Summary of Questions and Answers at Briefing on Financial Results for FY2019 3Q

February 4, 2020

<FY19 3Q results and FY19 forecast>
Q: What about details of the improvement of gross margin and an increase of SG&A expenses in 3Q?
A: In addition to the cost reduction effect, the improvement in the gross margin of JOB especially in Japan and the Middle East, contributed to the upward shift in the gross margin. In addition to strategic investments, SG&A expenses increased as a temporary expense due to recorded of allowance for doubtful accounts, implemented of accounting process such as cancellation of capitalizing for items with a long development period. In addition, in 3Q, sales and orders are robust, and we are expanding our business in Japan and overseas. This is also temporarily increase expenses. The rise in SG&A expenses was covered by an improvement in gross margin rates.

Q: What about the impact of exchange rates and KBC on the revised forecast?
A: Regarding orders in the revised forecast, almost all of the difference of 14 billion yen from FY 18 results can be considered as the effect of exchange rates. Most of the revisions to the operating income forecast are also due to the effect of exchange rates. KBC's unmet operating profit targets are covered elsewhere and will not affect the revised operating income forecast (The effect on consolidated operating income is not large.). Although we revised our earnings forecast mainly due to the impact of exchange rates, in the 4Q, the business performance excluding exchange rates remains firm and is as expected against the initial forecast.

Q: What about the factors for increase/decrease in FY19 operating income, what about the increase in gross profit?
   (In comparison to the temporary expense incurred in FY18 4Q)
A: Of the profit increase due to the increased sales and improvement of the gross margin, the improvement of the gross margin accounted for about 1.3 billion yen. In the 4Q alone, gross interest is estimated strictly. This is because we are a little conservative, including the possibility of taking several strategic jobs that would result in a loss in gross margin, and we would like to aim for an upward shift if possible.

Q: What about the business environment and outlook for FY20?
A: We feel that the risk of novel coronavirus and others are increasing a little, but we think that sales will start well because the order backlog is accumulating. We think that there is a difference in orders in each industry and region. By industry, the outlook for downstream, chemical and Japanese foods and pharmaceuticals markets remains solid, but refineries are expected to be very severe. We want to do sales activities well and increase orders.
Q: What about the impact of the novel coronavirus?
A: Prior to the occurrence of the novel coronavirus, the Chinese process industry, particularly chemicals, was very strong. Following the Lunar New Year holiday, we have not been able to conduct economic activities under the direction of the Chinese government, and we are currently collecting information. If the environment for economic activity is ready in a short period of time, it is considered to be within the scope of recovery for this fiscal year. In the present circumstances, we cannot predict what effects will occur in the future.

Q: What about the strategic alliance with Saudi Basic Industries Corporation (SABIC)?
A: Under this alliance, we will deliver control systems and safety instrumented systems for SABIC preferentially for long period of 7 years as a Trusted Partner. By contributing to SABIC, one of the world's largest companies, we believe that business opportunities will continue to expand in the future, including expansion to national oil companies and major accounts outside the Middle East.

Q: What about the optimal capital structure and share buybacks?
A: It is basically not a major change from the capital policy and financial strategy set out in TF 2020. Our business model is built on the trust of our customers, who have associated with us for as long as 30 years, and we need a considerable amount of capital in comparison with our overseas competitors. As stated in TF 2020, the first priority is to actively use cash for strategic investments. We think, if this does not go as expected, it is necessary to consider the acquisition of treasury stock as an investment item.

<KBC>
Q: What about the background of the recording of impairment losses?
A: We decided to record impairment loss as KBC’s current business forecast showed that its plan for this fiscal year was not met. We believe that it is appropriate to implement necessary accounting measures promptly and establish a system for early recovery.

Q: What about the reduction in FY20 costs due to the recording an impairment loss on goodwill?
A: FY20 goodwill amortization will decrease by 960 million yen.

Q: Is this last time impairment losses on goodwill of KBC?
A: The risk has been considerably reduced because the impairment accounting is very strict. (The balance after the impairment was 2.4 billion yen for intangible fixed assets.)

Q: What about the current status of KBC’s business environment and profitability?
A: Orders have been recovering considerably, at around 10 billion yen per year, but sales have not yet recovered because the consulting business needs a long time to do. On the other hand, YOKOGAWA receives about 5 billion yen a year in orders due to the synergy between from KBC and YOKOGAWA. At present, we would like to make a big recovery as a whole, including synergies, rather than KBC alone.
A major change in the business environment after the acquisition of KBC was a decline in customer investment in consulting business due to the fall in crude oil prices. However, YOKOGAWA is beginning to create new value, including DX (digital transformation), and the relationship with customers is beginning to be changed by combining the capability of KBC and YOKOGAWA. That has also contributed to profitability.

Q: What about the resource allocation of KBC?
A: While KBC’s technology business (Software) is doing very well and growing well, its consulting business is not doing as well as expected. A situation where projects are being created and run within KBC for resource allocation.

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.