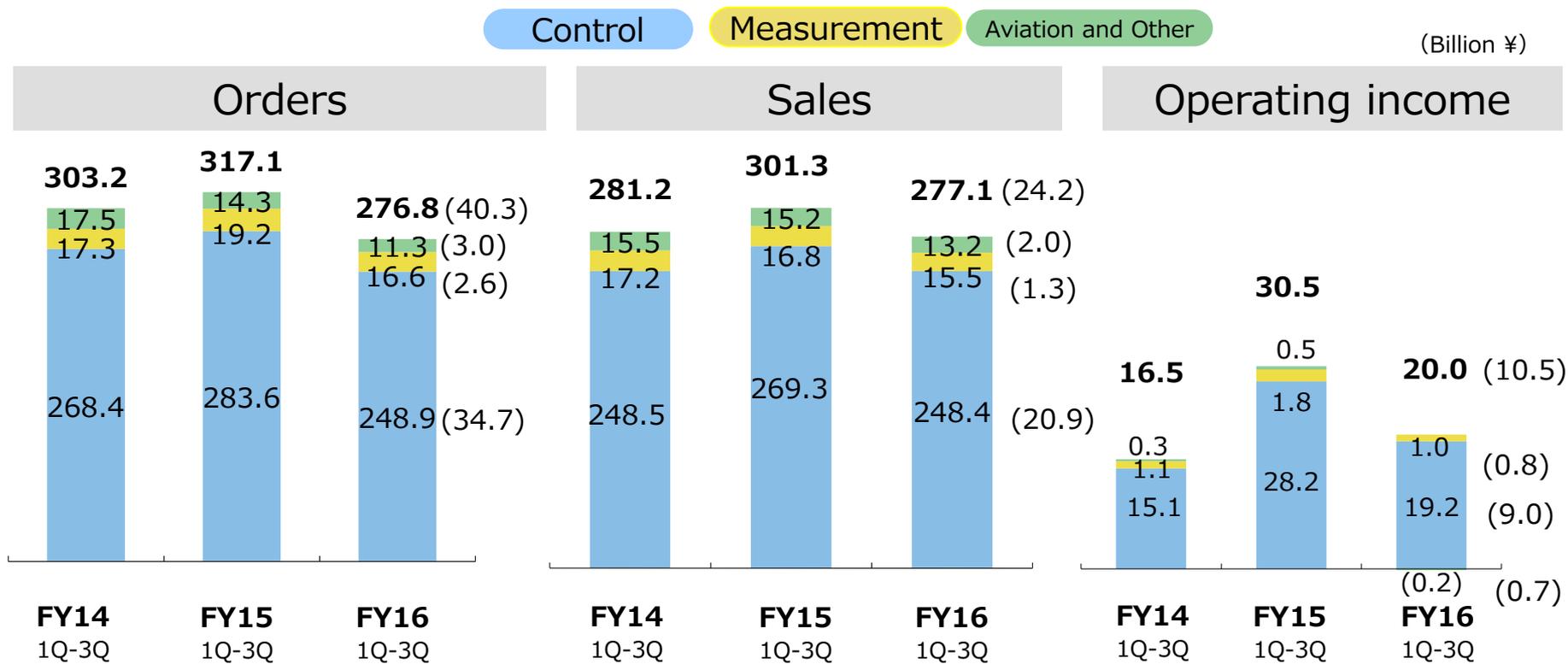
→FY16: Foreign exchange gains: ¥0.9 billion

→ FY15:  
Gain on sale of non-current assets: ¥0.8 billion  
Gain on sale of investment securities: ¥0.8 billion

↘ FY16:  
Gain on sale of investment securities: ¥1.7 billion  
Gain on step acquisition: ¥0.6 billion

# FY15 1Q-3Q/FY16 1Q-3Q Comparison for Orders and Sales by Segment

- Control: Market conditions remained favorable in Japan. Net sales for the control segment fell due to the impact of the appreciation of the yen on sales outside Japan and sluggish investment in resource development projects outside Japan.
- Impact of the strong yen:
  - Orders -¥23.8 billion, sales -¥23.7 billion, operating income -¥5.5 billion



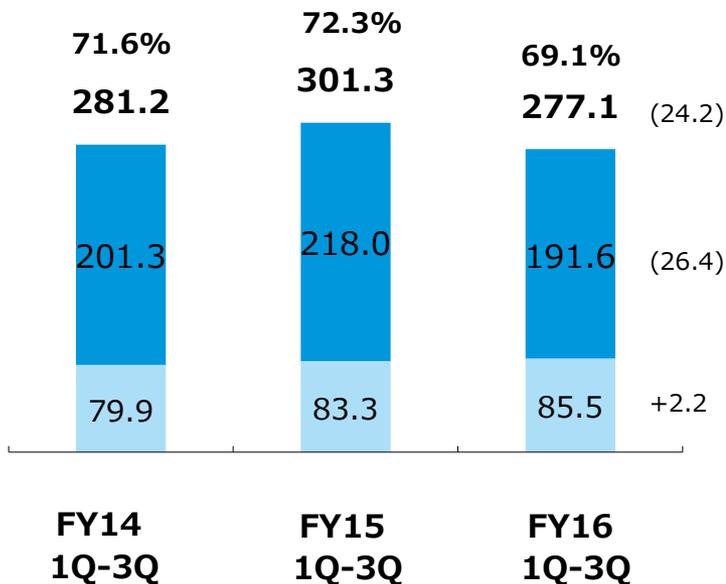
# Trend of Global Sales

- Control sales inside Japan are steadily increasing.

(Billion¥)

## Total

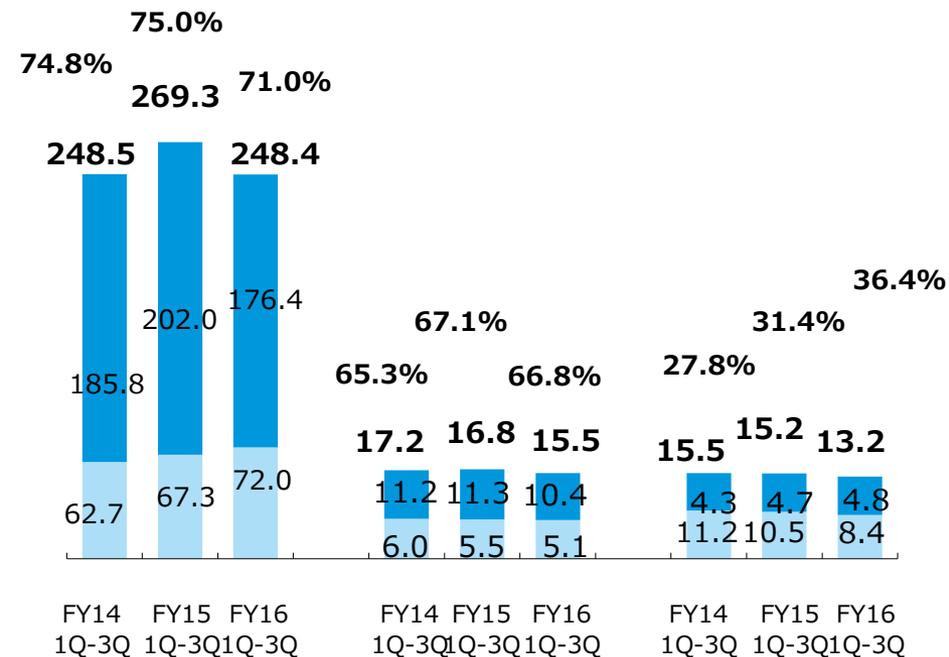
■ Japan ■ Outside Japan



## By segment

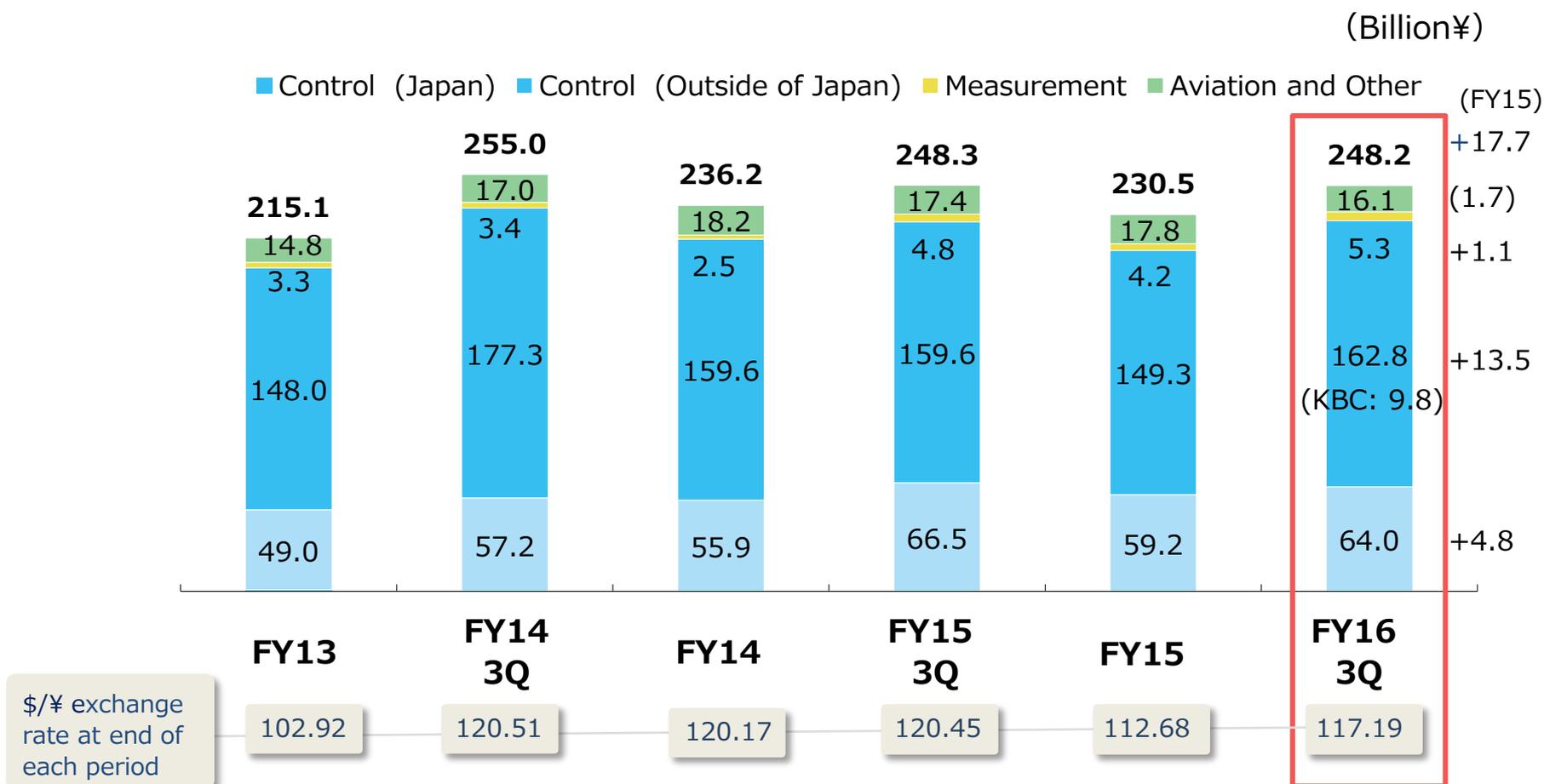
■ Control ■ Measurement ■ Aviation and Other

■ Japan ■ Outside Japan



# Order Backlog Trend by Segment

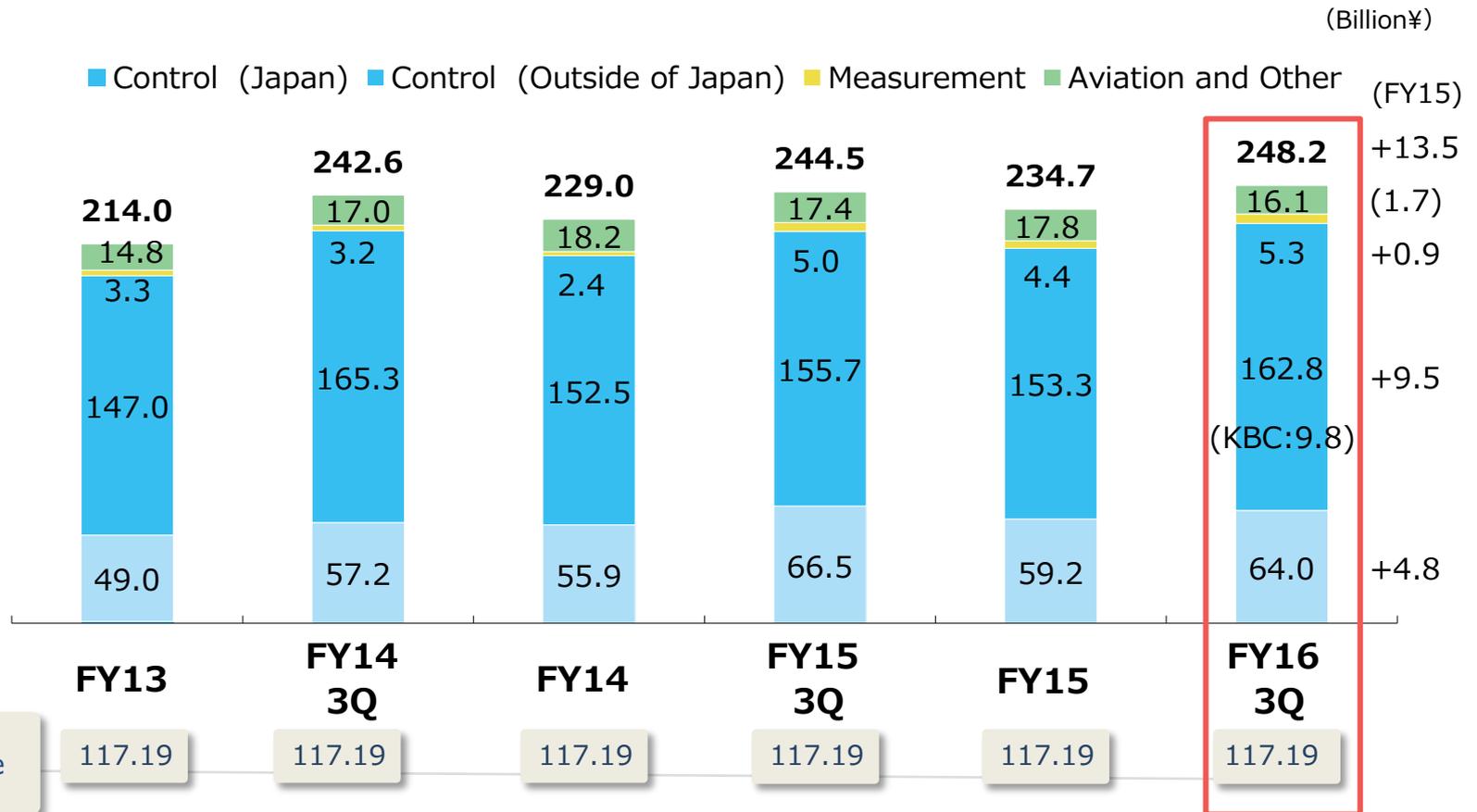
- The KBC acquisition had a ¥9.8 billion impact.



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

# <Reference> Order Backlog Trend by Segment (Using FY16 3Q exchange rate)

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



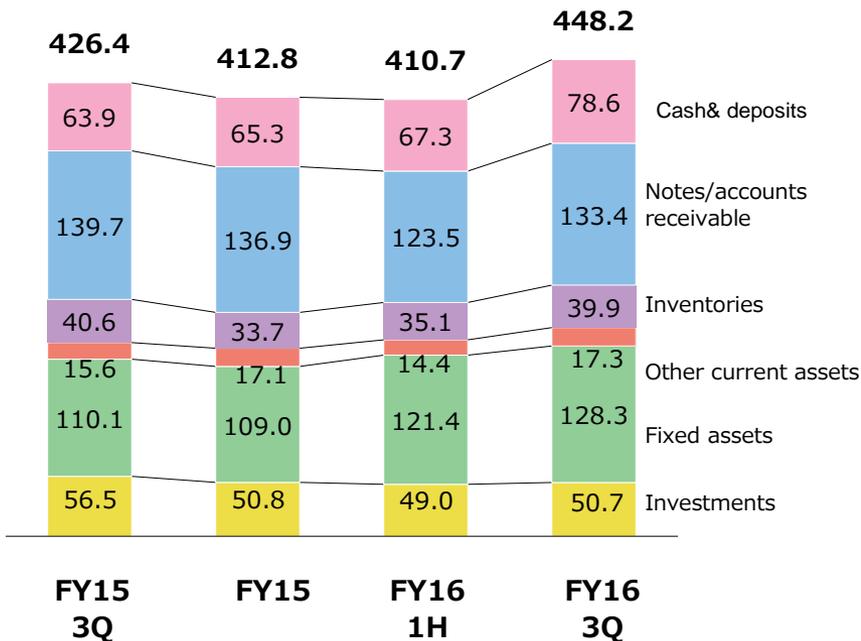
<Note: Past data revised based on a standard review>

# Trend of Balance Sheet

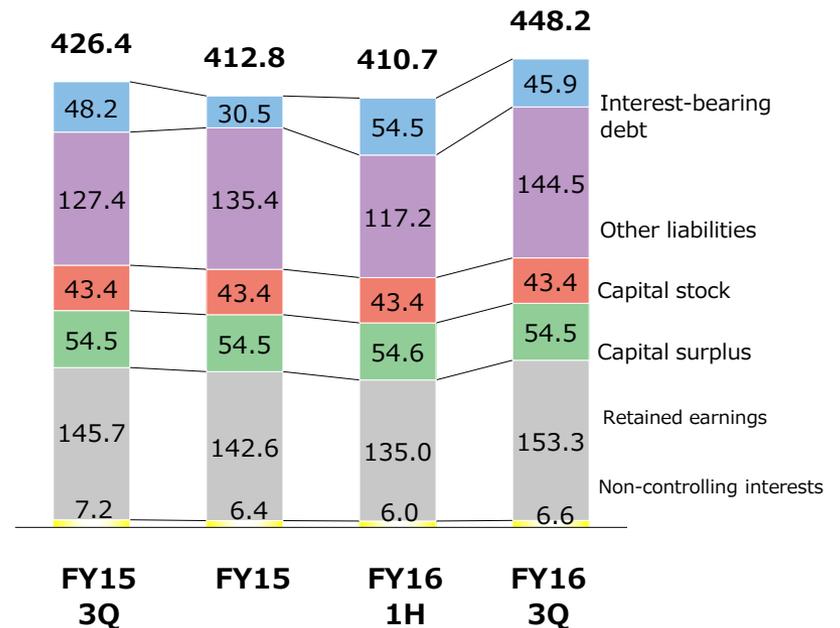
- Total assets were up due mainly to the impact of the KBC acquisition.
- Total liabilities increased ¥18.7 billion due mainly to the increase in loans payable following the acquisition of KBC (D/E ratio: 23.1%).
- Shareholders' equity ratio: 56.0%

(Billion ¥)

## Assets



## Liabilities and net assets



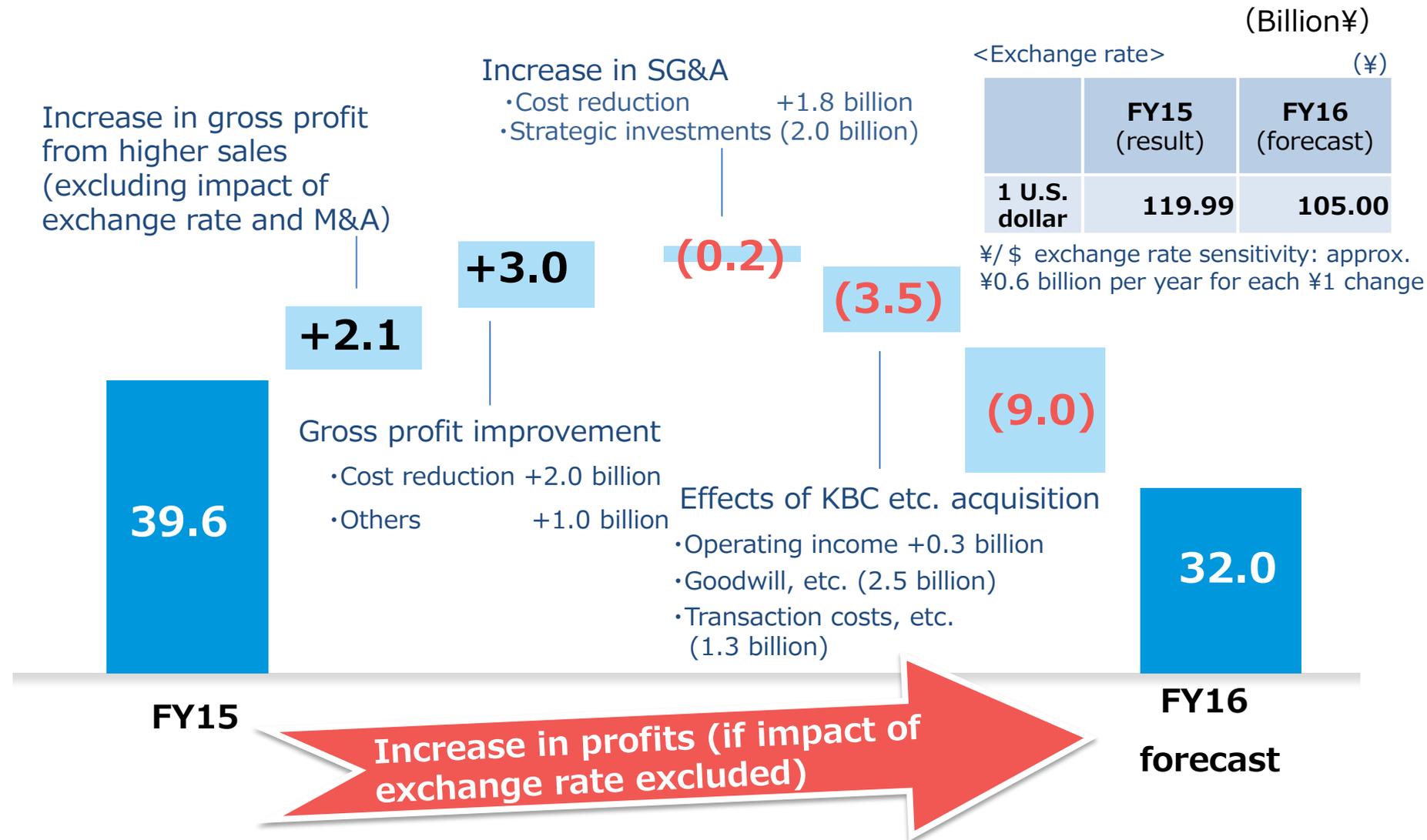
# FY16 Forecast → No change from Nov. 1

-There are no changes from November 1.

(Billion¥)

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

# Factors Accounting for Increase/Decrease in FY16 Operating Income



# FY16 Forecast for Orders, Sales, and Operating Income by Segment → No change from Nov. 1

-There are no changes from November 1.

Control

Measurement

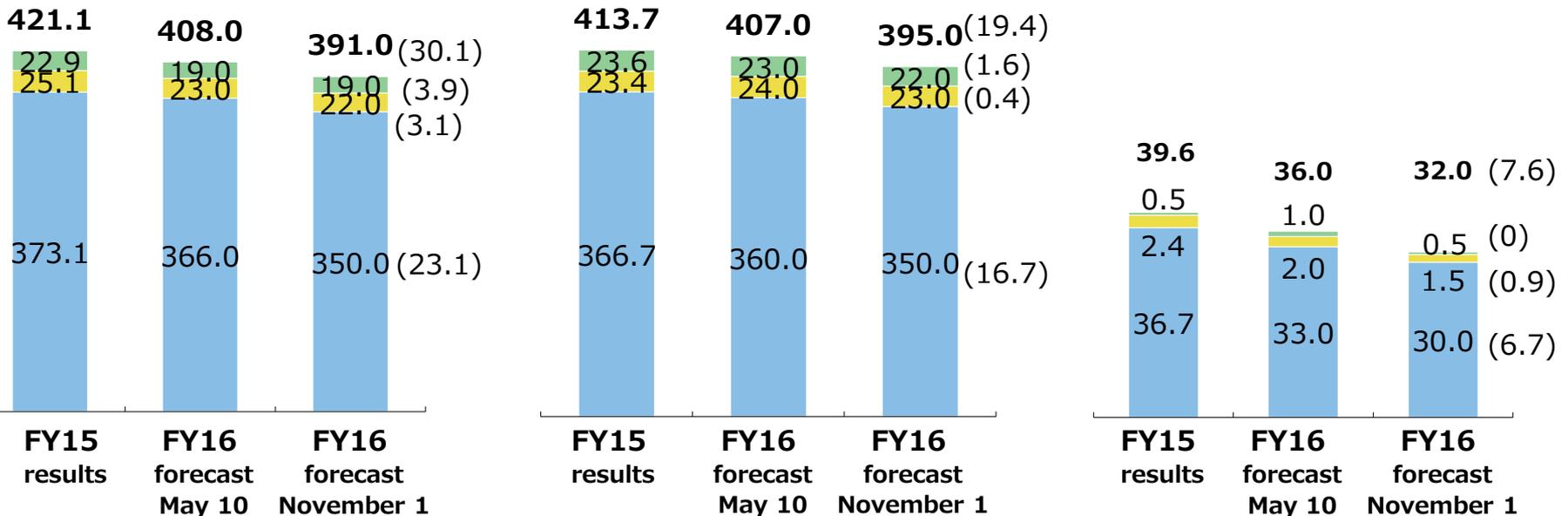
Aviation and Other

(Billion¥)

Orders

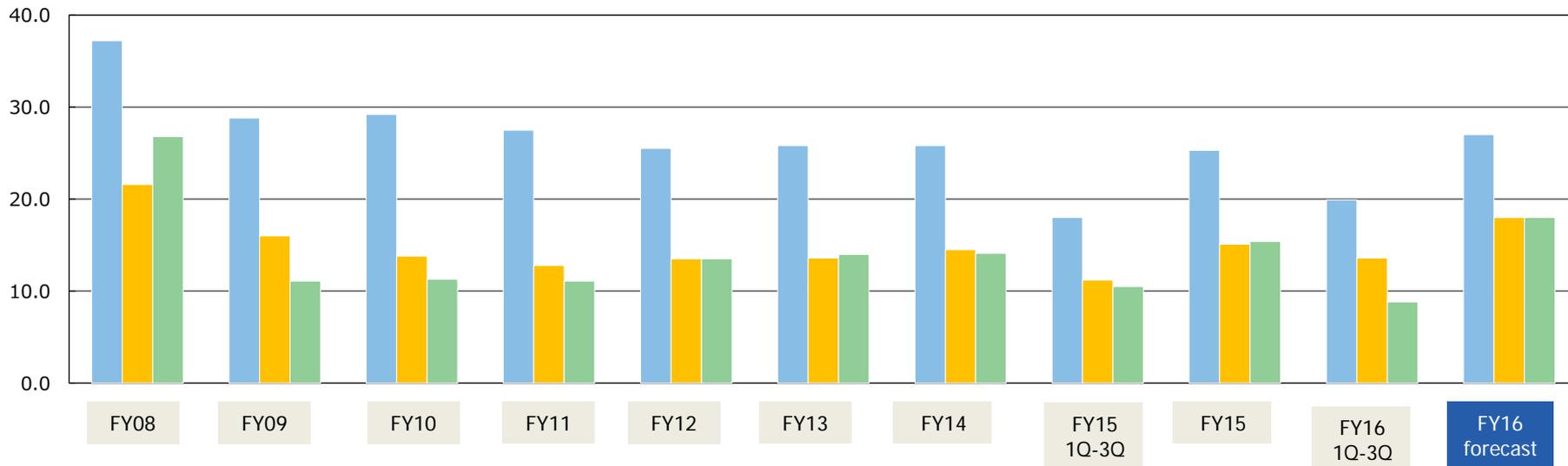
Sales

Operating income



# R&D Expenses, Depreciation, and CAPEX

(Billion ¥)



	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15 1Q-3Q	FY15	<b>FY16 1Q-3Q</b>	FY16 forecast
R&D expenses (% of sales)	37.2 9.9%	28.8 9.1%	29.2 9.0%	27.5 8.2%	25.5 7.3%	25.8 6.6%	25.8 6.4%	18.0 5.8%	25.3 6.1%	<b>19.9 7.2%</b>	27.0 6.8%
Depreciation (% of sales)	21.6 5.7%	16.0 5.1%	13.8 4.2%	12.8 3.8%	13.5 3.9%	13.6 3.5%	14.5 3.6%	11.2 3.6%	15.1 3.6%	<b>*1 13.6 4.9%</b>	<b>*2 18.0 4.6%</b>
CAPEX (% of sales)	26.8 7.1%	11.1 3.5%	11.3 3.5%	11.1 3.3%	13.5 3.9%	14.0 3.6%	14.1 3.5%	10.5 3.3%	15.4 3.7%	<b>8.8 3.2%</b>	18.0 4.6%

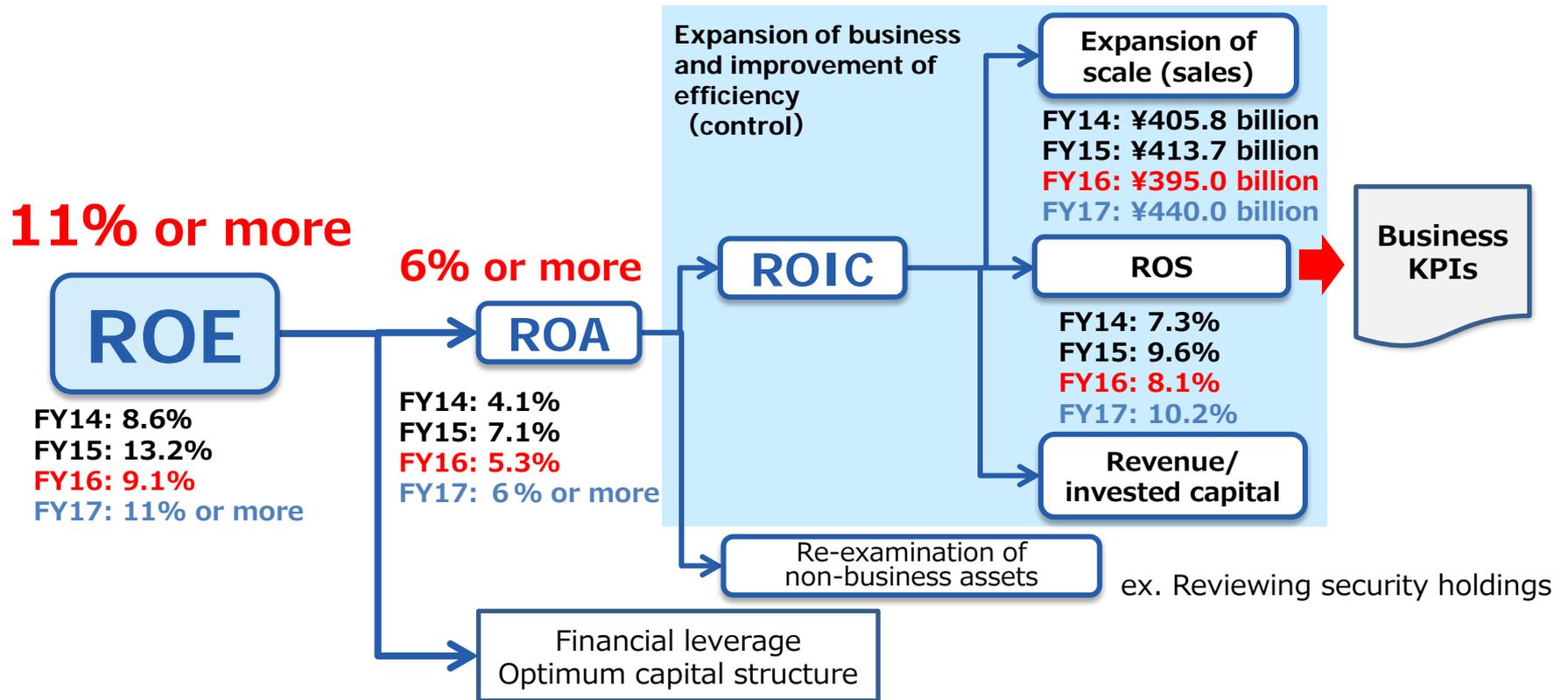
\* Includes ¥1.3 billion amortization of goodwill

\* Reflects finalization of the tentative accounting treatment for merger of businesses to FY16 forecast depreciation

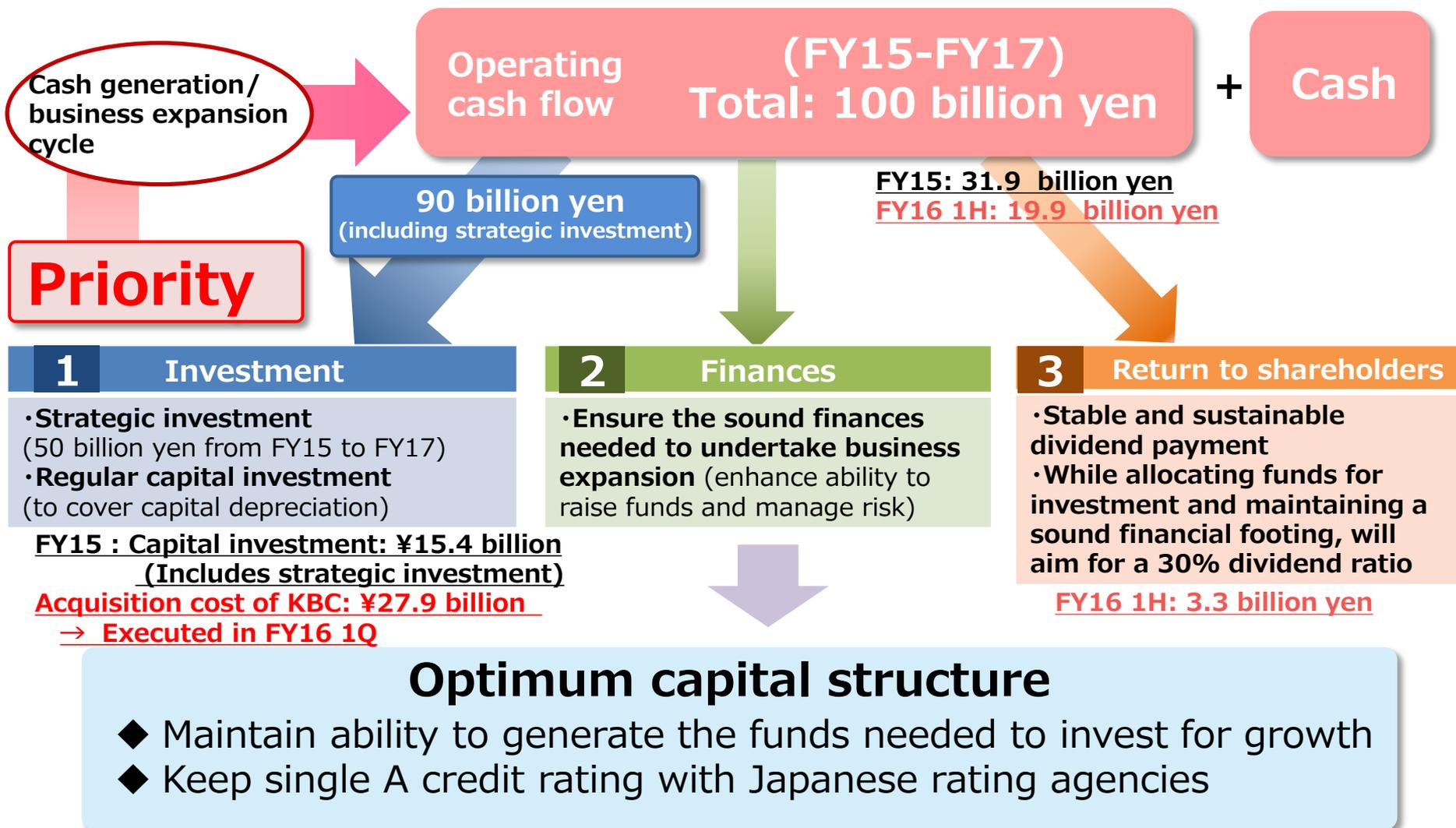
# Appendix

- TF2017 Targets
- Financial Strategy, Capital Policy
- News
- Trend of Stock Price
- Factors Accounting for Increase/Decrease in FY16 Operating Income (November 1)

# Appendix: TF2017 Targets



# Appendix: Financial Strategy, Capital Policy



# Appendix: News (from November 2 to February 7)

Strategic equity investment in Bayshore Networks, an emerging U.S.-based leader in advanced IIoT security

Nov.

Establishment of Architecture Development Division California

Acquisition of Soteica Visual Mesa

Launch by Yokogawa Solution Service of GRANDSIGHT™ value co-creation environment

Dec.

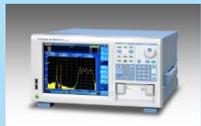
Conclusion of agreement on transfer of subsidiary stock (YDC)

Agreement with Russia's Gazprom Neft to establish International Center for Innovation

Jan.

Release by Yokogawa Meters & Instruments of AQ6374 optical spectrum analyzer

Receipt of order to supply control systems for UAE power and desalination station



AQ6374

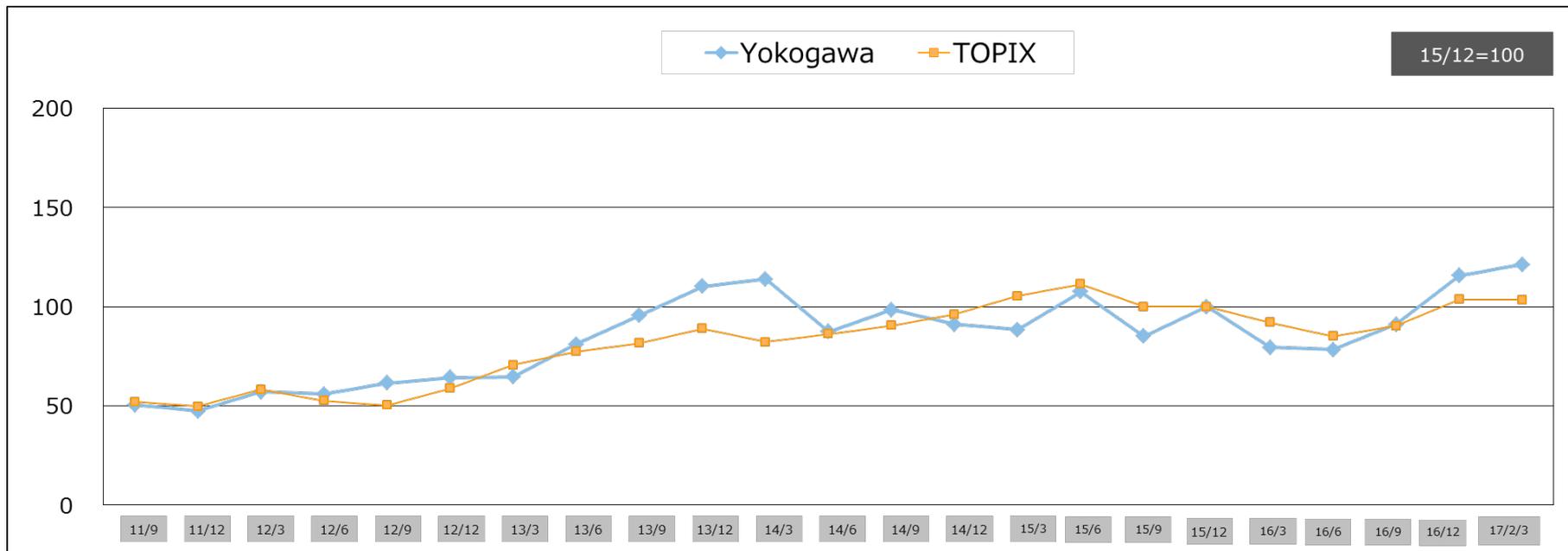
Receipt of EPMS and SCADA order for major multi-product fuel pipeline project in the UK

Feb.

Announcement of collaboration with four companies to develop IIoT architecture

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

# Appendix: Trend of Stock Price



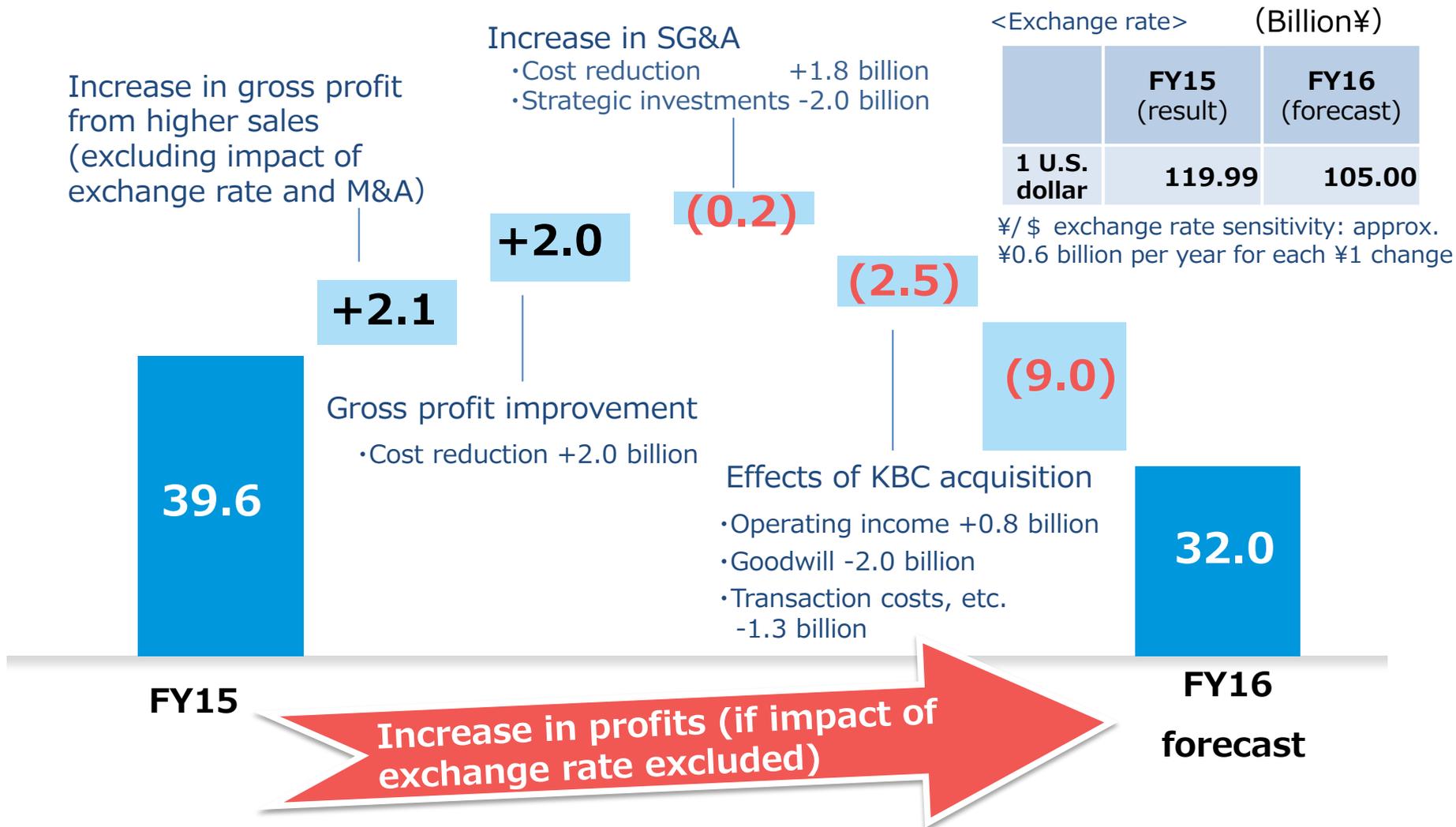
(¥)

	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	16/12	17/2/3
Yokogawa	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	1,693	1,775
TOPIX	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	1,518	1,514

	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	16/12	17/2/3
Yokogawa	51	47	57	56	62	64	65	81	95	110	114	87	98	91	88	107	85	100	79	78	91	116	121
TOPIX	52	50	58	53	50	59	71	77	82	89	82	86	91	96	105	111	100	100	92	85	90	104	103

# Factors Accounting for Increase/Decrease in FY16 Operating Income (November 1)



# Disclaimer

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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.

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IR Group, IR Department  
**Yokogawa Electric Corporation**

Email: [Yokogawa\\_Electric\\_IR6841@cs.jp.yokogawa.com](mailto:Yokogawa_Electric_IR6841@cs.jp.yokogawa.com)

Phone: +81-422-52-6845

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