

Yokogawa Electric Corporation

Financial Results for 3rd Quarter of Fiscal Year 2018 (April 1 – December 31, 2018)

February 5, 2019

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Key Points

■ FY18 1Q-3Q results: Increased sales and profits, strong growth

- Summary: Orders were strong (+5.4% year on year). Operating income was also up.
- Segments: Control was strong, measurement was unchanged year on year, and the aviation and other businesses segment showed a decrease in income and profits.
- Regions: Strong growth in China. Orders were up in the Middle East and India.
- Industries: Chemical business remains strong. Downstream orders are increasing.

■ FY18 forecast: <No change> A year-on-year increase in sales and profits

- Risks: A slowing economy and a decline in investment due to trade friction between the United States and China and instability in the Middle East.

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Summary of FY18 1Q-3Q Results

- ◆ Orders and sales were up thanks to firm results in the control segment.
- ◆ Operating income was up due to increased sales, improvement of the gross margin, and a decrease in the allowance for doubtful accounts.
- ◆ Profit attributable to owners of parent was up; this can be attributed to the recognition of an impairment loss in the same period of the previous fiscal year.

(Billion ¥)

	FY17 1Q-3Q	FY18 1Q-3Q	Difference	Growth rate	Impact of exchange rate
Orders	293.0	308.9	+15.9	+5.4%	(5.5)
Sales	294.0	295.3	+1.3	+0.4%	(5.2)
Operating income	20.5	25.1	+4.6	+22.2%	(0.8)
ROS (%)	7.0	8.5	+1.5 pts	-	-
Ordinary income	20.5	26.1	+5.6	+26.9%	(0.6)
Profit attributable to owners of parent	8.7	19.1	+10.4	+119.5%	(0.5)
EPS (¥)	32.50	71.38	+38.88	+119.6%	-
Exchange rate	1\$ =	¥111.77	(0.43)	-	-

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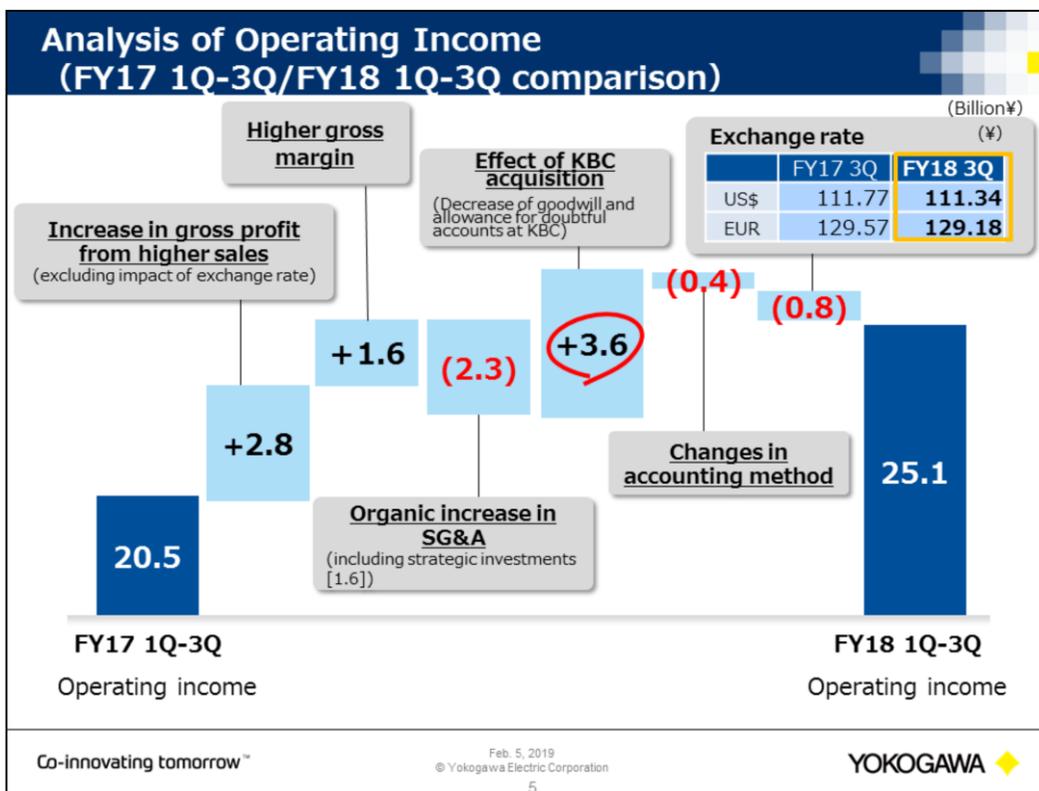
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○ Summary of FY18 1Q – 3Q Results

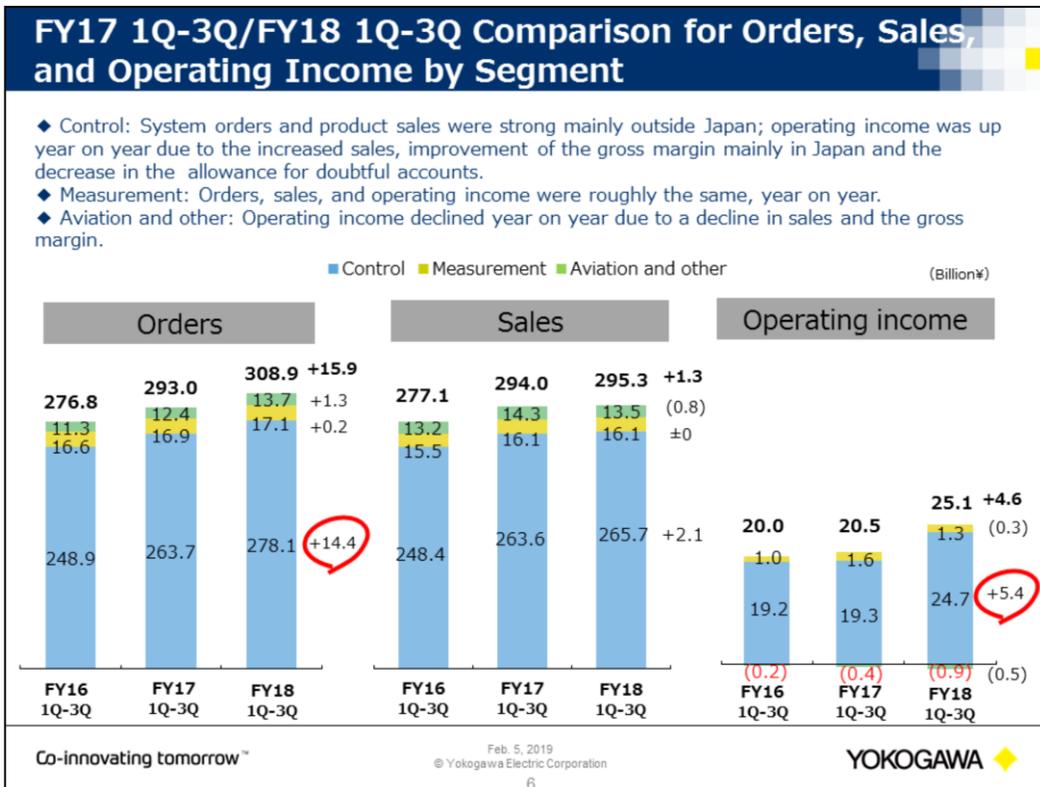
- Cumulative results for the third quarter indicate an increase in both sales and profits compared with the same period of the previous year.
- Orders : 308.9 billion¥, up 5.4% year on year. The Control Segment is showing steady results.
- Sales: 295.3 billion¥, up 0.4% year on year. Growth is steady mainly around overseas business.
- Operating income : 25.1 billion¥, up 22.2% year on year. The increase due to temporary worse of gross margins for a time last fiscal year in the domestic Control Segment and a decrease in the allowance for doubtful accounts.
- Profit attributable to owners of parent was 19.1 billion¥, up 10.4 billion¥ year on year. This large increase can be attributed to the recognition of 9.1 billion¥ impairment loss in the same period of the previous fiscal year.

The above results exceed those of the year prior.



○Analysis of Operating Income

- Operating income was 25.1 billion¥, a large increase of 4.6 billion¥ year on year.
- Major factors were:
 1. Increased sales leading to 2.8 billion¥ year on year increase in gross margins;
 2. Gross margins improving year on year by 1.6 billion¥;
 3. SG&A increased year on year, including 1.6 billion¥ allocated to strategic investment and causing a factor decreasing profitability by 2.3 billion¥;
 4. KBC-related increased by 3.6 billion¥ year on year due to bounceback of 2.7 billion¥ allowance for doubtful accounts recording in the same period of the previous year and decrease in goodwill depreciation costs;
 5. Changes in accounting methods decreased by 0.4 billion year on year;
 6. Due to currency fluctuations, a year on year change of 0.8 billion¥. The USD and EUR remain at the same level as the previous year, but the yen has appreciated primarily with respect to emerging country currencies.



○FY17 1Q – 3Q/FY18 1Q – 3Q Comparison for Orders, Sales, and Operating Income by Segment

(Control Segment)

- Continues to post solid outcomes.
- Orders is steady mainly around overseas business, increased by 14.4 billion¥ year on year.
- Sales increased by 2.1 billion¥ due to rising product demand mainly in China.
- Operating income largely increased by 5.4 billion¥ year on year.
- The factors were due to 1) greater sales, 2) improved gross margins which the figures for the year prior reflected low profitability several jobs in domestic mainly, and 3) a decrease in the allowance for doubtful accounts.

(Measurement Segment)

- Almost the same as the year prior. Orders increased by 0.2 billion¥ year on year, sales remained the same, and operating income decreased by 0.3 billion¥.

(Aviation and Other Business Segment)

- Orders showed a +1.3 billion¥ growth year on year, with sales showing a 0.8 billion¥ year on year decrease, and operating income a decrease of 0.5 billion¥.
- Due to decreased sales and reduced gross margins, operating income declined.
- One factor in the decline was jobs with greater development manpower for the aviation business.

Orders and Sales by Region in Control Segment

- ◆ Orders were up outside Japan, particularly in India and the Middle East.
- ◆ Sales were up in Asia, particularly in China.

							(Billion¥)
	FY17 1Q-3Q (A)	FY18 1Q-3Q (B)	Difference (B-A)	Sales	FY17 1Q-3Q (A)	FY18 1Q-3Q (B)	Difference (B-A)
Japan	77.9	77.6	(0.3)	Japan	74.9	75.2	0.3
Asia	89.8	94.9	5.1	Asia	84.4	89.2	4.8
(South-eastern Asia and Far East)	51.5	48.9	(2.6)	(South-eastern Asia and Far East)	49.0	49.7	0.7
(China)	30.3	31.8	1.5	(China)	27.2	31.3	4.1
(India)	8.0	14.2	6.2	(India)	8.2	8.2	0.0
Europe and CIS	37.5	38.3	0.8	Europe and CIS	36.7	37.6	0.9
Middle East and Africa	32.9	39.1	6.2	Middle East and Africa	40.5	35.8	(4.7)
North America	19.8	21.8	2.0	North America	21.3	21.7	0.4
Central and South America	5.8	6.4	0.6	Central and South America	5.9	6.2	0.3
Outside Japan	185.8	200.5	14.7	Outside Japan	188.8	190.5	1.7
Consolidated	263.7	278.1	14.4	Consolidated	263.7	265.7	2.0
Exchange rate1\$=	¥111.77	¥111.34	(¥0.43)	Exchange rate1\$=	¥111.77	¥111.34	(¥0.43)

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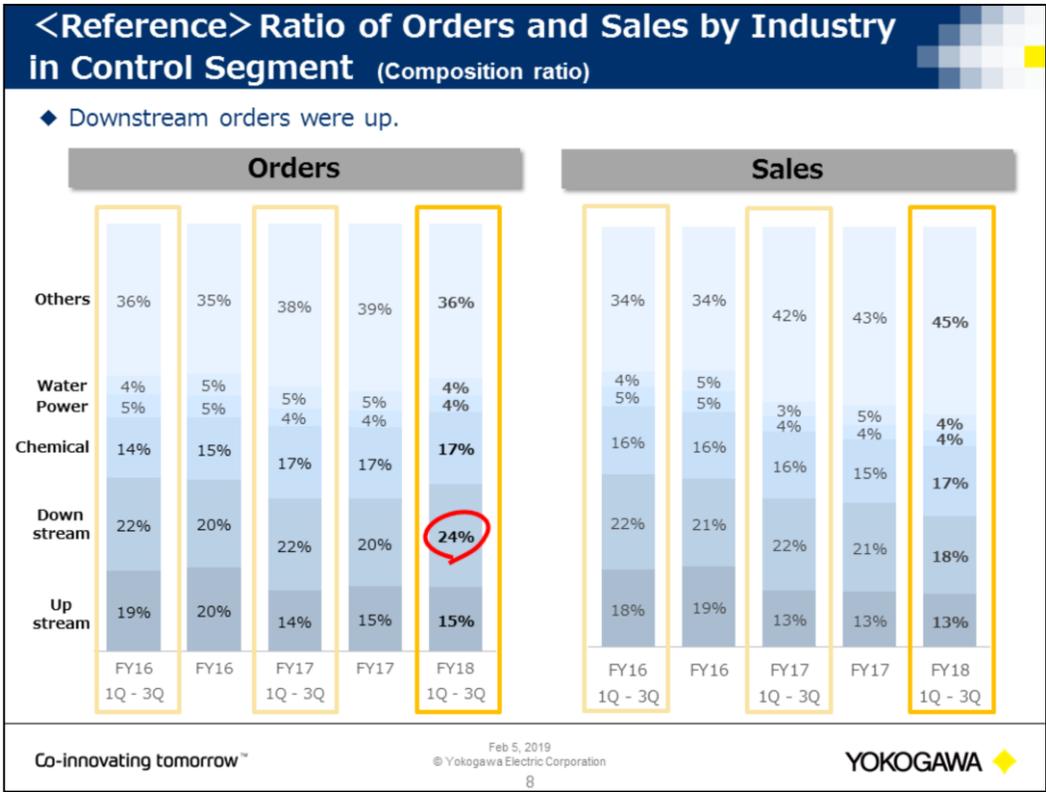
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○Orders and Sales by Region in Control Segment

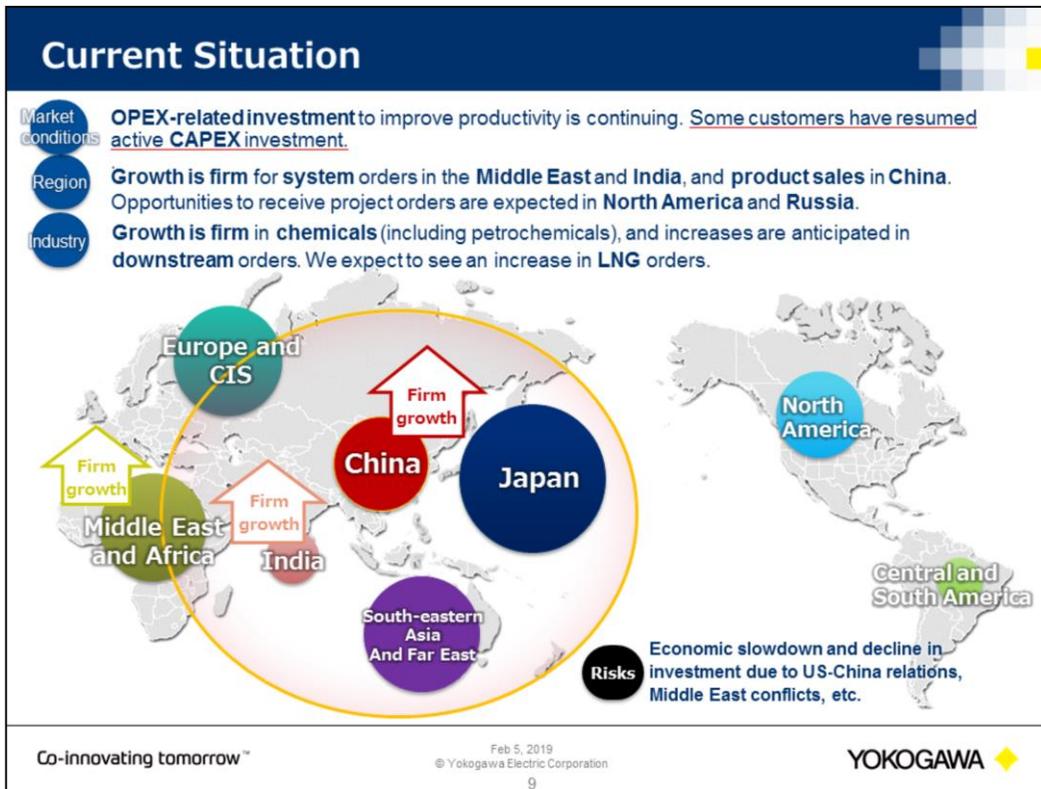
- Orders are strong in overseas, mainly India and Middle East/Africa. China, Europe/CIS, North America, and Central and South America also exceeded the year-earlier period's totals.
- Sales have expanded, notably in China. Europe/CIS, North America, and Central and South America also exceeded the year-earlier period's outcomes.

※Destination-based



○<Reference> Ratio of Orders and Sales by Industry in Control Segment (Composition ratio)

- Downstream orders have bounced back and increased by two points year on year.



○Current Situation

(Market condition)

- Market conditions overall have not changed significantly from 2Q, but some orders for CAPEX investment have been recorded.
- OPEX investment remains steady; our strategy to move forward with an emphasis on this is unchanged.

(Region)

- System sales in the Middle East and India, and product sales in China, have shown steady results. Some concerns represent rising labor costs in North America, but we expect LNG and petrochemical project orders to increase.
- We expect opportunities to receive orders for future Russian gas projects including LNG.

(Industry)

- The demand for chemicals continues to be solid. Both petrochemicals and functional chemicals continue to invest steadily.
- Downstream orders were up.
- The gas business, including LNG, is strong. We expect growth to continue through the medium to long term.

In terms of possible risks, economic slowdown and decline in investment due to 1) trade friction between US and China and 2) Middle East situation, and the Chinese economy pose a slight concern, but any large change is not felt now.

FY18 Forecast

◆ A second consecutive year-on-year increase in sales and profits. Year one of the mid-term business plan is off to a good start.

(Billion¥)	FY16 (A)	FY17 (B)	FY18 forecast (C)	Difference (C-B)	Growth rate (C÷B-1)
Orders	390.7	400.3	420.0	+19.7	+4.9%
Sales	391.4	406.6	410.0	+3.4	+0.8%
Operating income	31.6	32.7	36.0	+3.3	+10.1%
ROS (%)	8.1	8.0	8.8	+0.8 pts	—
Ordinary income	33.0	33.3	36.0	+2.7	+8.1%
Profit before income taxes	35.5	29.4	38.0	+8.6	+29.3%
Tax, etc.	9.7	7.9	12.5	+4.6	+58.2%
Profit attributable to owners of parent	25.8	21.4	25.5	+4.1	+19.2%
EPS (¥)	96.44	80.27	95.50	+15.23	+19.0%
Exchange rate	1\$ = ¥108.95	¥110.70	¥110.00	(¥0.70)	—

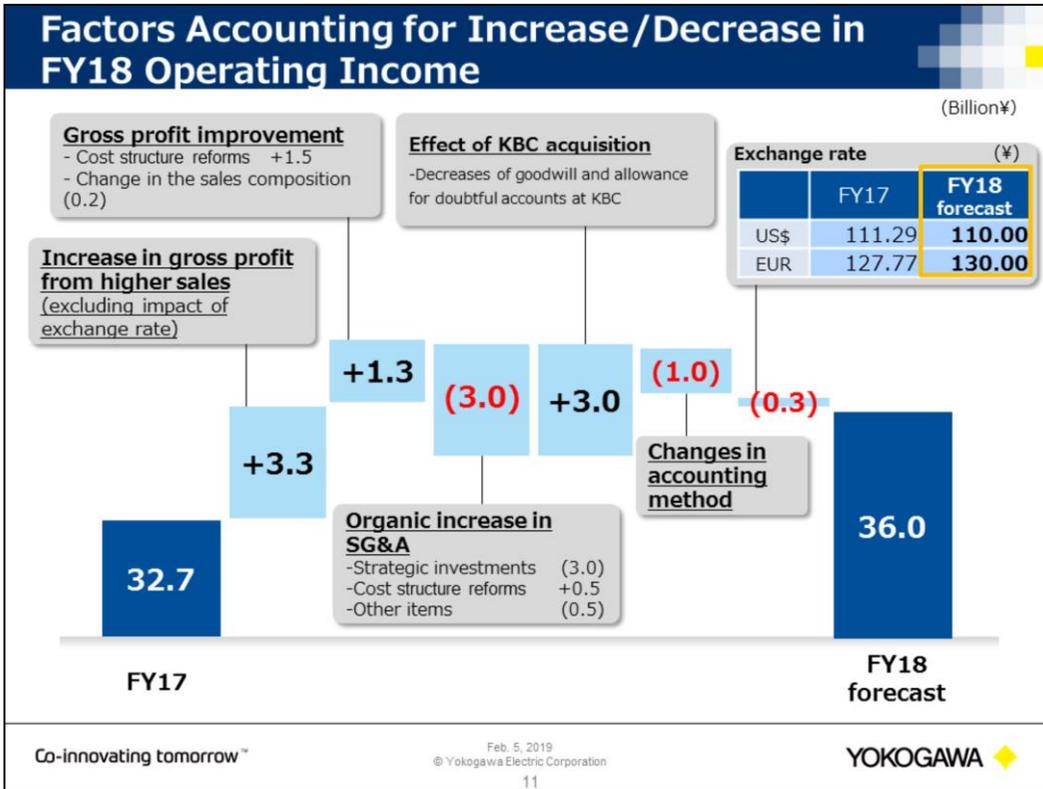
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○FY18 Forecast

- No change
- Although impacts such as the transfer of subsidiaries and the appreciation of the yen, we forecast increased sales and profits for the second consecutive term while we make strategic investments.
- We will make a solid start in the first year of our medium-term management plan "Transformation2020".



○Factors Accounting for Increase/Decrease in FY18 Operating Income

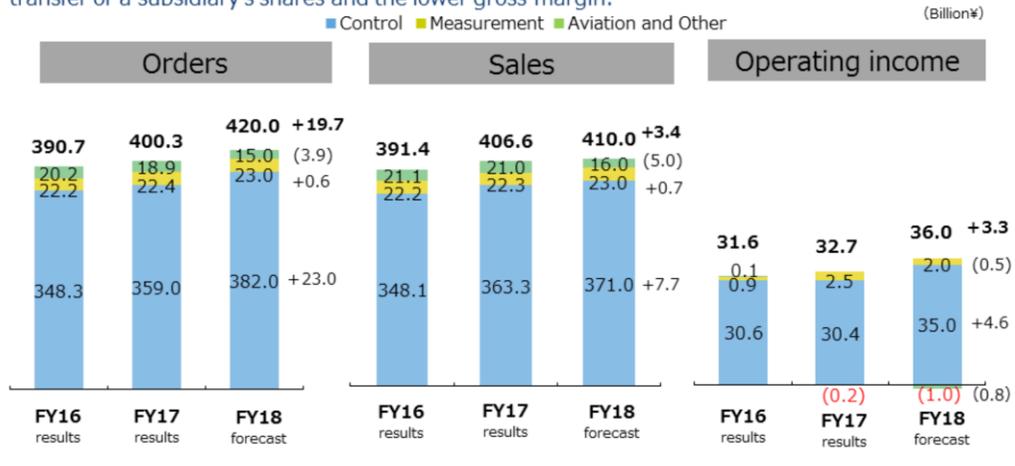
- No change

FY18 Forecast for Orders, Sales, and Operating Income by Segment

◆ Control: Sales and operating income are expected to be up year on year due to the increased sales mainly outside Japan, the improvement of the gross margin mainly in Japan, and the decrease in the allowance for doubtful accounts.

◆ Measurement: No major change. Orders, sales, and operating income are expected to remain roughly the same year on year.

◆ Aviation and other: Sales and operating income are expected to decline year on year due to the transfer of a subsidiary's shares and the lower gross margin.



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○FY18 Forecast for Orders, Sales, and Operating Income by Segment

- No change
- There is no change in our forecast for total figures of Control Segment. However, some good and bad points exist by region, which will be explained in the next slide.

FY18 Forecast for Orders and Sales by Region in Control Segment

- ◆ Orders are expected to increase outside Japan, particularly in India and the Middle East.
- ◆ Sales are expected to increase outside Japan, particularly in China.

(Billion¥)

Orders	FY17 Results	FY18 Revised Plan(2/5)	Difference	Sales	FY17 Results	FY18 Revised Plan(2/5)	Difference
	(A)	(B)	(B-A)		(A)	(B)	(B-A)
Japan	107.3	110.0	2.7	Japan	107.0	110.0	3.0
Asia	118.0	124.0	6.0	Asia	115.5	121.5	6.0
(South-eastern Asia and Far East)	66.5	66.5	0.0	(South-eastern Asia and Far East)	67.4	68.0	0.6
(China)	39.7	41.5	1.8	(China)	35.5	40.5	5.0
(India)	11.8	16.0	4.2	(India)	12.6	13.0	0.4
Europe and CIS	52.6	58.0	5.4	Europe and CIS	52.2	56.0	3.8
Middle East and Africa	43.7	53.0	9.3	Middle East and Africa	52.3	47.0	(5.3)
North America	29.3	30.0	0.7	North America	28.5	29.5	1.0
Central and South America	8.1	7.0	(1.1)	Central and South America	7.8	7.0	(0.8)
Outside Japan	251.7	272.0	20.3	Outside Japan	256.3	261.0	4.7
Consolidated	359.0	382.0	23.0	Consolidated	363.3	371.0	7.7
Exchange rate 1\$ =	¥110.70	¥110.00	(¥0.70)	Exchange rate 1\$ =	¥110.70	¥110.00	(¥0.70)

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○FY18 Forecast for Orders and Sales by Region in Control Segment

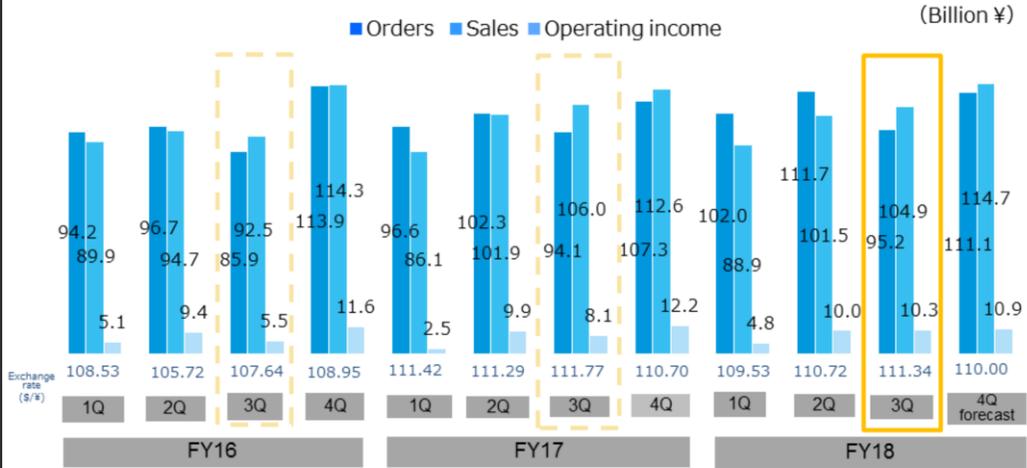
- There is no change in our forecast for orders and sales for total figures of Control Segment. (highest figures so far)
- There are no changes to orders and sales in Japan.
- Orders are expected to grow overseas, primarily in India and Middle East. Also, sales are expected to grow primarily in China. We have made some revisions to region-specific forecasts, in accordance with these progress. However, there is no change in the total figures for overseas.
- Difference from FY18 Forecast by region announced on November 6
 - <Orders>
 - South-eastern Asia/Far East : ▲2.0 billion¥
 - India : +2.0 billion¥
 - Europe/CIS : ▲5.0 billion¥
 - Middle East/Africa : +5.0 billion¥
 - <Sales>
 - South-eastern Asia/Far East : ▲2.0 billion¥
 - Europe/CIS : ▲5.0 billion¥
 - Middle East/Africa : +6.0 billion¥
 - Central and South America : +1.0 Billion¥

Appendix : Financial Results

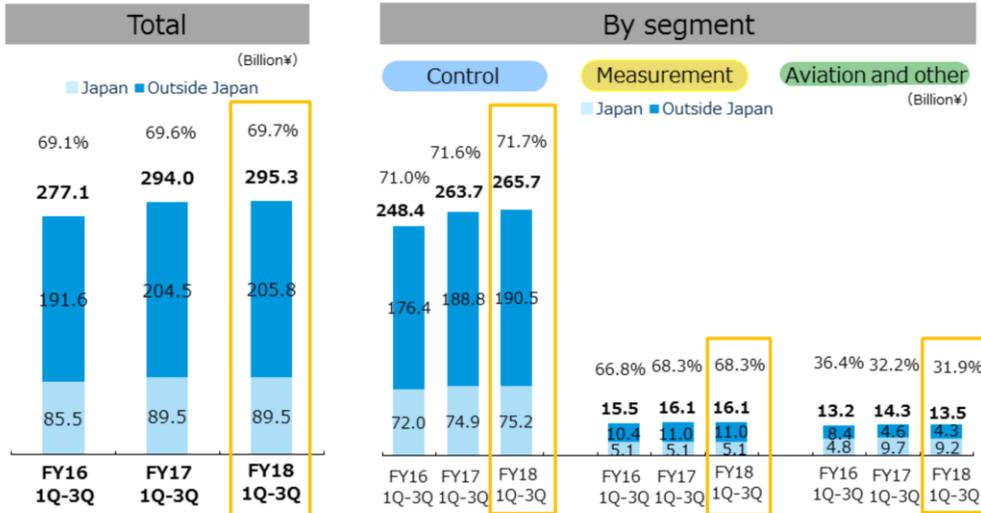
- Quarterly Financial Results
- Orders and Sales by Region in Control Segment
- Non-operating /Extraordinary Income and Expenses
- Order Backlog Trend by Segment
- Trend of R&D Expenses, Depreciation, and CAPEX
- Trend of Balance Sheet

Appendix: 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.



Appendix: Trend of Global Sales



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Appendix: Non-operating /Extraordinary Income and Expenses

(Billion ¥)

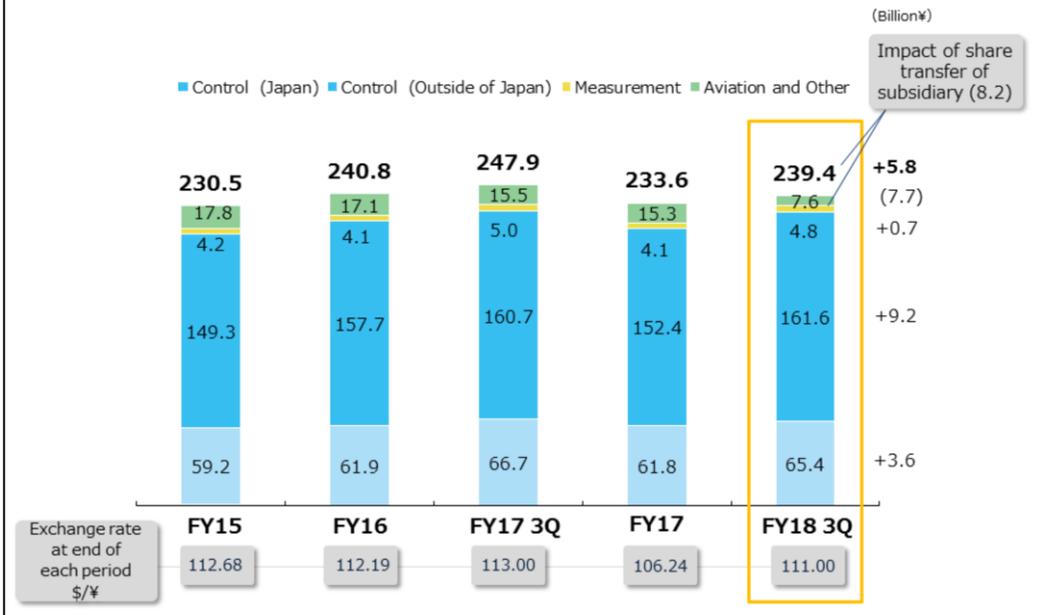
	FY17 1Q-3Q	FY18 1Q-3Q
Operating income	20.5	25.1
Non-operating income	2.5	2.5
Non-operating expenses	2.5	1.5
Ordinary income	20.5	26.1
Extraordinary income	5.7	2.5
Extraordinary expenses	9.4	0.2
Income before tax	16.8	28.4
Tax, etc.	8.1	9.3
Profit attributable to owners of parent	8.7	19.1
(Effective tax rate)	42.0%	28.4%

FY17:
Gain on sales of non-current assets: ¥2.1 billion
Gain on sales of investment securities: ¥3.6 billion

FY18:
Gain on sales of shares of subsidiaries and associates: ¥1.8 billion

FY17:
Impairment loss: ¥9.1 billion
(*Goodwill and etc. of KBC Advanced Technologies Limited and Industrial Evolution, Inc: ¥8.9 billion)

Appendix: Order Backlog Trend by Segment

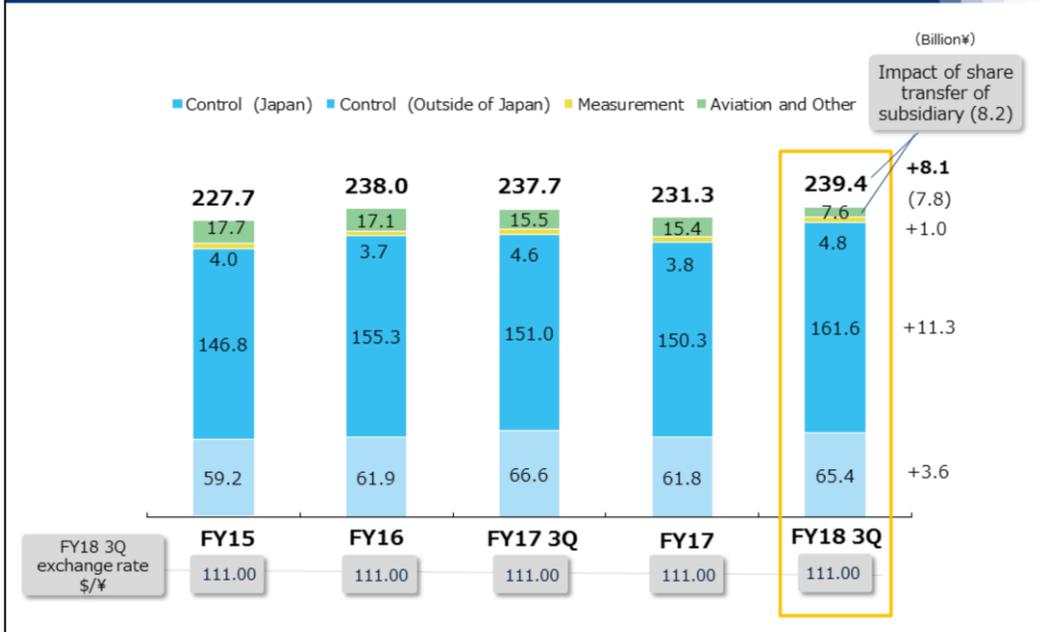


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Appendix: Order Backlog Trend by Segment (Using FY18 3Q exchange rate)

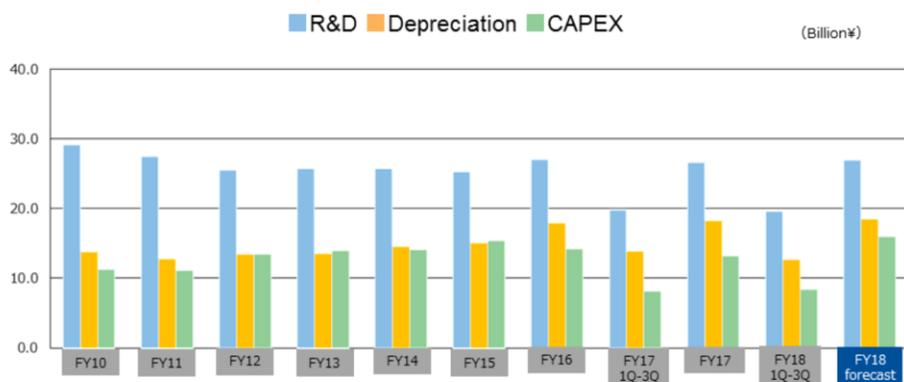


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Appendix: Trend of R&D Expenses, Depreciation, and CAPEX



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17 1Q-3Q	FY17	FY18 1Q-3Q	FY18 forecast
R&D expenses (% of sales)	29.2 9.0%	27.5 8.2%	25.5 7.3%	25.8 6.6%	25.8 6.4%	25.3 6.1%	27.1 6.9%	19.8 6.7%	26.6 6.5%	19.6 6.7%	27.0 6.6%
Depreciation (% of sales)	13.8 4.2%	12.8 3.8%	13.5 3.9%	13.6 3.5%	14.5 3.6%	15.1 3.6%	18.0 4.6%	13.9 4.7%	18.3 4.5%	12.7 4.3%	18.5 4.5%
CAPEX (% of sales)	11.3 3.5%	11.1 3.3%	13.5 3.9%	14.0 3.6%	14.1 3.5%	15.4 3.7%	14.2 3.6%	8.2 2.8%	13.2 3.3%	8.4 2.8%	16.0 3.9%

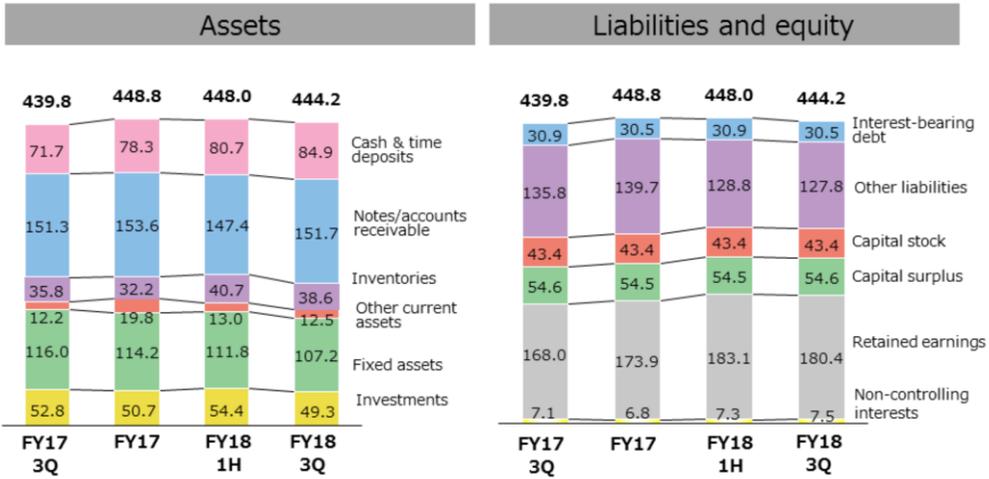
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Appendix: Trend of Balance Sheet

(Billion¥)

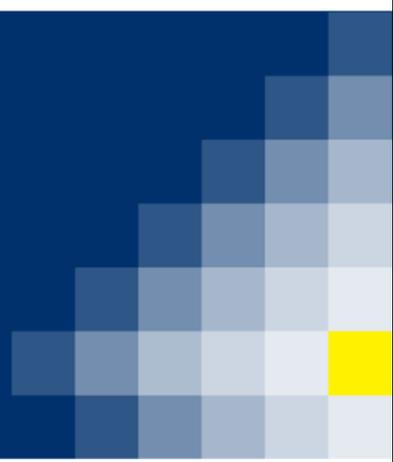


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Appendix: TF2020 Management Indicators

Although our projections for growth in orders & sales assumed that there would be no strong rebound in the market environment, we are getting off to a smoother than anticipated start in implementing our mid- to long-term management plans.



► Points

- Expanding business in focus areas and exceeding the market growth rate
- Increasing profitability regardless of what happens in external environment
- Reallocating management resources to focus areas
- Maximizing cash generation by increasing income and improving capital efficiency

► Targets

Order & sales growth	3 to 5%/year
EPS growth	7 to 9%/year ^{*1}
ROS	10% or more (FY20)
ROE	10% or more (FY20)
Organic FCF ^{*2}	85 billion yen or more (3 years, cumulative)

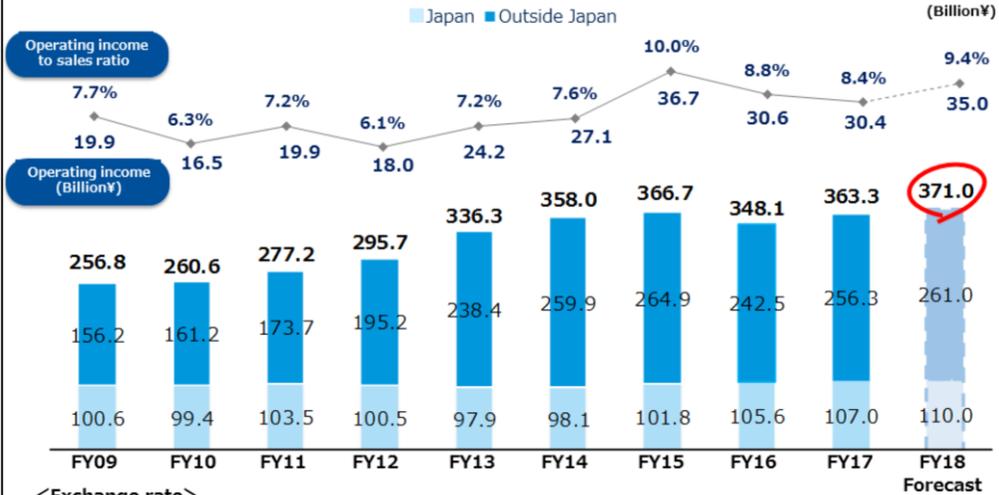
Exchange rate (1\$): 110 yen

^{*1} Excluding the FY17 impairment of goodwill, credit to allowance for doubtful accounts, and asset sales

^{*2} **Free cash flow (FCF) + strategic investment**
(3 year cumulative total of 70 billion yen)

Appendix: Trend of Global Sales in Control Segment

Record high sales are expected in the control segment.



<Exchange rate>

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18 Forecast
US\$ (¥)	92.61	85.13	78.82	83.33	100.67	110.58	119.99	108.95	110.70	110.00

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Appendix: News (from November 6 to February 5)

Nov. AlgaEnergy, a Spanish biotechnology company, and Yokogawa sign strategic partnership & equity agreement

Yokogawa to acquire all shares of NKS Corporation, a specialist in the validation of pharmaceutical and food product facilities and calibration of measuring instruments



Dec. Yokogawa releases Field Assistant R2.03 with enhanced functionality for the field inspection of industrial facilities

Appointment of president and chairman effective April 1

Name	New position	Present position
Takashi Nishijima	Representative director and chairman	Representative director and president
Hitoshi Nara	Representative director and president	Director and executive vice president, Life Innovation Business Headquarters

Jan.

Yokogawa releases cavitation detection system that helps to prevent equipment degradation and improves the efficiency of plant maintenance

Yokogawa releases TDLS8100 probe type tunable diode laser spectrometer for the direct measurement of oxygen and carbon monoxide gas concentrations at high speeds



TDLS8100

Yokogawa joins 2019 Global 100 Most Sustainable Corporations in the World Index (Global 100)

Yokogawa wins a control system order for the Provisur seawater desalination project in Peru

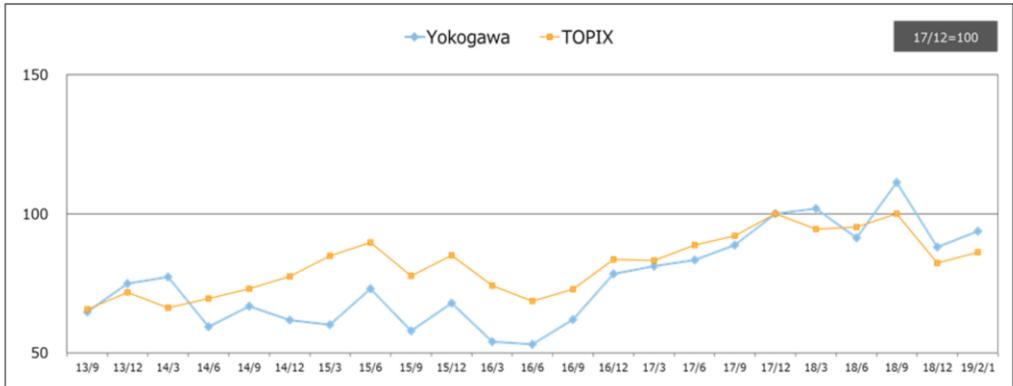
Note: The month for each news item indicates when it was published.

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Appendix: Trend of Stock Price



(¥)

	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	17/3	17/6	17/9	17/12	18/3	18/6	18/9	18/12	19/2/1
Yokogawa	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	1,752	1,801	1,916	2,158	2,198	1,972	2,403	1,901	2,021
TOPIX	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	1,512	1,611	1,674	1,817	1,716	1,731	1,817	1,494	1,565

	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	17/3	17/6	17/9	17/12	18/3	18/6	18/9	18/12	19/2/1
Yokogawa	65	75	77	59	67	62	60	73	58	68	54	53	62	78	81	83	89	100	102	91	111	88	94
TOPIX	66	72	66	70	73	77	85	90	78	85	74	69	73	84	83	89	92	100	94	95	100	82	86

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Appendix: Yokogawa's Main ESG Indexes

As of January 2019

DJSI-Asia Pacific
 FTSE4Good Index Series
 MSCI ESG Leaders Indexes
 MS-SRI
 FTSE Blossom Japan Index
 MSCI Japan ESG Select Leaders Index
 MSCI Japan Empowering Women Index
 SNAM Sustainability Index
 CDP
 Global 100 Most Sustainable Corporations in the World Index

MEMBER OF
**Dow Jones
 Sustainability Indices**
 In Collaboration with RobecoSAM



FTSE4Good



2018 Constituent
 MSCI ESG
 Leaders Indexes



Member of SNAM
 Sustainability Index
 2018



FTSE Blossom
 Japan



2018 Constituent
 MSCI Japan Empowering
 Women Index (WIN)



2018 Constituent
 MSCI Japan ESG
 Select Leaders Index

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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 and application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting."

IR Sec., Treasury & IR Department
Yokogawa Electric Corporation

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