Yokogawa Electric Corporation
Financial Results Briefing for the Fiscal Year Ended March 2020

May 12, 2020
Event Summary

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<td>Hitoshi Nara</td>
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<td>President and Chief Executive Officer</td>
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<td>Junichi Anabuki</td>
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<td>Director, Executive Vice President, Corporation Administration Headquarters</td>
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<td>Toshitaka Kobayashi</td>
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<td>General Manager, Investor Relations Department</td>
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Presentation

Kobayashi: Good evening, everyone. This is Kobayashi of Yokogawa Electric. Thank you for participating in our conference call today despite your busy schedules. The speakers in today’s conference call are President and CEO, Mr. Nara, and Director, Executive Vice President, and General Manager of Corporate Administration Headquarters, Mr. Anabuki.

Now, Mr. Anabuki will give a presentation focusing on the overview of the FY19 financial results. After that, Mr. Nara will explain the current situation and the future of Yokogawa. The Q&A session will be held after Mr. Nara finishes his explanation. The total time of the meeting is scheduled to be around one hour. Note that the presentation materials are posted on the websites of the Tokyo Stock Exchange and Yokogawa Electric, so please view them there. We will now begin the presentation. Thank you.
Anabuki: This is Anabuki. Now, I will explain the overview of the financial results. Page four covers the key points, and it also provides a summary.

First, results for FY19 remained steady. Despite the impact of COVID-19, we posted an increase in sales and profits. However, profit attributable to owners of parent declined due to the recording of an impairment loss.

By segment, the Control segment posted an increase in sales and profits. Excluding the impact of the exchange rate, orders were up 1.1% and sales were up 4.8%. The Measurement segment recorded an increase in sales and a decrease in profits. The Aviation and Other segment reported a decrease in sales, and a contraction in the operating loss. By region, orders were up in Japan, and sales were up in China, India, and the Middle East. By industry, the chemical industry remained strong.

The year-end dividend is unchanged, and we expect to pay JPY17 per share, as originally planned.

We have left our earnings and dividend forecasts undetermined. We are currently examining the impact of COVID-19, but as it is difficult to make a reasonable calculation at this time, we have left our forecast undetermined.
Next, on page five, we have a summary of the results. These are YoY comparisons.

Orders amounted to JPY418.7 billion, down JPY13.3 billion, or 3.1%, from last year. On an organic basis, excluding the impact of the foreign exchange rate and transfer of subsidiaries’ shares, growth was up 2.2%.

Sales came to JPY404.4 billion, almost in line with the previous year. On an organic basis, excluding the impact of the foreign exchange rate and transfer of subsidiaries’ shares, sales grew 5.9%.

Operating income was up, with the growth driven by higher sales and improved gross margins.

Profit attributable to owners of parent was JPY14.7 billion, down JPY13.8 billion, with the decrease coming from the recognition of impairment loss and provision for reinforcing measures against soft errors.
Summary of FY19 Results
(Comparison with forecast)
- Orders were almost as expected. Sales, operating income, and profit attributable to owners of parent were down.
- Due to the impact of COVID-19, the production utilization rate declined in China and there was a delay in recording orders and sales (estimated impact: orders -¥7.0 billion, sales -¥7.0 billion, operating income -¥2.0 billion). An additional impairment loss for KBC was recorded (4Q: ¥3.9 billion).

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<th>FY19 2/4 forecast</th>
<th>FY19 results</th>
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<tr>
<td>Orders</td>
<td>418.0</td>
<td>418.7</td>
<td>+0.7</td>
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<tr>
<td>Sales</td>
<td>408.0</td>
<td>404.4</td>
<td>(3.6)</td>
</tr>
<tr>
<td>Operating income</td>
<td>38.0</td>
<td>35.6</td>
<td>(2.4)</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>38.0</td>
<td>36.3</td>
<td>(1.7)</td>
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<tr>
<td>Profit attributable to owners of parent</td>
<td>18.0</td>
<td>14.7</td>
<td>(3.3)</td>
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<td>EPS (¥)</td>
<td>67.43</td>
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<td>Exchange rate $=1$</td>
<td>¥109.00</td>
<td>¥108.96</td>
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On page six, we have a comparison with the forecast.

Our forecast for FY19 as of February 4 was JPY418.7 billion for orders, so we were almost in line with the forecast. Sales came in at JPY404.4 billion, which is JPY3.6 billion below the forecast. Operating income was JPY35.6 billion, which is JPY2.4 billion below the forecast. Likewise, profit attributable to owners of parent came in JPY3.3 billion below the forecast.

These figures are the result of the factors pushing down earnings caused by the impact of COVID-19, which had not been factored into our forecasts as of February 4. Although the amount of the impact is a rough estimate, we calculate it to be around JPY7 billion for orders and sales, and around JPY2 billion for operating income in FY19.

In addition, although we had already recorded an impairment loss on KBC in the third quarter, due to the impact of COVID-19, we have decided to record an additional loss of JPY3.9 billion in the fourth quarter, as a result of reviewing our future plans.
Next, please turn to page seven for the analysis of the breakdown of factors affecting operating income.

Although operating income increased by JPY1 billion, to JPY35.6 billion from JPY34.6 billion, this is mainly attributable to the JPY11.1 billion increase in gross profit from higher sales and improved gross margins. Out of the JPY11.1 billion, roughly JPY10 billion is attributable to higher sales, while JPY1.1 billion owed to improved gross margins.

Also, an organic increase in SG&A pushed down operating profit by JPY7.9 billion, with large outlays focusing on strategic investments. The exchange rate lowered operating income by JPY1.7 billion. As a result, operating income came in at JPY35.6 billion. Note that this figure includes around JPY2 billion of impact from COVID-19.
Page eight shows orders, sales, and operating income by segment.

In the Control segment, orders were down JPY7.7 billion, while sales were up JPY5.8 billion. Because the results were affected by the exchange rate, when discounting this impact, orders were up JPY4.3 billion, or 1.1%, and sales were up JPY17.3 billion, or 4.8%. As for orders, many large projects were concentrated in the fourth quarter of FY18, so there has been a dropout of those one-off factors. As for operating income, higher sales and improved gross margins contributed to increased profits.

Next, the Measurement segment, which is the area shaded in yellow, indicates steady sales. The life innovation business is included in this segment, and due to the impact of upfront investments, the segment posted higher sales and lower profits.

The Aviation and Other segment saw a sharp decline in orders and sales due to the transfer of subsidiaries’ shares, but the operating loss contracted from JPY1.3 billion to JPY0.2 billion.
Next, on page nine, we have the segment results by region for the Control segment. We have indicated orders on the left and sales on the right.

In terms of orders, orders from Japan increased. Meanwhile, orders in the America, Europe and CIS declined due to the impact of the large projects in the previous year and the impact of the exchange rates. In terms of exchange rates, the stronger yen has pushed down results in almost all regions except for Japan.

Sales have also been affected by the stronger yen, but they have increased, particularly in China, India, and the Middle East.
Next, on page 10, we show the orders by industry in the Control segment.

Orders have increased steadily throughout the year for the chemical industry. Orders in the downstream and upstream industries have declined from the previous year. However, there have been the impact of large projects, especially in the third and fourth quarters of FY18, in the downstream and upstream industries, so when excluding this factor, the number comes out to be roughly flat.
Next, page 11 shows our cash flow trends.

Operating cash flows, shown has recovered from the previous year. Due to the discontinuation of the liquidation of receivables, operating cash flows had temporarily declined in FY18. We believe operating cash flows in FY19 are more or less at a steady level.

Investment cash outflows have increased compared to FY18 due to a decrease in proceeds from the sales of shares of subsidiaries and an increase in strategic investments, but they are generally trending as planned.
Page 12 explains our shareholder returns. We are scheduled to propose a year-end FY19 dividend of JPY17 per share to the General Meeting of Shareholders, as planned.
We are currently examining the impact of COVID-19, but as it is difficult to make a reasonable calculation at this time, the forecast for FY20 remains undetermined. We will disclose the forecast as soon as we are able to calculate this figure.

Kobayashi: Next, Mr. Nara will give a presentation.

Nara: Good evening, everyone. This is Nara, President of Yokogawa Electric. My presentation will focus on our understanding of the current situation, and our management policy going forward.
Yokogawa’s response to the COVID-19 pandemic

Yokogawa is keenly aware of the impact that the rapidly worsening COVID-19 pandemic is having on the global community. Our thoughts are with those who have been afflicted with the virus and our heartfelt sympathies go out to all who have lost a loved one in this global pandemic.

- Within the current situation, our top priorities are to do everything we can to minimize the spread of COVID-19, and continue providing the necessary level of service to customers.
- From the first signs of the outbreak, Yokogawa has been engaged in preventing transmission of the virus in affected areas. We have proactively introduced a range of measures, from monitoring the well-being of our employees and promoting workplace hygiene, to implementing restrictions on in-person meetings and travel, promoting teleworking, and requiring self-isolation for those who have travelled to affected regions. In order to minimize disruption to your business, in our manufacturing operations we are adapting our systems and processes to be able to respond flexibly to this very dynamic situation, and in our engineering and service operations we are utilizing technologies that enable us to support customers remotely.

First, we would like to express our deepest sympathies and condolences once again to those who died of COVID-19. We would also like to express our deepest sympathies to those who are still in a difficult situation due to the virus’s spread. We sincerely wish for the virus to be contained as soon as possible.

Based on the premise that our foremost priority will be the safety and security of all stakeholders, including employees and their families, partners, customers, and local communities, today we have described on this slide the policies and outline of our response to the COVID-19 pandemic.

First, we are taking the utmost measures to prevent the spread of the virus, and we are striving to minimize the impact on our customers. Specifically, we have been working on the hygiene management of employees and workplaces, as well as restrictions on business trips and meetings since January. After the declaration of emergency, we have basically prohibited employees from going to the office or traveling for business. We are essentially in the process of shifting the way we work to teleworking, including me.

Although challenges remain depending on the status of each country, region, or customer, we have conversely seen an increased number of requests for services such as remote engineering. Rather than being limited to a short-term perspective, we intend to continue to strive to meet the expectations of customers and society.
I will explain Yokogawa’s current position in relation to the mid-long term plan. Currently, we are in the final year of Transformation 2020. We view this as a midpoint of the long-term business framework and mid-term business plan, which cover a 10-year period from 2015 to 2025.

In the first three years, from 2015 to 2017, which we have dubbed as Phase 1, we worked on establishing a foundation for growth by transforming our business structure. In the three years in Phase 2, we aim for the creating opportunity and consolidating the foundation for growth as the second version of our transformation.

In other words, this year is the final year of a transformation that focuses on the acceleration of Phase 2 measures and the reaping of their benefits. Meanwhile, our understanding is that we have made steady progress in the five years from 2015 to the present, despite some challenges through the accumulation of small reforms.
Here, I would like you to take another look at our history, especially the transitions that our business has undergone since 1930.

At the time of the founding, our business centered on meters and electric instruments, and later it focused on electric measuring instruments which is current measurement segment. From the 1950s to the early 1990s, our business grew in Japan, mainly driven by industrial instruments or, in other words, our current Control segment, against the backdrop of the high growth period. Later, new plant constructions decreased in Japan, and we promoted and accelerated the global expansion of our business. We established a joint venture with GE and HP, and we also challenged aggressively in businesses other than control, such as the semiconductor tester business, but ultimately these businesses didn’t continue for a long time.

Rather, in the past decade, we have concentrated our resources in the control business, and we have expanded the range of jobs and industries. As a result, the company that started from measuring instruments has transformed into a company where 90% of earnings are accounted for by the control business, of which two-thirds are accounted for by the overseas control business. In other words, our understanding is that the Company’s history is symbolic of our record of transformations, where we have delivered sustainable growth while implementing changes in the business content depending on changes in the external environment and society’s needs.
In this section, we will explain our understanding of the current external environment.

This is the slide we showed in May 2017. Two years have passed since that time, but we think major changes are beginning to take place. COVID-19 is symbolic of these major changes. Although the impact of COVID-19 and when it will be contained are still uncertain, and it is difficult to predict the social structure after it ends, we assume that we will be entering an era where living with corona will be the premise and new normal of the world. In addition, we are witnessing changes that feel different from the past, such as increasing needs for localization in each country and initiatives to tackle climate change such as TCFD. We perceive the rising needs to solve these social issues as a new business opportunity to display the Company’s strengths.

One of these needs is represented by the arrival of the IA2IA era. IA2IA, or in other words, Industrial Automation to Industrial Autonomy. We must urgently work to transform our traditional growth model to be prepared for this new world.
Due to the impact of COVID-19, many predict that the global economy will enter the worst recession in history, resulting in a business environment that is extremely uncertain. In terms of our results up to the end of March, the impact was limited, but customer investment trends, especially CAPEX, tend to be tough as a whole, with the general direction being budget cuts and the review of investment plans. Meanwhile, demand for OPEX, such as investments in information systems to enhance productivity, investments in safe and stable production, and investments that contribute to quality and optimization remain robust.

Although the current situation is generally tough across all regions, we believe that results will be relatively stable in China, in light of last year’s results, and the economic recovery from COVID-19 that is taking place ahead of other countries. The chemical industry, an area of focus, continues to be strong, driven by the expansion of the application of functional materials. OtoC (Oil to Chemical) investments also continue. In addition, the non-energy industries, mainly in Japan, have seen a steady performance, especially in our focus industries of foods and pharmaceuticals. In the field of renewable energy, we have achieved steady results in biomass power generation and wind power generation. Overseas, we have received orders for water-related work, such as water supply and sewage projects and seawater desalination projects.

Meanwhile, we believe the outlook remains tough for our oil-related business as underscored by the significant decrease in fuel demand caused by the movement restrictions associated with COVID-19. As for our own operations, the most affected business was KBC. Unfortunately, we have once again posted an impairment loss on the business in FY19, and we will explain the background behind this decision on the next slide.
It has only been three months since we provided an explanation at the time of the third-quarter results, but KBC has been the business that was most affected by COVID-19. The largest factor was the sharp drop in oil prices caused by the reduced demand for petroleum used as fuel. This has dealt a direct blow to refinery customers, who are the main target of KBC. In addition, although face-to-face meetings and discussions are essential for consulting, which is an area of strength at KBC, the movement restrictions had an impact on this business.

Movement restrictions are likely to continue going forward, but the promotion of remote business and corresponding demand will rise from here. We are already executing business transformation, including remote consultation, remote support, and remote training, as well as virtual workshops and alignments. With regard to organizational management and resource allocation, which we talked about previously as issues to be addressed, we are implementing optimization measures, such as efforts to optimize the entire value chain, execution of a transformation plan to shift to growth areas and business domains, as well as the reallocation of management resources.

In light of the emergence of further risks in the future outlook, we recorded an impairment loss, but there are also signs of improvement, such as a 10% YoY increase in orders. Synergies between KBC and Yokogawa have already been achieved in many ways, so we will continue to work together based on customer needs.
Although these risks have become apparent due to COVID-19, we now see an expansion of opportunities, which we saw from before. We will introduce some of those initiatives.

The first is the expansion of remote engineering. We will provide remote engineering services to customers, and we will also implement on-site witness inspections remotely. We will execute our job while securing mutual efficiency and safety with customers.

Second is the increase in remote maintenance contracts for customer service. This is a service to grasp and support the condition of customer plants remotely, and we think demand will increase even more in the future. We will not provide any numbers here, but we have seen an increased number of demands from customers both inside and outside Japan for this service after the occurrence of COVID-19.

Also, let me briefly explain about IA2IA. Industrial Autonomy advocated by Yokogawa has both human-like learning and adaptive functions, and it refers to the facilities and operations capable of safely completing the roles within a set range, including response to unexpected events, even without an operator. In particular, industrial autonomy refers to the performance of optimal adjustments with flexibility based on management goals by collecting more than just control information, such as demand changes or product quality, even without human intervention.

This is, so to speak, a change in society's needs. COVID-19 will serve as an opportunity to accelerate the inevitable shift to a world of industrial autonomy, such as through operations that require as little human intervention as possible (unmandated operation). We view this as the next opportunity for future growth.
Now, we will explain our Mid-Term Management Plan TF2020, which we are currently working on, mainly focusing on activity reviews. This is a conceptual diagram of the basic strategy that we shared when we announced the mid-term management plan. There are three basic strategies.

The three strategies are the transformation of existing businesses, the creation of new businesses and transformation of business model, and the improvement of productivity through group-wide optimization. The foundation to support these changes is digital transformation, which is the driving force of value creation, serving as the overall driver. This strategy is basically unchanged.
We will introduce some of our efforts from this basic strategy.

The first is the transformation of existing businesses. Orders are steadily growing, mainly in the OPEX business and chemical industry. As we mentioned in 3Q, we received the largest-ever DX integration project order in the Middle East, and we believe this will be a fun and symbolic job going forward.

In addition, we have acquired an equity stake in all polymer battery maker APB, as part of our efforts aimed at developing a distributed energy management system.

Moreover, in the field of renewable energy, which is another focus industry, our system has been adopted at the largest wind-power plant in Japan, and it has started operation. We will continue to accelerate the transformation of our business structure that relies on traditional energy.

The second is the creation of new businesses and transformation of business model. In the life innovation business, we have seen steady orders and sales for life science-related businesses as well as the food and pharmaceutical industries.

We are working diligently to establish a recurring business model. Today, we will introduce two technologies that we have newly acquired.

The first technology is the particle analysis solutions. We acquired Fluid Imaging Technologies, which possesses the ability to analyze the properties of cells such as blood and lymph at high speed, to strengthen the bio-economy business. This technology is used in the biopharmaceutical and chemical industry, and it is also expected to be adapted for use in quality inspections of antibody-drug production lines.

Second, we acquired Grazper Technologies, which possesses advanced technology of image analysis AI, based on a recurring business model. We expect the technology to be used for image analysis on production lines.
We are also planning to install the product of Grazper in the product that is under development by amnimo Inc. By doing so, we aim for business development, such as the realization of a smart city, and its utilization in security applications related to airports and railways.

In the third strategy, which is the improvement of productivity through group-wide optimization, we see benefits taking shape, especially in engineering efficiency despite ongoing cost reduction efforts. We assume that remote engineering, which we explained earlier, will expand further, and we will be taking the initiative by shifting resources to remote engineering.

Also, we will further accelerate BPO from the viewpoint of optimizing the Group structure.
Next, we would like you to see the following slide to give you an idea of how the Company has seen a steady flow of projects in the control business led by OPEX over the last two years. Until now, we had only shared this data on the screen, but we are disclosing this data today for the first time. However, in some cases, it is difficult to draw a clear line in categorizing projects by the amount of money, so we hope you will use this as reference data.

In this graph, we have indicated large projects of over USD3 million, or roughly more than JPY300 million, in dark green, while we have shown small projects worth less than this amount in light green. As you can see here, large projects only account for about 10% to 15% of Control segment orders.

In other words, nearly 80% to 90% of orders are so-called small projects worth less than USD3 million. These small projects break down as the accumulation of small jobs such as maintenance services, including the expansion and modification of existing plants related to OPEX, and the Solution business, including productivity improvement, optimization, and sophistication jobs in the OPEX business, so our dependence on new investment is by no high.

Therefore, as long as plants are running, our installed base orders are relatively stable, and, further, we have been expanding solutions for maintaining and improving the production capacity of customer plants in a bid to make inroads into new industries. In other words, Yokogawa’s business model stands in stark contrast to that of plant manufacturers, and one of the features of our control business is the relatively small range of fluctuation.
The final part of the review is digital transformation. We will only provide an overview today. We are considering setting up an opportunity to provide more details on a separate occasion by the officer in charge.

There are three basic ideas: creating digital businesses, transforming our business processes, and strengthening our information technology infrastructure. We will be pushing ahead with these ideas both inside and outside the Company, and we will be focused on initiatives to accelerate the provision of value to customers, based on the creation of value in-house.

For example, using RPA to automate internal operations is one of the initiatives we are currently working on. We recognize that this has allowed us to reduce man-hours by over 70,000 hours. In terms of providing value to customers, we plan to expand the lineup of cloud-type apps for customers' plants in cooperation with each business HQ. Started developing several apps.

This will be one of our key strategies that will be pivotal to our transformation, as we expect the digital transformation needs of customers to increase further, taking the COVID-19 pandemic as an opportunity.
So far, we have mainly provided a review of activities conducted under TF2020. From here, we would like to talk about Yokogawa’s future, including our views on changes taking place in the business environment.

Under TF2020, we set forth the management indicators targeted over the course of three years, as you can see here, and we have been striving for change accordingly. Looking back over the last two years, we feel a certain degree of confidence in the effectiveness of our activities despite some challenges.

In particular, the control business has delivered steady profits while investing in transformation driven by increased sales led by the OPEX business. Therefore, our understanding is that, when excluding the impact of COVID-19, ROS has trended roughly in line with our target of 10%. However, we will review this target depending on future progress.

Our customers would be greatly affected by COVID-19 if economic activities were to be limited drastically, resulting in a drop in the corresponding demand for energy resources and developing into a prolonged decline in prices. We expect our Company to also be affected if this were to happen, but given our robust orders backlog, we make efforts making business performance. From the next slide, we will explain our future policy to recover from the current situation where risks have emerged, albeit we will not be able to provide any numerical figures at this point.
FY2020 basic policy

- The FY20 forecast has not been finalized because the impact of COVID-19 on our business cannot be accurately predicted. We will focus on accelerating the implementation of the TF2020 strategies (completion of measures and reaping of benefits). As such, we will undertake the following:

1. Set and review priority of TF2020 measures
2. Achievement of further cost reductions through Group-wide optimization
   - Prohibition of unnecessary / nonurgent expenses
   - Improvement of efficiency through means such as changing how work is performed, including the use of telework
3. Remaining fiscally strong
4. Positioning our business for the post-COVID-19 world
   - Responding to changes in social needs

As you can see here, we have four basic policies.

With FY20 being the final year of TF2020, we will first set forth and review the priorities of TF2020 measures we have been promoting, while focusing on completion of measures and reaping of benefits.

The second is the achievement of further cost reductions through Group-wide optimization. For example, we will prohibit unnecessary or non-urgent expenses.

The third is remaining fiscally strong. We have no worries about our cash on hand and financial strength. We have been aiming since the past to establish the financial strength to withstand shocks exceeding that of the Lehman crisis. We have been building our capital towards that end, and we have defined this as the optimal capital structure.

Lastly, the fourth is positioning our business for the post-COVID-19 world. We will explain this in further detail in the next slide, including the background of this policy.
The expanding social needs after COVID-19 will entail increased demand by society and industries for solutions that enhance safety, security, productivity, efficiency, remotization, and autonomy.

There are reasons why we believe Yokogawa is uniquely positioned to meet this demand. Above all, Yokogawa has core competencies in measurement, control, and information technologies that have a direct connection to addressing social issues (ESG, SDGs).

We have continually transformed our business over the past 100+ years: it’s in our corporate culture and our DNA.

We have established strong relationships based on trust with customers and other stakeholders (as evidenced by installed base, OPEX business, maintenance contracts, order backlog, etc.)

Furthermore, we have a medium-to-long-term relationship of trust with our customers and other stakeholders that we have built over this time, and this is our strength. Specifically, we have a track record of our products being adopted in over 40,000 systems across 100 countries around the world, and this constitutes the foundation of our OPEX business. In addition, the trust we build with customers leads to annual service maintenance contracts, and this contributes to a stable and high level of orders backlog. I am confident that our strength to withstand these changes will help us without fail to solve and contribute to the challenges faced by the post-COVID-19 world.
Lastly, we would like to talk about our direction.

Yokogawa is a resilient company with the power to withstand COVID-19.

Our business is centered on areas that will grow in the post-COVID-19 world.

We are set on building a sustainable society and creating new opportunities for growth.

We ask all of you, including shareholders and investors, for your continued support.

Thank you for your attention.
**Question & Answer**

**Q:** What kind of changes you have seen in large and small projects as a result of COVID-19 and the fall in oil prices?

**A:** Looking just for a few month trends, we can’t discern whether changes in orders indicate a trend or merely seasonal fluctuation (this is the background the forecast for FY20 remains undetermined). However, so far, there are no signs from cancelling large projects. As we already stated, the top-line impact of COVID-19 in FY19 was around JPY7 billion, it was mainly due to business negotiations currently taking place have been slightly delayed.

**Q:** Are you saying that large projects have been delayed, but there have been no significant changes for small projects for now?

**A:** Regardless of the projects size, we are aware that there is a delay due to the inability to conduct business negotiations and final decision making in each individual project.

**Q:** How much of the JPY70.0 billion strategic investment budgets under the current mid-term plan have you used as of FY19?

**A:** We’ve used just under JPY7 billion on a cumulative basis over the last two years. So, we are slightly behind schedule with our progress toward the mid-term target.

**Q:** Please tell me about cash allocation and the priorities against the current changes in the business environment.

**A:** First, let me tell you our cash position. We usually operate the business with cash and deposits of about JPY70 billion. But in this the end of FY19, we issued commercial paper. As a result, cash and deposits currently stand at around JPY100 billion. We now have a large capital buffer that can withstand a sudden downturn. As for our cash allocation, our basic principle is unchanged. Our first priority is growth investments, which we underscored in our mid-term plan. Our second priority is aggressive shareholder returns. However, we must also pay attention to the various unexpected changes due to the business environment, such as the situation of customers and the way we work. Thus, although our priorities are unchanged, we’ll need to review where to allocate the growth investments, according to the changes in the business environment.

**Q:** In FY19, the operating income was roughly in line with the plan. It seems the operating income was a little lackluster. Are there any specific factors to note?

**A:** The main factor is that we strategically received orders with severe gross profits margin based on the management decisions. Excluding this factor, we kept the final profit margin more or less within our expected range.

**Q:** Does that orders with severe gross profits margin affect the overall gross margin to decline a little in FY20?

**A:** The impact on profits over full-year FY20 is negligible.

**Q:** Please tell us your thoughts on OPEX business needs after COVID-19.

**A:** I think the reduction of CAPEX is already sure to happen, given that oil majors and other national oil companies of emerging countries have already disclosed they will cut CAPEX by 20% to 30%. On the other hand, I think the expanding social needs after COVID-19 will entail increased demand by society and industries for solutions that enhance safety, security, productivity, efficiency, remotization, and autonomy. So, there’ll be our business opportunities of the OPEX because many of the customers will be reviewing the overall operations, devising ways to incorporate remote work, guarantee safety, and high-level security while ensuring business continuity. The feature of our PA business, unlike FA business, the plant cannot be stopped easily. Therefore, how to maintain and continue operations while sustaining productivity is important. In that sense, I think there is still a lot of opportunities for our OPEX business.

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**Support**

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Q: What data do you think your customers are watching, for example oil price and the overall macroeconomic circumstances?
A: One of the benchmarks may be USD30 per barrel. But, in addition to oil price, I think the demand is also important in making investment decisions. For example of the chemical industry, the demand of high-performance plastics and high-performance polyethylene are expanding, so I think customers are still looking to increase production at existing plants and boost productivity in various operations related to those demand. Therefore we, like the customers, need to monitor the changes in the demand from our line of business.

Q: You mentioned there are many business opportunities for the remote engineering and maintenance by the effects of COVID-19. Are there any changes of needs from customers specifically?
A: Limiting the movement of people and minimizing their physical contact will hinge on harnessing digital technologies. We have been doing remote engineering so far, but about witness inspection, we invite our customers to India, Singapore, etc. to actually see the product and check the movement of the software. In the future, I think that witness inspections will be taking place by remote and virtual. Also, although we’ve always done on-site startups, in the future we will accelerate efforts such as virtual startup using VR and AR technologies. This will probably be an area where we can leverage our varied expertise.

Q: You mentioned about remote engineering will shift its resources, but I believe Yokogawa have already concentrated many of the engineers in specific locations, such as India. If you were to push for remote operations, what kind of reallocation of resources are required specifically?
A: Currently, most of our engineers are engaged in DCS (distributed control systems). By improving efficiency, it will strengthen the shift to remote engineering and service, and we believe that we can shift our human resources to solution-related areas such as MES (production management).

Q: I believe Yokogawa is often compared with global mega players. Please tell us what you think are the Company’s strengths that would help it tackle these new initiatives after COVID-19.
A: In the future, I think many operations will be transformed through remote services and DX. I think that a strong relationship of trust with customers will become even more important in the process of choosing a vendor without seeing the face. Our systems have been adopted more than 40,000 systems in 100 countries worldwide, and it is the basis of OPEX. So, I believe our relationships of trust with our customers and other stakeholder based on the experiences is element where we can differentiate from competitors.
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