1. FY16 Results and FY17 Forecast

Junichi Anabuki
Director, Senior Vice President
Accounting & Treasury Headquarters

2. Transformation 2017

– Aiming to further growth by accelerated transformation –

Takashi Nishijima
President and Chief Executive Officer

- Long-term Business Framework & Mid-term Business Plan
- Current situation - FY2016 Review -
- TF2017 Review / Ongoing Efforts - Three reforms –
- FY17 Management Policy
- Quantitative Objectives, Corporate Governance

3. Appendix
Yokogawa Electric Corporation
FY16 Results and FY17 Forecast

May 10, 2017
Junichi Anabuki
Director, Senior Vice President
Accounting & Treasury Headquarters
## Summary of FY16 Results

- Orders and 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 strong yen and 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 ¥26.7 billion, sales down ¥26.5 billion, operating income down ¥6.7 billion
- Impact of the KBC acquisition: Orders +¥8.2 billion, sales +¥10.3 billion, operating income -¥3.8 billion

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>FY16</th>
<th>Difference</th>
<th>Growth rate</th>
<th>Impact of exchange rate</th>
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<tr>
<td>Orders</td>
<td>421.1</td>
<td>390.7</td>
<td>(30.4)</td>
<td>-7.2%</td>
<td>(26.7)</td>
</tr>
<tr>
<td>Sales</td>
<td>413.7</td>
<td>391.4</td>
<td>(22.3)</td>
<td>-5.4%</td>
<td>(26.5)</td>
</tr>
<tr>
<td>Operating income</td>
<td>39.6</td>
<td>31.6</td>
<td>(8.0)</td>
<td>-20.3%</td>
<td>(6.7)</td>
</tr>
<tr>
<td>ROS (%)</td>
<td>9.6</td>
<td>8.1</td>
<td>(1.5 pts)</td>
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<tr>
<td>Ordinary income</td>
<td>40.7</td>
<td>33.0</td>
<td>(7.7)</td>
<td>-18.9%</td>
<td>(7.3)</td>
</tr>
<tr>
<td>Profit attributable</td>
<td>30.2</td>
<td>25.8</td>
<td>(4.4)</td>
<td>-14.6%</td>
<td>(7.3)</td>
</tr>
<tr>
<td>to owners of parent</td>
<td></td>
<td></td>
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<tr>
<td>EPS (¥)</td>
<td>114.03</td>
<td>96.44</td>
<td>(17.59)</td>
<td>-15.4%</td>
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<tr>
<td>ROE (%)</td>
<td>13.2</td>
<td>10.4</td>
<td>(2.8 pts)</td>
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<tr>
<td>Exchange rate</td>
<td>1$=</td>
<td>¥119.99</td>
<td>¥108.95</td>
<td></td>
<td>–</td>
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</table>

(Billion ¥)
- Orders and operating income were nearly as expected.
- Ordinary income and profit attributable to owners of parent exceeded the forecast.

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<thead>
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<th>FY16 11/1 forecast</th>
<th>FY16 results</th>
<th>Difference</th>
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<td>Orders</td>
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<td>395.0</td>
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<td>(3.6)</td>
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<td>Operating income</td>
<td>32.0</td>
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<td>Ordinary income</td>
<td>31.5</td>
<td>33.0</td>
<td>+1.5</td>
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<tr>
<td>Profit attributable to owners of parent</td>
<td>22.0</td>
<td>25.8</td>
<td>+3.8</td>
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<td>EPS (¥)</td>
<td>82.37</td>
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<td>Exchange rate</td>
<td>¥105.00</td>
<td>¥108.95</td>
<td>+¥3.95</td>
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</tbody>
</table>
- 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 (FY15/FY16 comparison)

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

- Cost reductions: 39.6
- Strategic investments: 3.1
- Other items: 1.5

Increase in gross profit
+4.0

Higher gross margin

- Cost reductions: +3.1 billion
- Strategic investments: -0.6 billion
- Other items: +1.5 billion

Decrease in SG&A

- Cost reductions: +2.0 billion
- Strategic investments: -1.9 billion
- Other items: +1.0 billion

Effect of acquisition of KBC, etc.

- Operating income: -0.4 billion
- Goodwill, etc.: -2.1 billion
- Transaction costs, etc.: -1.3 billion

Exchange rate

1 U.S. dollar

<table>
<thead>
<tr>
<th>FY15</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>119.99</td>
<td>108.95</td>
</tr>
</tbody>
</table>

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

572

42.1

(3.8)

(6.7)

31.6
## Non-operating /Extraordinary Income and Expenses

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>FY16</th>
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<tbody>
<tr>
<td><strong>Operating income</strong></td>
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<td>31.6</td>
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<tr>
<td><strong>Non-operating income</strong></td>
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<td>4.0</td>
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<td><strong>Non-operating expenses</strong></td>
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<td>2.6</td>
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<tr>
<td><strong>Extraordinary income</strong></td>
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<td><strong>Extraordinary expenses</strong></td>
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<tr>
<td><strong>Profit attributable to owners of parent</strong></td>
<td>30.2</td>
<td>25.8</td>
</tr>
</tbody>
</table>

(Effective tax rate) 25.0% 25.3%

- **FY15:** Gain on sales of non-current assets: ¥0.8 billion
- **FY16:**
  - Gain on sales of investment securities: ¥1.8 billion
  - Gain on sales of shares of subsidiaries and affiliates: ¥0.9 billion
  - Gain on step acquisitions: ¥0.6 billion
  - Restructuring loss: ¥0.6 billion
FY15/FY16 Comparison for Orders, Sales, and Operating Income by Segment

- Control: Market conditions remained favorable in Japan. Net sales outside Japan fell due to the impact of the appreciation of the yen and sluggish investment in resource development projects.

- Impact of the strong yen:
  → Orders -¥24.8 billion, sales -¥24.6 billion, operating income -¥6.1 billion

<table>
<thead>
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<td>(24.8)</td>
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<td>Aviation and other</td>
<td>22.9</td>
<td>20.2</td>
<td>(2.7)</td>
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<td></td>
<td>25.1</td>
<td>22.2</td>
<td>(2.9)</td>
</tr>
<tr>
<td>Operating income</td>
<td>413.7</td>
<td>391.4</td>
<td>(22.3)</td>
</tr>
<tr>
<td></td>
<td>366.7</td>
<td>348.1</td>
<td>(18.6)</td>
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<td></td>
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<td>21.1</td>
<td>(2.5)</td>
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<td></td>
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<td>0.9</td>
<td>(0.4)</td>
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<td></td>
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<td>30.6</td>
<td>(1.5)</td>
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<td></td>
<td>0.5</td>
<td>6.1</td>
<td>(6.1)</td>
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Order Backlog Trend by Segment

- The overall trend is of an increasing order backlog.

<table>
<thead>
<tr>
<th>Year</th>
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<th>Control (Outside of Japan)</th>
<th>Measurement</th>
<th>Aviation and other</th>
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<td>187.3</td>
<td>151.1</td>
<td>44.1</td>
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<td>FY13</td>
<td>215.1</td>
<td>151.4</td>
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<td>FY14</td>
<td>236.2</td>
<td>18.2</td>
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<tr>
<td>FY15</td>
<td>230.5</td>
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<td>59.2</td>
<td>149.3</td>
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<td>FY16</td>
<td>240.8</td>
<td>17.1</td>
<td>61.9</td>
<td>157.7 (KBC: 8.8)</td>
</tr>
</tbody>
</table>

Exchange rate at end of each period:
- FY12: 94.05
- FY13: 102.92
- FY14: 120.17
- FY15: 112.68
- FY16: 112.19

*Destination-based

(Billion ¥)

+10.3 (0.8)
+8.4
+2.7
<Reference>Order Backlog Trend by Segment
(Using FY16 exchange rate)

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

(Billion¥)

 FY12 | FY13 | FY14 | FY15 | FY16
---|---|---|---|---
 194.9 | 211.3 | 224.7 | 230.5 | 240.8

Control (Japan) | Control (Outside of Japan) | Measurement | Aviation and other

<table>
<thead>
<tr>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
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</thead>
<tbody>
<tr>
<td>129.5</td>
<td>144.3</td>
<td>148.2</td>
<td>149.2</td>
<td>157.7</td>
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FY16 exchange rate $/¥: 112.19

*Destination-based

(Using FY16 exchange rate)
### Trend of Global Sales

-Sales for the Japan control segment continue to increase.

#### Total

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan (Billion¥)</th>
<th>Outside Japan (Billion¥)</th>
<th>Total (Billion¥)</th>
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<td>124.7</td>
<td>405.8</td>
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<td>FY15</td>
<td>286.6</td>
<td>127.1</td>
<td>413.7</td>
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<td>FY16</td>
<td>263.5</td>
<td>127.9</td>
<td>391.4</td>
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#### By segment

<table>
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<tr>
<th>Segment</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
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<tbody>
<tr>
<td>Control</td>
<td>259.9</td>
<td>264.9</td>
<td>242.5</td>
<td>98.1</td>
<td>101.8</td>
<td>105.6</td>
<td>63.6%</td>
<td>65.4%</td>
<td>65.9%</td>
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<td>15.1</td>
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<td>8.1</td>
<td>15.3</td>
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<td>7.6</td>
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<td>6.1</td>
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<td>6.4</td>
<td>14.7</td>
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<tr>
<td>Measurement</td>
<td>358.0</td>
<td>366.7</td>
<td>348.1</td>
<td>23.8</td>
<td>23.4</td>
<td>22.2</td>
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<td>30.2%</td>
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<tr>
<td>Japan</td>
<td>24.0</td>
<td>23.6</td>
<td>21.1</td>
<td>6.1</td>
<td>6.4</td>
<td>6.4</td>
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<td></td>
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<tr>
<td>Outside of Japan</td>
<td>17.9</td>
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<td>21.1</td>
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<td>6.4</td>
<td>6.4</td>
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<td></td>
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<tr>
<td>Outside of Japan</td>
<td>17.9</td>
<td>17.2</td>
<td>14.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
- Total assets were up due mainly to the impact of the KBC acquisition.
- Total liabilities increased ¥11.8 billion due mainly to the increase in loans payable following the acquisition of KBC (D/E ratio: 17.4%).
- Shareholders’ equity ratio: 58.2%
- The cash flow from investing activities was a net outflow of 36.5 billion yen, due mainly to the impact of the KBC acquisition (26.6 billion yen).
## FY17 Forecast

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

<table>
<thead>
<tr>
<th></th>
<th>FY15 (A)</th>
<th>FY16 (B)</th>
<th>FY17 forecast (C)</th>
<th>Difference (C-B)</th>
<th>Growth rate (C÷B-1)</th>
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<tbody>
<tr>
<td>Orders</td>
<td>421.1</td>
<td>390.7</td>
<td>400.0</td>
<td>+9.3</td>
<td>+2.4%</td>
</tr>
<tr>
<td>Sales</td>
<td>413.7</td>
<td>391.4</td>
<td>400.0</td>
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<td>+2.2%</td>
</tr>
<tr>
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<td>36.0</td>
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<td>+13.9%</td>
</tr>
<tr>
<td>ROS (%)</td>
<td>9.6</td>
<td>8.1</td>
<td>9.0</td>
<td>+0.9 pts</td>
<td>–</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>40.7</td>
<td>33.0</td>
<td>35.5</td>
<td>+2.5</td>
<td>+7.5%</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>41.9</td>
<td>35.5</td>
<td>37.5</td>
<td>+2.0</td>
<td>+5.6%</td>
</tr>
<tr>
<td>Tax, etc.</td>
<td>11.7</td>
<td>9.7</td>
<td>10.5</td>
<td>+0.8</td>
<td>+8.2%</td>
</tr>
<tr>
<td>Profit attributable to owners of parent</td>
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<tr>
<td>EPS (¥)</td>
<td>114.01</td>
<td>96.44</td>
<td>101.04</td>
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<td>¥119.99</td>
<td>¥108.95</td>
<td>¥110</td>
<td>+1.05</td>
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Factors Accounting for Increase/Decrease in FY17 Operating Income

**Gross profit improvement**
- Cost reductions  +2.5 billion
- Strategic projects  0.0 billion
- Intensifying competition, etc.  -1.3 billion

**Exchange rate** (Billion¥)
<table>
<thead>
<tr>
<th></th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 U.S.</td>
<td>108.95</td>
<td>110.00</td>
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<tr>
<td>dollar</td>
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$/¥ exchange rate sensitivity: approx. ¥0.6 billion per year for each ¥1 change

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

+ 1.2

**Decrease in SG&A**
- Cost reductions  +0.7 billion
- Strategic investments  -0.4 billion
  (including Transaction costs, etc. +1.3 billion)
- Other items  +0.5 billion

36.0

FY17 forecast

FY16

31.6

+0.8

+0.9
FY17 Forecast for Orders, Sales, and Operating Income by Segment

- 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.

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY15 forecast</th>
<th>FY16 forecast</th>
<th>FY17 forecast</th>
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<td>+0.4</td>
<td>+1.6</td>
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Control | Measurement | Aviation and Other

(Billion ¥)
## Trend of R&D Expenses, Depreciation, and CAPEX

<table>
<thead>
<tr>
<th>Year</th>
<th>R&amp;D Expenses (% of sales)</th>
<th>Depreciation (% of sales)</th>
<th>CAPEX (% of sales)</th>
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<td>FY08</td>
<td>37.2</td>
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<td>26.8</td>
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<tr>
<td>FY09</td>
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</tbody>
</table>

- **R&D expenses** (% of sales): The trend shows a gradual decrease from FY08 to FY16, with a forecasted increase in FY17.
- **Depreciation** (% of sales): Similarly, a slight decrease is observed from FY08 to FY16, followed by a forecasted increase in FY17.
- **CAPEX** (% of sales): The trend displays a more stable pattern, with slight increases and decreases throughout the years, leading to a prediction of a slight rise in FY17.
Dividend

FY15: ¥20 regular dividend + ¥5 commemorative dividend
FY16: Continued ¥25 dividend (payout ratio 25.9%)
FY17: ¥30 (payout ratio 29.7%)
(30% payout ratio targeted)

Stable and sustainable dividend payment policy
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

Cash generation/business expansion cycle

1. Investment
   - Strategic investment (50 billion yen from FY15 to FY17)
   - Regular capital investment (to cover capital depreciation)

   FY15 investment: ¥22.7 billion
   FY16 investment: ¥46.3 billion
   KBC acquisition cost: ¥26.6 billion

2. Finances
   - Ensure the sound finances needed to undertake business expansion (enhance ability to raise funds and manage risk)

   FY15: 31.9 billion yen
   FY16: 39.2 billion yen

3. Return to shareholders
   - Stable and sustainable dividend payment
   - While allocating funds for investment and maintaining a sound financial footing, will aim for a 30% dividend ratio

   *FY15: 4.8 billion yen (17.9%)
   *FY16: 6.7 billion yen (25.9%)

Operating cash flow
(FY15-FY17) Total: 100 billion yen

Priority
90 billion yen (including strategic investment)

Cash
FY15: 31.9 billion yen
FY16: 39.2 billion yen

Cash generation/biz expansion cycle

Total: 100 billion yen

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

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Transformation 2017
– Aiming to further growth by accelerated transformation –

- Long-term Business Framework & Mid-term Business Plan
- Current situation - FY2016 Review -
- TF2017 Review / Ongoing Efforts - Three reforms –
- FY17 Management Policy
- Quantitative Objectives, Corporate Governance

May 10, 2017

Takashi Nishijima
President and Chief Executive Officer

The global No.1 company in industrial automation

Through “Process Co-Innovation,” Yokogawa creates new value with our clients for a brighter future.

2015 → 2017
Establishing a foundation for growth by transforming our business structure

2018 →
Growth to become an even more profitable company

Focusing on our customers
- Develop business by pursuing strategic partnerships with customers.
- Expand our business with our customer base.

Creation of new value
- ICT advances are leading to new business opportunities.
- Co-create value across companies, industries, and markets by improving efficiency and achieving overall optimization.

High efficiency global company
- Globally optimize all functions and operations.
- Be more profitable than our competitors.
Current Situation: FY2016 Review

- The business environment remained challenging due to economic uncertainty.
- Yokogawa fared relatively well thanks to increased orders in the industries and regions that are its strengths.

Although our customers face ever greater pressure from competitors and are sharply scaling back investment, they remain open to finding new ways to create value (signs of change).

Our downstream business is relatively stable, and some of our customers in the upstream and midstream segments are becoming more active.

Regional differences: Market conditions are poor in North America, strong in Japan and the Middle East.
Recent major projects (already disclosed)

- **Yamal LNG PJT**
  - Yamgaz, a consortium of Technip and JGC

- **Taneco Phase I oil and petrochemical PJT**, Tatarstan

- **Dushanzi oil refining and ethylene project**
  - CNPC

- **Sakhalin 2 crude oil and natural gas development PJT**
  - Shell Nanhai petrochemical complex PJT
  - Shell & CNOOC

- **No. 4 thermal power plant renovation PJT**, Ulaanbaatar, Mongolia

- **Map Ta Phut Olefins Co., Ltd. petrochemical plant complex construction PJT**

- **Shell Norco chemical reinstrumentation program**

- **Sabine Pass LNG PJT**
  - Cheniere Energy Partners

- **Ethylene PJT**
  - Shintech, US

- **USGC petrochemicals PJT**
  - Chevron Phillips Chemical Company

- **Shell Nanhai petrochemical complex PJT**
  - Shell & CNOOC

- **Angola FPSO BP**

- **LNG Carrier PJT**
  - Daewoo Shipbuilding & Marine Engineering, Brunei

- **PETRO Rabigh 1,2 PJT**
  - Saudi Aramco and Sumitomo Chemical Co.

- **Ichthys LNG PJT**
  - Ichthys JV
  - Added: LNG carrier control system

- **Mong Duong 2 coal-fired power plant, Vietnam**

- **Thermal power and desalination PJT**, Qatar

- **Angola FPSO BP**

- **NAM-GLT renovation, GLT-PLUS innovation & upgrade PJT**, Holland

- **Rapid PJT (FEED*)**
  - PETRONAS

- **Major Refinery Control Systems NEW**
  - S-Oil (Korea)

- **Gas Distribution Pipeline Renovation PJT**
  - GTCL (Bangladesh)

- **Major Multi-product Fuel Pipeline Renovation PJT**
  - BPA (UK)

- **Power and Desalination Station NEW**
  - SEWA (UAE)

- **Bharat Petroleum Corporation (India)**

- **Truck terminal automation PJT**
  - Bharat Petroleum Corporation (India)

- **New**
  - Major Refinery Control Systems
  - Major Multi-product Fuel Pipeline Renovation PJT
  - Power and Desalination Station
  - Gas Distribution Pipeline Renovation PJT

- **NEW**
  - SEWA (UAE)

- **NEW**
  - S-Oil (Korea)

- **NEW**
  - GTCL (Bangladesh)

- **NEW**
  - BPA (UK)

- **NEW**
  - SEWA (UAE)

- **NEW**
  - S-Oil (Korea)

- **NEW**
  - GTCL (Bangladesh)

- **NEW**
  - BPA (UK)

- **NEW**
  - Major Refinery Control Systems

- **NEW**
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- **NEW**
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- **NEW**
  - Ichthys JV

- **NEW**
  - Added: LNG carrier control system

- **NEW**
  - Mong Duong 2 coal-fired power plant, Vietnam
Topics: Focusing on our customers

<Gazprom Neft> Agree to Establish International Center for Innovation

Develop advanced process control systems and other innovative solutions for refineries, contribute to train engineers

<Saudi Aramco> Agree to cooperate for R&D of measurement and control in oil/gas fields

Accelerate R&D and human resource development in our focus areas of measurement and control
TF2017 Review / Ongoing Efforts
– Three reforms –

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**
Acknowledging the Gap between the Last Two Years’ Business Results and the Targets of the Mid-term Plan

- With oil prices low and the global economy sluggish, market conditions continue to worsen and competition is growing more intense.

- Orders are down because our customers are reluctant to make investments.

- The decreases in sales and production have outweighed the benefits of our efforts to reduce costs. **Intrinsic problems have been identified.**

How to solve these problems

- Change how we run our business so that we are less susceptible to fluctuations in sales. **Accelerate the three transformations**
Gap between TF2017 and FY17 plan
- Analysis of Operating Income -

<table>
<thead>
<tr>
<th>Impact of exchange rate</th>
<th>(Billion¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TF2017</td>
</tr>
<tr>
<td>1US$</td>
<td>110.00</td>
</tr>
</tbody>
</table>

- Analysis of Operating Income -

Decrease in gross profit from lower sales:
- Higher gross margin:
  - Increase in SG&A:
  - Reduce strategic investment:

TF2017 target: 45.0
FY17 Plan: 36.0
## 1) Transforming to Focus on Customers

Expand our business by using our customer base and concentrating resources on focus industries

<table>
<thead>
<tr>
<th>Key measures</th>
<th>Status at end of FY16</th>
<th>TF2017 targeted benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand lifecycle service business</td>
<td>In a worsening market environment, aiming to achieve growth with security services and other promising businesses by adding nearly 200 people to the workforce.</td>
<td>By adding over 340 people to the workforce, increase sales by over 40%.</td>
</tr>
<tr>
<td>Expand advanced solution business</td>
<td>Planning for over 25% growth in revenues in FY17. Aiming to create synergy.</td>
<td>By adding just over 40 people to the workforce, achieve 30% growth in annual income.</td>
</tr>
<tr>
<td>Strengthen product functionality for focus industries</td>
<td>Sales of safety instrumented systems are expected to reach a new high. We will quickly boost revenues through new businesses such as pipeline management and wireless noise monitoring.</td>
<td>• Increase sales of strategic products by 20%.</td>
</tr>
<tr>
<td>Targeting a wide range of industries, expand our solution business in Japan</td>
<td>By strengthening our consulting services, we will increase orders for information systems by over 17%.</td>
<td>• Create a new market worth over 5 billion yen.</td>
</tr>
</tbody>
</table>

- By targeting a wide range of industries, expand our solution business in Japan.
- By strengthening our consulting services, we will increase orders for information systems by over 17%.
- Sales of safety instrumented systems are expected to reach a new high. We will quickly boost revenues through new businesses such as pipeline management and wireless noise monitoring.
- Planning for over 25% growth in revenues in FY17. Aiming to create synergy.
- In a worsening market environment, aiming to achieve growth with security services and other promising businesses by adding nearly 200 people to the workforce.
(2) Transforming to Create New Value

【Advantages】Production process and site knowledge and experience + strength in information and communications technology (ICT)

Through collaboration with partner companies and other means, help companies improve efficiency and optimize operations

<table>
<thead>
<tr>
<th>Key events</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinforce the security business</td>
<td>Expanded collaboration with Cisco systems</td>
</tr>
<tr>
<td>Develop wireless technology-based solution business</td>
<td>Concluded a field wireless system development agreement with Statoil</td>
</tr>
</tbody>
</table>
| Create new value by acquisition of the following three companies | 1. Entered a cloud-based DaaS business  
2. Strengthen the provision of software and consulting to oil & gas industry executives  
3. Strengthen the energy management solution business. Released remote support device as “KBC Co-Pilot Program” |
| 1. U.S. company, Industrial Evolution Inc.  
2. U.K. company, KBC  
3. U.S. company, SOTEICA |
| Collaborate with four advanced companies in IT field | Transform the business model and expand business scale by development of IIoT architecture |
| “GRANDSIGHT” value sharing platform | Share the platform with customer |
Commitment to creating new value
Progress after acquiring three companies (KBC, IE, and Soteica)

- After completion of the PMI process, synergies in the Yokogawa Group are expected to grow.
- Business of the KBC will expand from FY2018.
  Target operating income: 900 million yen (excluding depreciation of goodwill: 2.1 billion yen)
(3) Transforming into a More Efficient Global Company

**Target: 20 billion yen in three years → Progress: 14 billion yen (70%)**

- Sluggish increase in orders and sales due to deteriorating market environment  
  → Progress 49% (Linked to sales)
- Improving profitability by focusing on measures to enhance engineering efficiency  
  → Progress 134%

<table>
<thead>
<tr>
<th>Key measures</th>
<th>Examples</th>
<th>Progress</th>
</tr>
</thead>
</table>
| **Improve COGS ratio**       | - Focus on reducing costs that are independent of production volume  
                                - Reduce costs by changing packaging  
                                - Utilize central engineering centers in India and other locations  
                                - Globally introduce infrastructure that will improve visibility | 85% As scheduled |
| **Reduce SG&A**              | - Streamline functions of overseas offices  
                                - Improve efficiency by cutting fixed costs  
                                - Implement shared services for HR, accounting, general affairs, and trading business  
                                - Reduce labor, paper, transport, and storage costs (e-DocPJT) | 55% Need to accelerate |
## Final Targets of Cost Reduction

<table>
<thead>
<tr>
<th></th>
<th>FY14 Results</th>
<th>FY15 Results</th>
<th>FY16 Results</th>
<th>FY17 Revised target</th>
<th>FY17 Initial target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost reduction</strong></td>
<td>–</td>
<td>¥5.7 billion</td>
<td>¥10.8 billion (Single fiscal year: ¥5.1 billion)</td>
<td>¥14 billion (Single fiscal year: ¥3.2 billion)</td>
<td>Approx. ¥20 billion (Single fiscal year: ¥10 billion)</td>
</tr>
<tr>
<td><strong>In relation to FY14</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>COGS ratio</strong></td>
<td>58.3%</td>
<td>57.3%</td>
<td>56.8%</td>
<td>56.5%</td>
<td></td>
</tr>
<tr>
<td><strong>SG&amp;A ratio</strong></td>
<td>34.4%</td>
<td>33.1%</td>
<td>35.1%</td>
<td>34.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Operating income-to-sales ratio</strong></td>
<td>7.3%</td>
<td>9.6%</td>
<td>8.1%</td>
<td>9.0%</td>
<td>10.2%</td>
</tr>
</tbody>
</table>
FY17 Management Policy
– Aiming for further growth by accelerating transformation –

Three commitments

1. Increase sales
   Focusing on our customers (Business solution capability)

2. Improve profitability
   Cost reduction

3. Strategic investment
   Value creation
Main Points of the 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 Japan to overseas
   - 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
**Revised Target of Mid term Business Plan**

Sales may miss the target while **ROA and EPS will achieve the targets**

<table>
<thead>
<tr>
<th>Business plan</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17 Initial target</th>
<th>FY17 target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROE ( % )</strong></td>
<td>8.6</td>
<td>13.2</td>
<td>10.4</td>
<td>11 or more</td>
<td>10.1</td>
</tr>
<tr>
<td><strong>ROA ( % )</strong></td>
<td>4.1</td>
<td>7.1</td>
<td>6.0</td>
<td>6 or more</td>
<td>✔ 6.1</td>
</tr>
<tr>
<td><strong>Sales (billion ¥)</strong></td>
<td>405.8</td>
<td>413.7</td>
<td>391.4</td>
<td>440.0</td>
<td>400.0</td>
</tr>
<tr>
<td><strong>Operating income (billion ¥)</strong></td>
<td>29.8</td>
<td>39.6</td>
<td>31.6</td>
<td>45.0</td>
<td>36.0</td>
</tr>
<tr>
<td><strong>ROS ( % )</strong></td>
<td>7.3</td>
<td>9.6</td>
<td>8.1</td>
<td>10.2</td>
<td>✔ 9.0</td>
</tr>
<tr>
<td><strong>EPS ( ¥ )</strong></td>
<td>66.9</td>
<td>114.0</td>
<td>96.4</td>
<td>100 or more</td>
<td>✔ 101.0</td>
</tr>
<tr>
<td><strong>Exchange rate (US dollar/yen)</strong></td>
<td>110.58</td>
<td>119.99</td>
<td>108.95</td>
<td>110.00</td>
<td>110.00</td>
</tr>
</tbody>
</table>

*Sales may miss the target while ROA and EPS will achieve the targets.*
For the Final Year of TF2017

- Although orders are expected to increase in the second half of FY2017, we will structure our business so that we do not need to rely on sales growth to improve profitability.

- We will accelerate our activities in such areas as investment to improve profitability, cost reduction, the sale of non-business assets, and strategic investment.

- Sales may miss the target, but will achieve the ROA and EPS targets.
## Enhancement of Corporate Governance

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
<th>Directors</th>
<th>Auditors</th>
<th>Officers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>in</td>
<td>outside</td>
<td>%</td>
</tr>
<tr>
<td>2003</td>
<td>Introduced outside directors</td>
<td>7</td>
<td>1</td>
<td>13%</td>
</tr>
<tr>
<td>2004</td>
<td>Abolished retirement bonuses for directors</td>
<td>7</td>
<td>1</td>
<td>13%</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td>7</td>
<td>1</td>
<td>13%</td>
</tr>
<tr>
<td>2006</td>
<td>Introduced one year tenure system for directors and revised articles of incorporation to reduce number of directors (25⇒15)</td>
<td>9</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>2007</td>
<td>Increased number of outside directors</td>
<td>8</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>2008</td>
<td>Increased number of outside directors</td>
<td>7</td>
<td>2</td>
<td>22%</td>
</tr>
<tr>
<td>2009</td>
<td>Increased number of outside directors</td>
<td>7</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>2010</td>
<td>Renewed takeover defense measures</td>
<td>5</td>
<td>3</td>
<td>38%</td>
</tr>
<tr>
<td>2011</td>
<td>Renewed takeover defense measures</td>
<td>4</td>
<td>3</td>
<td>43%</td>
</tr>
<tr>
<td>2012</td>
<td>Sold shares of a listed affiliate</td>
<td>4</td>
<td>3</td>
<td>43%</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>4</td>
<td>3</td>
<td>43%</td>
</tr>
<tr>
<td>2014</td>
<td>Established Nomination and Compensation Committee (voluntary advisory body) Discontinuation (non-renewal) of takeover defense measures Introduced standards to ensure independence of outside directors</td>
<td>6</td>
<td>3</td>
<td>33%</td>
</tr>
<tr>
<td>2015</td>
<td>Established Nomination Advisory Committee and Compensation Advisory Committee (voluntary advisory bodies) Conducted outside evaluation of Board of Directors Established Yokogawa Corporate Governance Guidelines</td>
<td>6</td>
<td>3</td>
<td>33%</td>
</tr>
<tr>
<td>2016</td>
<td>Increase number of outside directors</td>
<td>6</td>
<td>4</td>
<td>40%</td>
</tr>
<tr>
<td>2017</td>
<td>Female outside member of the Audit &amp; Supervisory Board will become Foreigner executives will become (two persons)</td>
<td>6</td>
<td>4</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Note:** The table above summarizes the key actions taken by Yokogawa Electric Corporation to enhance its corporate governance structure from 2003 to 2017. The actions are categorized by year and include the introduction of outside directors, abolition of retirement bonuses, tenure systems, increased number of outside directors, takeover defense measures, verkoppen of shares, and establishment of committees and guidelines. The table also indicates the percentage of inside and outside directors, auditors, and officers, as well as the number of board members doubling as board members.
Future Direction

While working with customers to address social issues based on the Sustainable Development Goals (SDGs):

Outside Japan

Challenge for further growth

In Japan

Become leading force for highly profitable company
Look for great things in FY17, the fiscal year of Transformation 2017
Appendix:

- KPIs (revised)
- Business Plan by Segment
- Changing Business Portfolio
- Trend of Global Sales in Control Segment
- Sales by Region
- R&D, Investment for Growth, HR
- Topics
- Trend of Stock Price
Appendix: KPIs (revised)

ROE
- FY14: 8.6%
- FY15: 13.2%
- FY16: 10.4%
- FY17: 10.1%

ROA
- FY14: 4.1%
- FY15: 7.1%
- FY16: 6.0%
- FY17: 6.1%

ROIC

ROS
- FY14: 7.3%
- FY15: 9.6%
- FY16: 8.1%
- FY17: 9.0%

Expansion of scale (sales)
- FY14: ¥405.8 billion
- FY15: ¥413.7 billion
- FY16: ¥391.4 billion
- FY17: ¥400.0 billion

Re-examination of non business assets

Revenue/invested capital

Optimum capital structure

Capital policy and investment

Continual investment

Strategic investment

Investment for growth

Enhancement of fund-raising and risk resilience

Operating CF
- (¥100 billion)

Return to shareholders
- (Payout ratio 30%)

Financial strategy, capital policy
- (TF2017 target)
- (¥90 billion)

Financial leverage

Investment (CAPEX & OPEX)

Finances

Disposal of idle assets and securities

(¥40 billion)

(¥50 billion)

(¥100 billion)
## Appendix: Business Plan by Segment

(Billion ¥)

<table>
<thead>
<tr>
<th>Sales</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17 (May10,2017)</th>
<th>FY17 (TF2017)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>358.0</td>
<td>366.7</td>
<td>348.1</td>
<td>358.0</td>
<td>390.0</td>
<td>▲32.0</td>
</tr>
<tr>
<td>Measurement</td>
<td>23.8</td>
<td>23.4</td>
<td>22.2</td>
<td>23.5</td>
<td>26.0</td>
<td>▲2.5</td>
</tr>
<tr>
<td>Aviation &amp; Other</td>
<td>24.0</td>
<td>23.6</td>
<td>21.1</td>
<td>18.5</td>
<td>24.0</td>
<td>▲5.5</td>
</tr>
<tr>
<td>Total</td>
<td>405.8</td>
<td>413.7</td>
<td>391.4</td>
<td>400.0</td>
<td>440.0</td>
<td>▲40.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating income</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17 (May10,2017)</th>
<th>FY17 (TF2017)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>27.1</td>
<td>36.7</td>
<td>30.6</td>
<td>33.0</td>
<td>42.0</td>
<td>▲9.0</td>
</tr>
<tr>
<td>Measurement</td>
<td>1.6</td>
<td>2.4</td>
<td>0.9</td>
<td>2.5</td>
<td>2.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Aviation &amp; Other</td>
<td>1.1</td>
<td>0.5</td>
<td>0.1</td>
<td>0.5</td>
<td>1.0</td>
<td>▲0.5</td>
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<td>39.6</td>
<td>31.6</td>
<td>36.0</td>
<td>45.0</td>
<td>▲9.0</td>
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| Exchange rate (US$/¥)  | 110.58| 119.99| 108.95| 110.00| 110.00| –          |
## Appendix: Changing Business Portfolio

### FY08 Operating Income

<table>
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<tr>
<th>Category</th>
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<tr>
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</tr>
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<td>Japan System Techniques Co., Ltd</td>
<td></td>
</tr>
<tr>
<td>YDC Corporation</td>
<td></td>
</tr>
<tr>
<td>Measurement</td>
<td>▲ 25.0</td>
</tr>
<tr>
<td>Semiconductor testers</td>
<td></td>
</tr>
<tr>
<td>Advanced stage</td>
<td></td>
</tr>
<tr>
<td>Photonics</td>
<td></td>
</tr>
<tr>
<td>Life science</td>
<td></td>
</tr>
<tr>
<td>Measuring instruments</td>
<td></td>
</tr>
<tr>
<td>Yokogawa Digital Computer Corporation</td>
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</tr>
<tr>
<td>Other Businesses</td>
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<td>Kokusai Chart Corporation</td>
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### FY16 Operating Income

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<td>Solution services (SS)</td>
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<td>Platforms (PF)</td>
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</tr>
<tr>
<td>Aviation and Other Businesses</td>
<td>0.1</td>
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</tbody>
</table>

### Change in Business Portfolio

- **FY08**
  - **Control**: 29.0
  - **Measurement**: ▲ 25.0
  - **Other Businesses**: 0.7

- **FY16**
  - **Control**: 30.6
  - **Solution services (SS)**
  - **Platforms (PF)**
  - **Measurement**: 0.9
  - **Aviation and Other Businesses**: 0.1

- **Spin-off**
  - **Stock transfer 79.8% (Jan. 2017)**
  - **Withdrawal from the panel meter Business (Mar. 2017)**

- **Transfer**
  - **Spin-off**
  - **Withdrawal**
  - **Transfer**

- **Withdrawal**
  - **Transfer**
  - **Transfer/Wooding**

- **YDC Corporation**
  - Stock transfer 79.8% (Jan. 2017)

- **Kokusai Chart Corporation**
  - Transfer

- **Yokogawa Digital Computer Corporation**
  - Spin-off

- **MEG**: Magnetoencephalograph
Appendix: Trend of Global Sales in Control Segment

(Billion¥)

Operating income to sales ratio

Sales outside Japan grew more than 2 times in 12 years

<Exchange rate>

<table>
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<tr>
<th></th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
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<td>117.00</td>
<td>113.80</td>
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<td>92.61</td>
<td>85.13</td>
<td>78.82</td>
<td>83.33</td>
<td>100.67</td>
<td>110.58</td>
<td>119.99</td>
<td>108.95</td>
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</table>
Appendix: Sales by Region

(Billion ¥)

Annual Sales outside Japan: 263.5 Billion ¥

Sales in Japan: 127.9 Billion ¥

FY12: 347.9 Billion ¥
FY13: 388.5 Billion ¥
FY14: 405.8 Billion ¥
FY15: 413.7 Billion ¥
FY16: 391.4 Billion ¥

*Segment by country and region based on location of customers
Appendix: R&D, Investment for Growth, HR (updated summary)

Investment in R&D

- Add more value and create new businesses.
- Maintain R&D investment at current level and achieve an **R&D-to-sales ratio of 6%**.

Investment for growth

- To expand in target industries, **make 50 billion yen in strategic investments including M&A by the end of FY2017**.
- Regular capital investment will be kept at an amount that is sufficient to cover capital depreciation.

HR

- **Keep size of global workforce at around 20,000** and increase proportion of employees who are based outside Japan.
- **Percentage of female managers: 5% or more** (FY2017 Target)
- **Creating value by working style reforms**

*Numeric target of YHQ only (FY2014: 2.4%)*

*Top-ranking “ERUBOSHI” certification for compliance with the Japan Act Concerning Promotion of Women’s Career Activities*
### Appendix: Topics (Feb. 8 – May. 10)

#### Feb.
- KBC announced “Co-Pilot’’- a Second Pair of Expert Eyes on Process Performance
- Recognized as Excellent Health and Productivity Management Company

#### Mar.
- Released CENTUM® VP R6.04 Integrated Production Control System
- Yokogawa and Cosasco Conclude Agreement for Sale of ISA100 Wireless™-based Products
- Ms. Yasuko Takayama was selected the candidate for outside member of Audit & Supervisory Board

#### Apr.
- Delivered Next-generation Plant Network Solution to the Oji Group
- Won Kuwait Desalination Plant Control System Order from South Korean Plant Construction Company
- Yokogawa and Microsoft to Exhibit a Hot Spring Monitoring System at the Hannover Messe
  A solution based on Yokogawa's IIoT architecture
- Developed the ADMAG Total Insight Electromagnetic Flowmeters

Note: The events are listed based on the month when the announcement was made.
Appendix: Trend of Stock Price

<table>
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<th>12/6</th>
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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.

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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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