

Yokogawa Electric Corporation

Financial Results for First Three Quarters of Fiscal Year 2019

February 4, 2020



1. Financial Results for First Three Quarters of Fiscal Year 2019

Junichi Anabuki

Director, Executive Vice President
Corporate Administration Headquarters

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Hitoshi Nara

President and Chief Executive Officer

Yokogawa Electric Corporation

Financial Results for First Three Quarters of Fiscal Year 2019 (April 1 - December 31, 2019)

Junichi Anabuki

Director, Executive Vice President

Corporate Administration Headquarters

Key Points

■ FY19 1Q-3Q results: Steady growth

Summary: Sales and operating income were up. However, profit attributable to owners of parent declined due to the recording of extraordinary losses.

Segments:

- Control: Sales and profits were up. Excluding the impact of the exchange rate, orders, sales, and operating income rose 4.9%, 5.4%, and 13.1%, respectively, year on year.
- Measurement: Sales and operating income were up.
- Aviation and other: Although sales declined year on year, the operating loss decreased.

Regions: Orders were up most significantly in Japan, China, and the Middle East. China, India, and the Middle East showed the largest increases in sales.

Industries: Chemicals remained strong.

■ FY19 forecast: Change from May 8, 2019

Mainly due to (1) revisions to the forecast exchange rates (US\$ ¥110 ➡ ¥109, EUR ¥130 ➡ ¥121, other currencies) and (2) the recording of impairment losses* of ¥5.6 billion

■ Dividend forecast: No change

Annual dividend: 34 yen, a record high

*Regarding the recording of losses, please refer to the document entitled "Extraordinary Losses (Impairment Loss) and Adjustments to the Consolidated Business Forecast for the Year Ending March 31, 2020" that is to be released on this date (February 4, 2020).

Summary of FY19 1Q-3Q Results

- ◆ Orders were almost at the same level (excluding impact of exchange rate and transfer of subsidiary's shares: +5.7%). Sales were up (excluding impact of exchange rate and transfer of subsidiary's shares: +6.8%).
- ◆ Operating income was up due to the increased sales and improvement of the gross margin.
- ◆ Profit attributable to owners of parent was down due to the recognition of impairment losses ¥5.6 billion.

(Billion ¥)

		FY18 1Q-3Q	FY19 1Q-3Q	Difference	Growth rate	Impact of exchange rate
Orders		308.9	308.4	(0.5)	(0.1%)	(17.7)
Sales		295.3	297.3	+2.1	+0.7%	(17.5)
Operating income		25.1	28.1	+3.0	+12.1%	(1.7)
ROS (%)		8.5	9.5	+1.0 pts	—	—
Ordinary income		26.1	28.2	+2.1	+8.2%	(1.7)
Profit attributable to owners of parent		19.1	12.5	(6.6)	(34.5%)	(1.7)
EPS (¥)		71.38	46.76	(24.62)	(34.5%)	—
Exchange rate	1\$=	¥111.34	¥108.90	(2.44)	—	—

Analysis of Operating Income (FY18 1Q-3Q/FY19 1Q-3Q comparison)

(Billion¥)

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

Exchange rate

(¥)

	FY18 3Q	FY19 3Q
US\$	111.34	108.90
EUR	129.18	121.03

+11.3

(6.6)

(0.3)

(1.4)

**Transfer of
subsidiary's Shares**

**Organic increase
in SG&A**

29.8

28.1

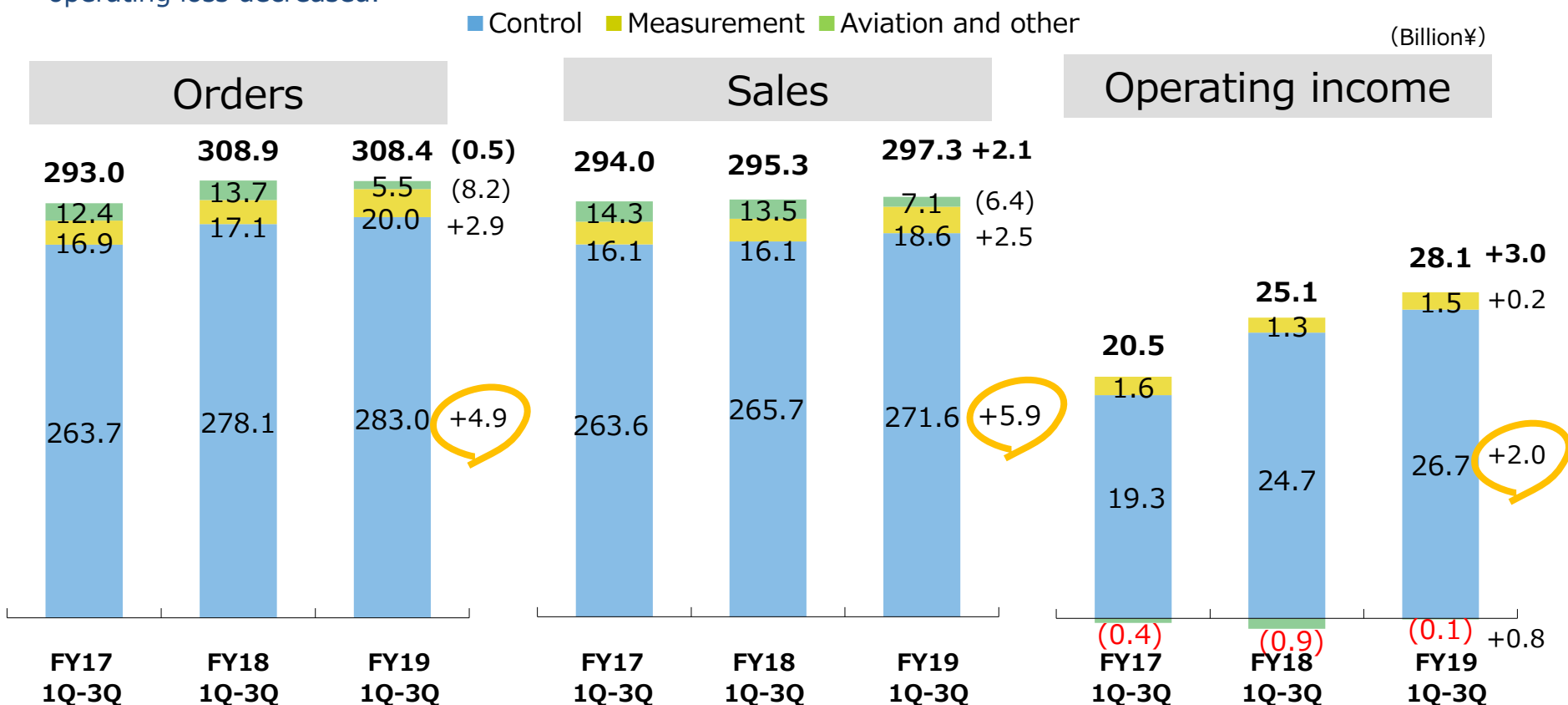
FY19 1Q-3Q
Operating income

FY19 1Q-3Q
Operating Income
(excluding impact of transfer of subsidiary's share
and exchange rate)

FY19 1Q-3Q
Operating income

FY18 1Q-3Q/FY19 1Q-3Q Comparison for Orders, Sales, and Operating Income by Segment

- ◆ Control: Orders were up most significantly in Japan, China, and the Middle East. Sales were up despite the appreciation of the yen. Excluding impact of exchange rate: Orders +4.9%, sales +5.4% year on year. Excluding the impact of the exchange rate, operating income rose ¥3.2 billion (+13.1%) year on year due to the increased sales and improvement of the gross margin.
- ◆ Measurement: As results were strong for both the measuring instruments and life innovation businesses, sales and operating income were up.
- ◆ Aviation and other: Although sales declined year on year due to the transfer of a subsidiary's shares, the operating loss decreased.



Orders and Sales by Region in Control Segment



◆ Japan, China, and the Middle East showed the largest increases in orders, and orders were down in Asia, Europe, and the CIS due to a year-on-year decline in large project orders and the impact of appreciation of the yen (¥13.6 billion, +4.9% YOY, excl. exchange rate).

◆ Sales were up mainly in China, India, and the Middle East (¥14.4 billion, +5.4% YOY, excl. exchange rate).

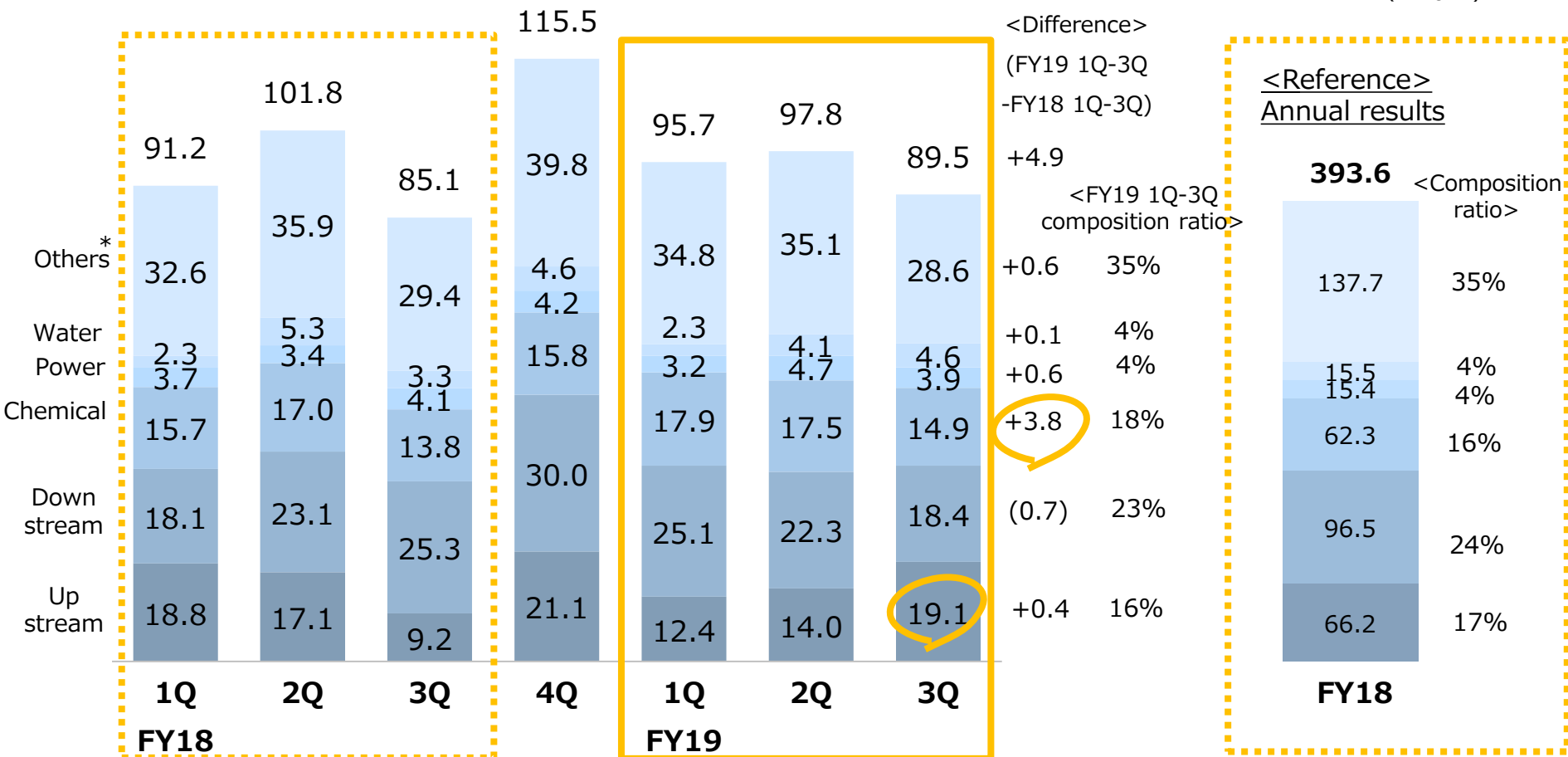
(Billion¥)

Orders	FY18 1Q-3Q (A)	FY19 1Q-3Q (B)	Difference (B-A)
Japan	77.6	81.4	3.8
Asia	94.9	91.5	(3.4)
(South-eastern Asia and Far East)	48.9	45.5	(3.4)
(China)	31.8	33.4	1.6
(India)	14.2	12.6	(1.6)
Europe and CIS	38.3	36.0	(2.3)
Middle East and Africa	39.1	43.8	4.7
North America	21.8	22.9	1.1
Central and South America	6.4	7.4	1.0
Outside Japan	200.5	201.6	1.1
Consolidated	278.1	283.0	4.9
Exchange rate 1\$ =	¥111.34	¥108.90	(¥2.44)

Sales	FY18 1Q-3Q (A)	FY19 1Q-3Q (B)	Difference (B-A)
Japan	75.2	75.5	0.3
Asia	89.2	91.3	2.1
(South-eastern Asia and Far East)	49.7	47.0	(2.7)
(China)	31.3	33.3	2.0
(India)	8.2	11.0	2.8
Europe and CIS	37.6	37.3	(0.3)
Middle East and Africa	35.8	39.1	3.3
North America	21.7	21.9	0.2
Central and South America	6.2	6.5	0.3
Outside Japan	190.5	196.1	5.6
Consolidated	265.7	271.6	5.9
Exchange rate 1\$ =	¥111.34	¥108.90	(¥2.44)

Orders by Industry in Control Segment

(Billion¥)



*Pharma, food, electrical & electronic, iron & steel, pulp & paper, etc.

In addition, we re-examined industry classifications and revised the FY18 numbers accordingly.

FY19 Forecast → Change from May 8, 2019

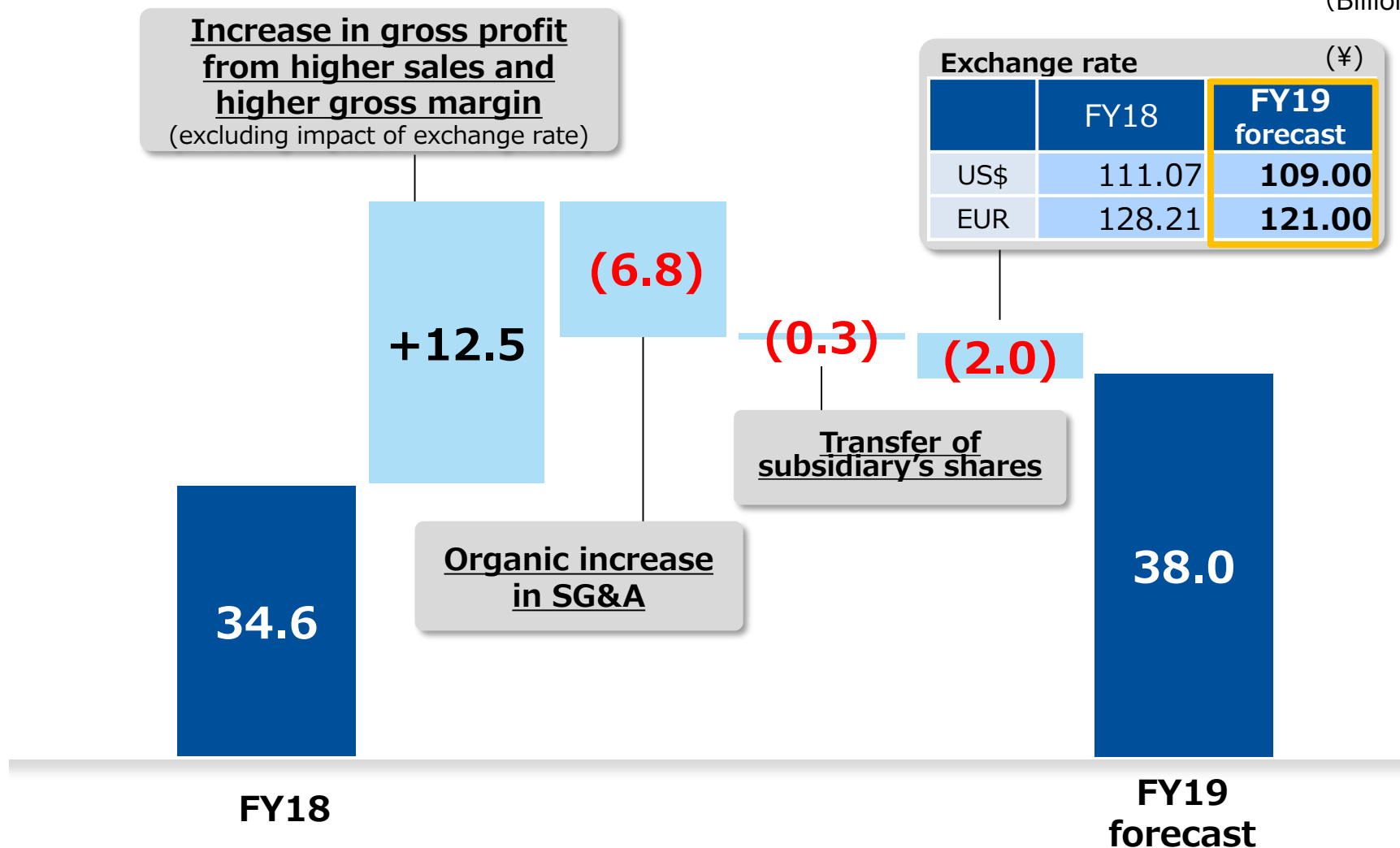
- ◆ The forecast has been changed due to (1) the revision of the forecast exchange rates (US\$ ¥110 → ¥109, EUR ¥130 → ¥121. CNY, KRW, and other currencies were also revised) and (2) the recording of impairment losses of 5.6 billion yen.

(Billion¥)

		FY18 (A)	FY19 forecast (5/8 B)	FY19 forecast (2/4 C)	Difference (C-A)	Growth rate (C÷A-1)
Orders		432.0	430.0	418.0	(14.0)	(3.2%)
Sales		403.7	420.0	408.0	+4.3	+1.1%
Operating income		34.6	40.0	38.0	+3.4	+9.8%
ROS (%)		8.6	9.5	9.3	+0.7 pts	—
Ordinary income		36.8	40.0	38.0	+1.2	+3.3%
Profit before income taxes		38.4	40.0	31.0	(7.4)	(19.3%)
Tax, etc.		10.0	11.0	13.0	+3.0	+30.0%
Profit attributable to owners of parent		28.4	29.0	18.0	(10.4)	(36.6%)
EPS (¥)		106.54	108.64	67.43	(39.11)	(36.7%)
Exchange rate	1\$ =	¥111.07	¥110	¥109	(¥2.07)	—

Factors Accounting for Increase/Decrease in FY19 Operating Income → Change from May 8, 2019

(Billion¥)

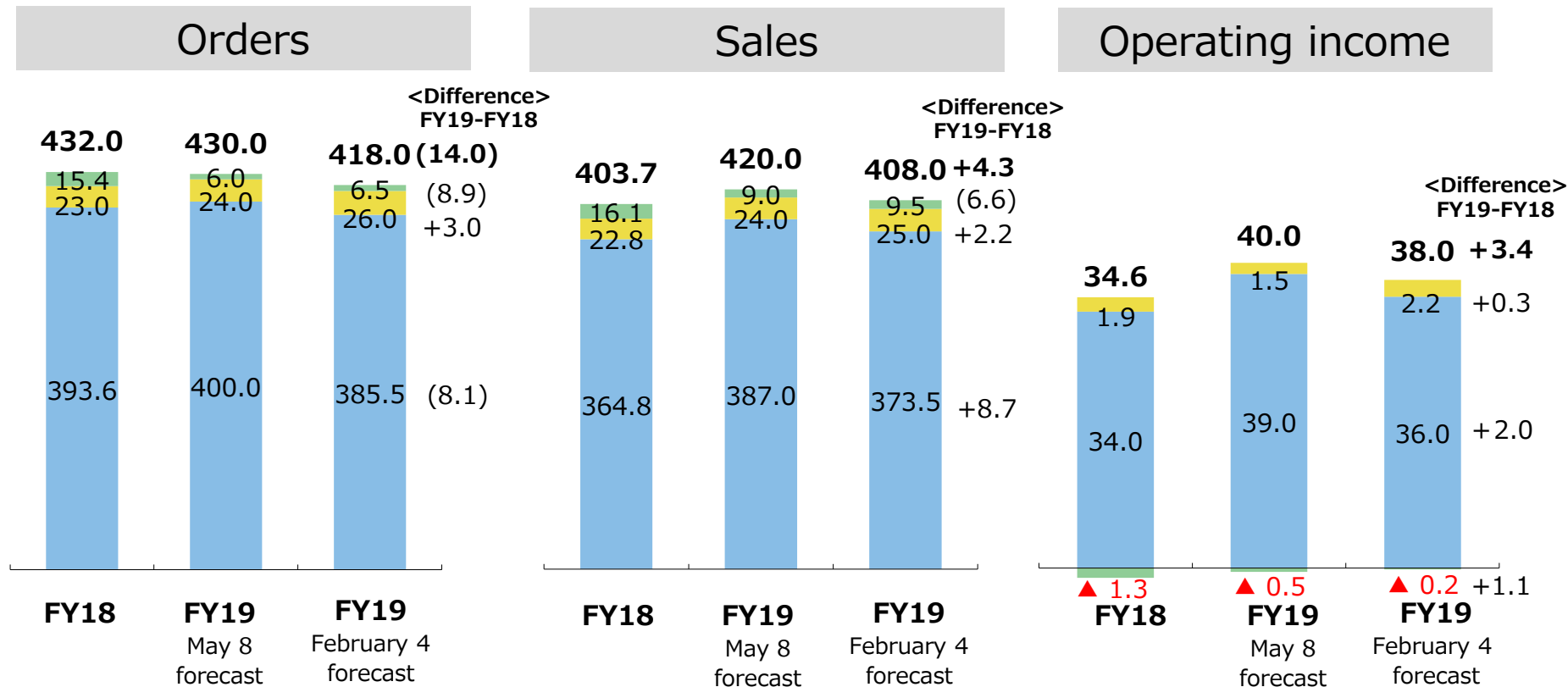


FY19 Forecast for Orders, Sales, and Operating Income by Segment → Change from May 8, 2019

- ◆ Although the control segment remained strong, we have revised our forecast for the full year after revising the assumed exchange rates.
- ◆ The forecasts for measurement and aviation and other have been revised upward due to the progress that has been achieved in these segments.

■ Control ■ Measurement ■ Aviation and Other

(Billion¥)



FY19 Forecast for Control Orders and Sales by Region

→ Change from May 8, 2019 forecast

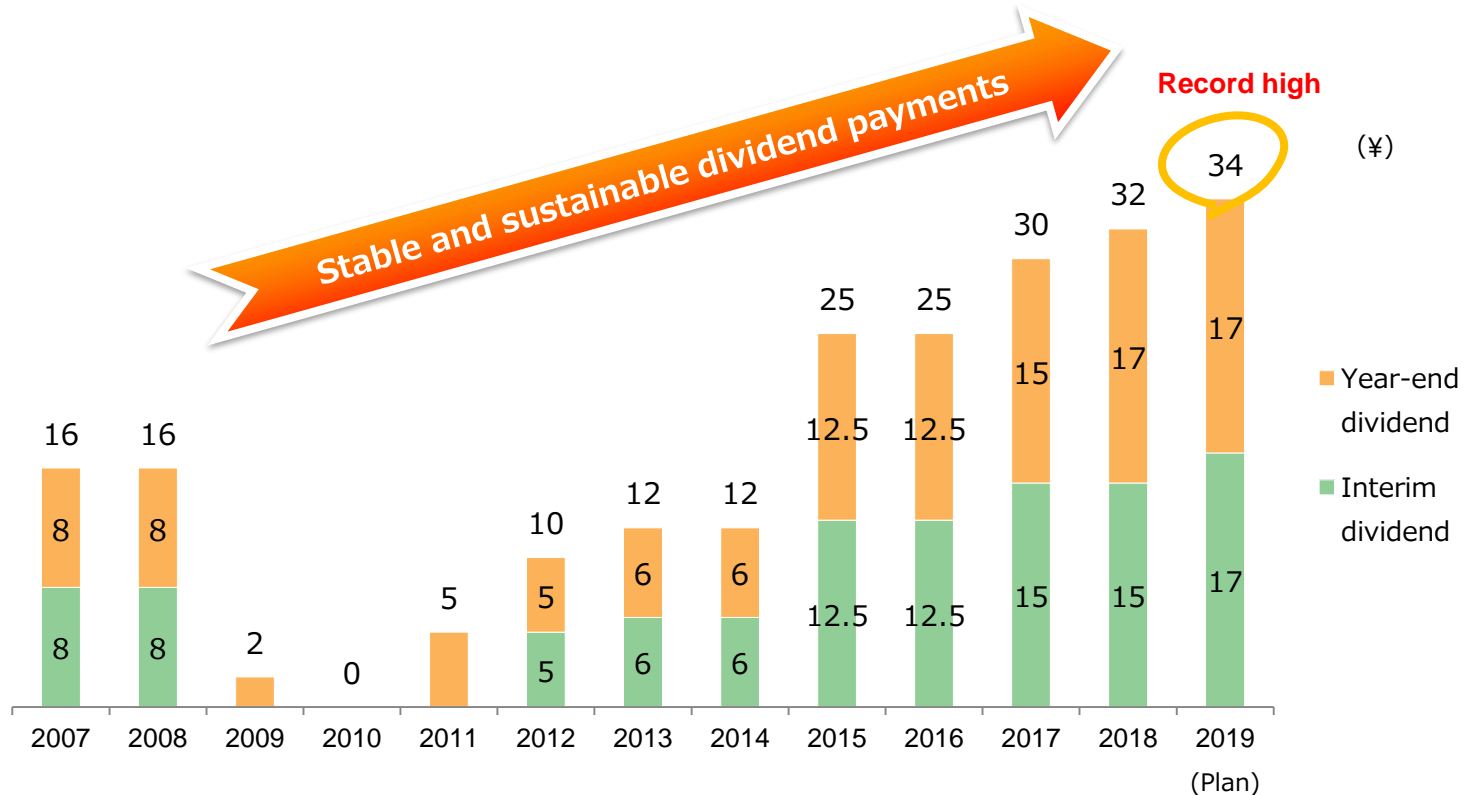
◆ The forecast for orders and sales by region have been adjusted mainly due to the revision of exchange rates.

(Billion¥)

Orders	FY18 Results (A)	FY19 Forecast (5/8 B)	FY19 Forecast (2/4 C)	Difference (C-A)	Sales	FY18 Results (A)	FY19 Forecast (5/8 B)	FY19 Forecast (2/4 C)	Difference (C-A)
Japan	111.4	112.0	112.0	0.6	Japan	109.4	112.0	112.0	2.6
Asia	124.5	129.0	121.0	(3.5)	Asia	120.3	126.0	121.0	0.7
(South-eastern Asia and Far East)	64.3	66.0	62.0	(2.3)	(South-eastern Asia and Far East)	67.3	66.0	63.0	(4.3)
(China)	42.6	44.0	43.0	0.4	(China)	40.5	42.0	42.0	1.5
(India)	17.6	19.0	16.0	(1.6)	(India)	12.5	18.0	16.0	3.5
Europe and CIS	53.2	55.0	50.5	(2.7)	Europe and CIS	49.5	51.0	47.5	(2.0)
Middle East and Africa	56.7	59.0	58.0	1.3	Middle East and Africa	49.0	57.0	54.5	5.5
North America	38.2	35.0	34.0	(4.2)	North America	28.5	32.0	30.0	1.5
Central and South America	9.6	10.0	10.0	0.4	Central and South America	8.1	9.0	8.5	0.4
Outside Japan	282.2	288.0	273.5	(8.7)	Outside Japan	255.4	275.0	261.5	6.1
Consolidated	393.6	400.0	385.5	(8.1)	Consolidated	364.8	387.0	373.5	8.7
Exchange rate 1\$ =	¥111.07	¥110.00	¥109.00	(¥2.07)	Exchange rate 1\$ =	¥111.07	¥110.00	¥109.00	(¥2.07)

Dividend (No change)

- The distribution of earnings to shareholders is a top priority.
- As per our dividend policy, no changes have been made to the dividend forecast.
- The annual dividend will be at a record high for the second straight year.



Appendix:

- Quarterly Financial Results
- Non-operating /Extraordinary Income and Expenses
- Order Backlog Trend by Segment
- Trend of R&D Expenses, Depreciation, and CAPEX
- Trend of Balance Sheet
- Trend of Stock Price

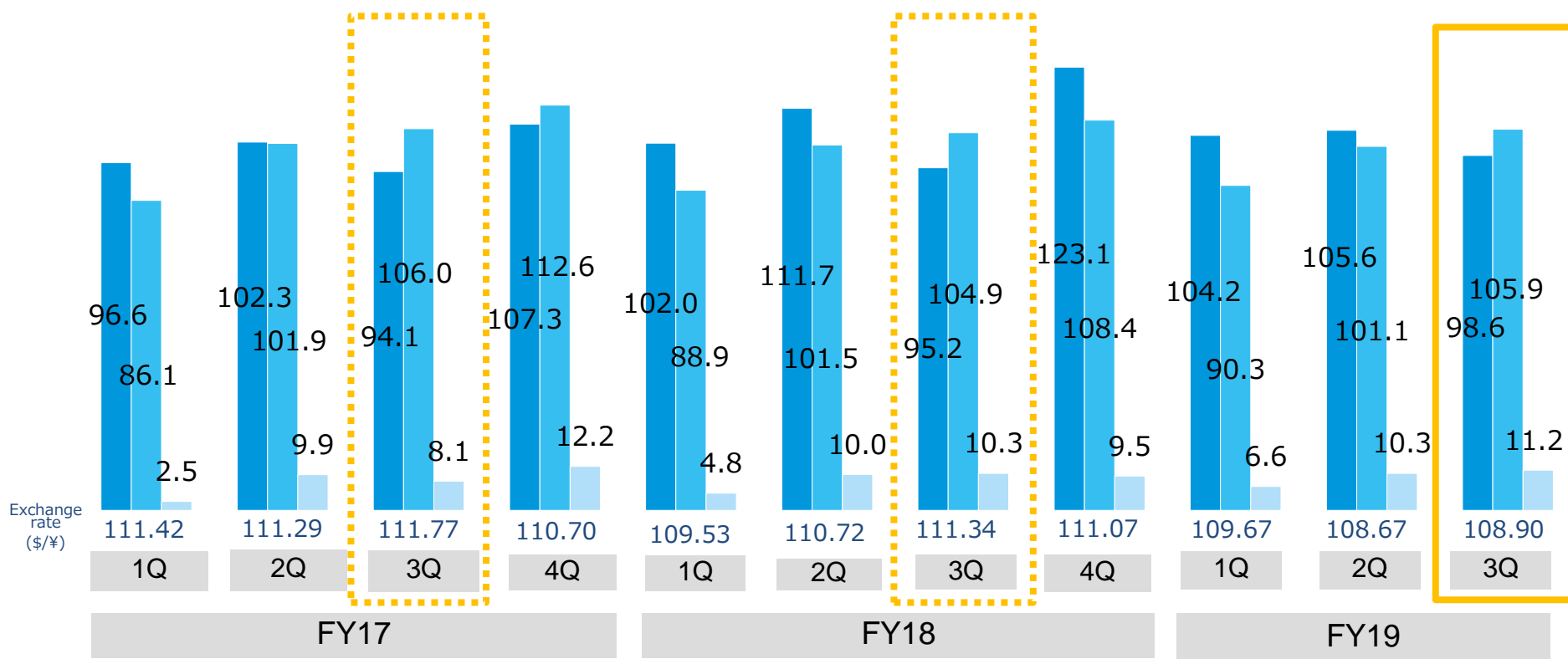
Appendix: Quarterly Financial Results

◆ Sales and operating income tend to be higher in 2Q and 4Q, and this trend is particularly strong in the Japanese control segment.

The effects of transferred subsidiaries
Orders : ¥-8.3 billion sales : ¥-8.5 billion operating income : ¥-0.3 billion

(Billion ¥)

■ Orders ■ Sales ■ Operating income



Appendix: Non-operating / Extraordinary Income and Expenses

(Billion ¥)

	FY18 1Q-3Q	FY19 1Q-3Q
Operating income	25.1	28.1
Non-operating income	2.5	2.8
Non-operating expenses	1.5	2.7
Ordinary income	26.1	28.2
Extraordinary income	2.5	2.7
Extraordinary expenses	0.2	8.9
Income before tax	28.4	22.0
Tax, etc.	9.3	9.5
Profit attributable to owners of parent	19.1	12.5
(Effective tax rate)	28.4%	37.2%

FY19:
Foreign exchange losses: ¥1.1 billion

FY18: Gain on sales of investment securities, etc. : ¥1.8 billion

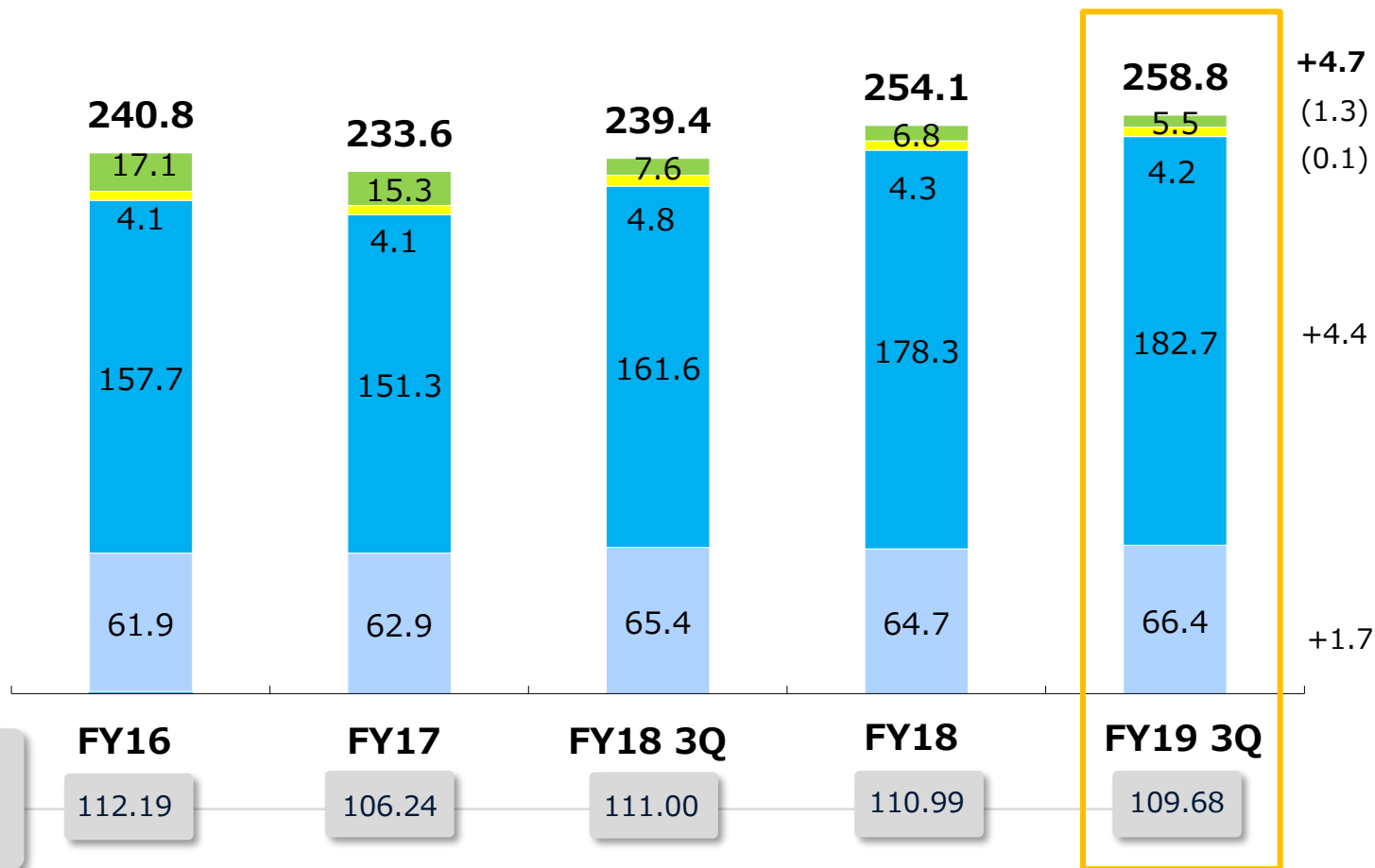
FY19:
Gain on sales of investment securities, etc. : ¥1.5 billion
Gain on sales of business: ¥0.8 billion

FY19:
Provision for reinforcing measures against soft errors: ¥3.0 billion
Impairment loss: ¥ 5.6 billion (KBC)

Appendix: Order Backlog Trend by Segment

(Billion¥)

■ Control (Japan) ■ Control (Outside of Japan) ■ Measurement ■ Aviation and Other

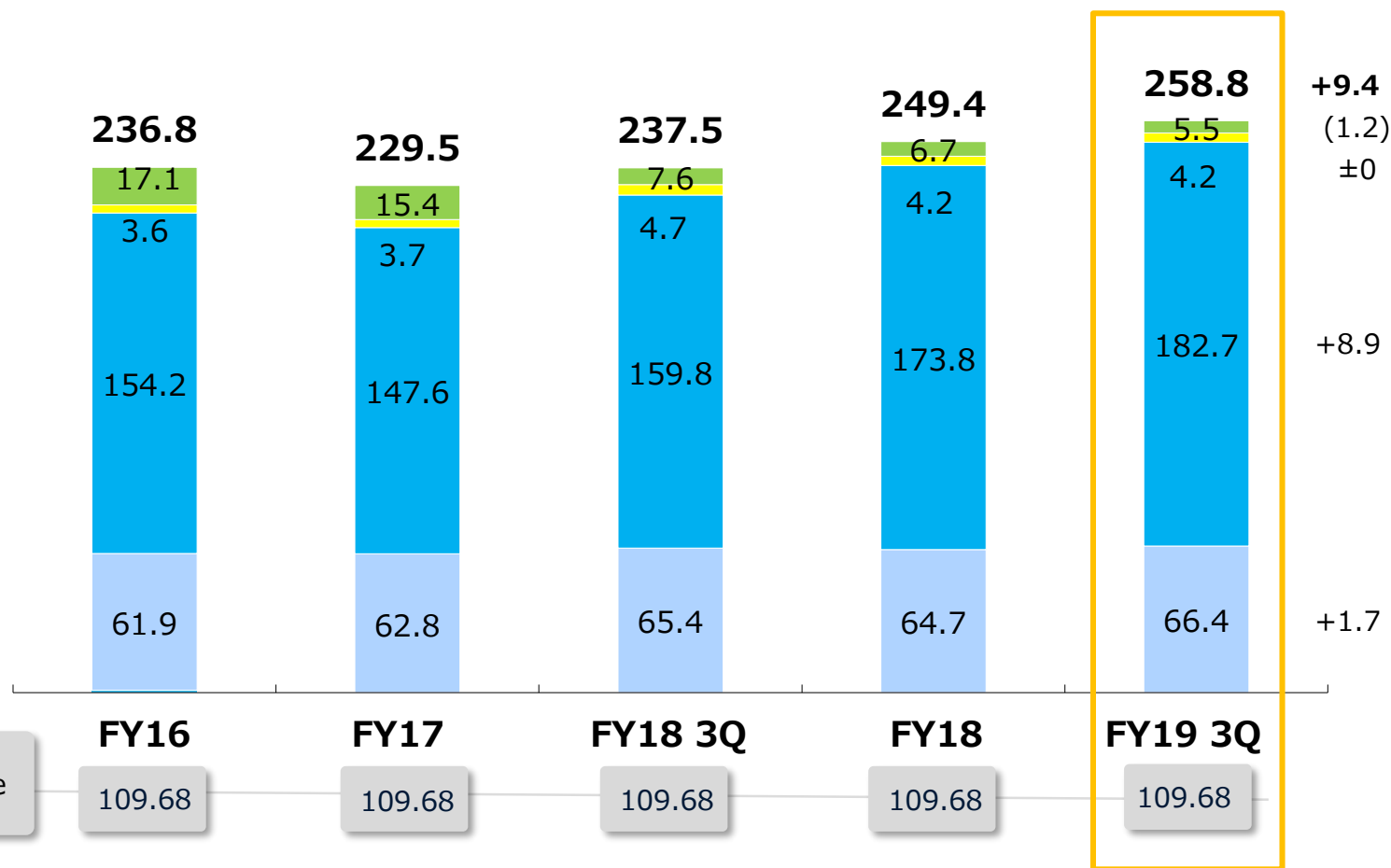


Appendix: Order Backlog Trend by Segment

(Using FY19 3Q exchange rate)

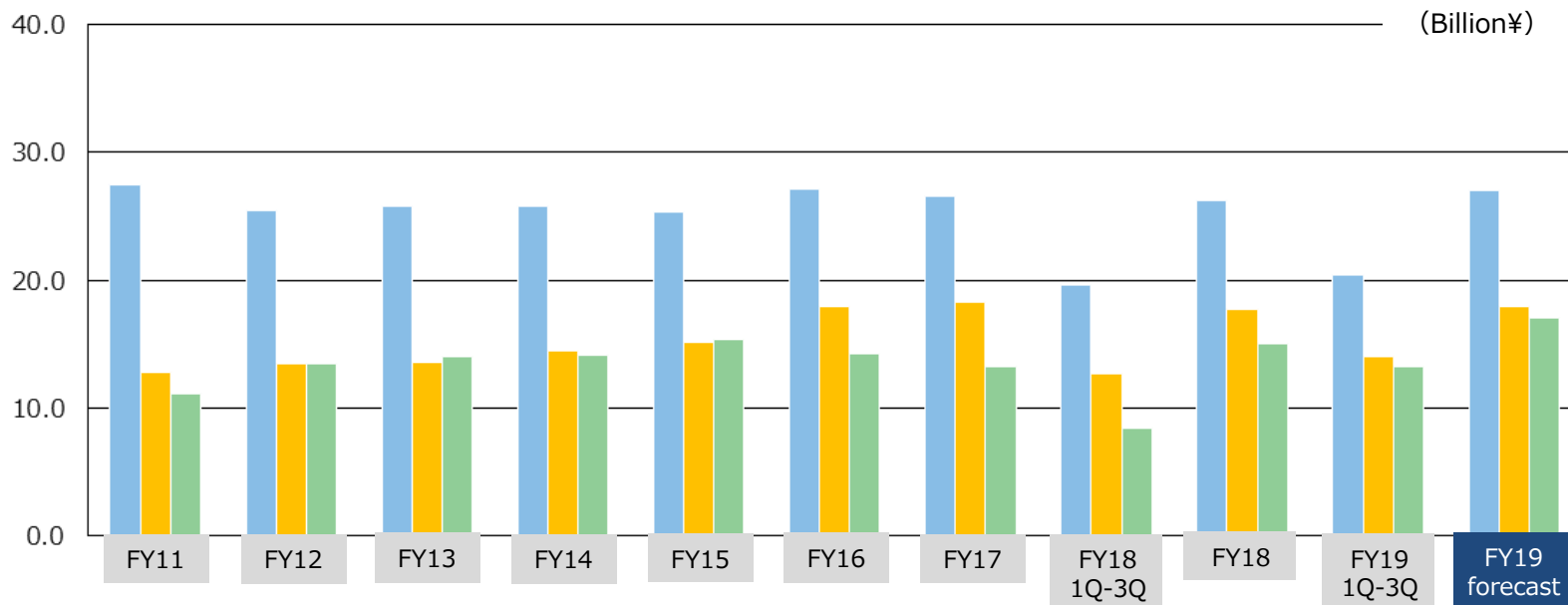
(Billion¥)

■ Control (Japan) ■ Control (Outside of Japan) ■ Measurement ■ Aviation and Other



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

- ◆ CAPEX is expected to increase slightly due to strategic investments in line with the mid-term business plan.

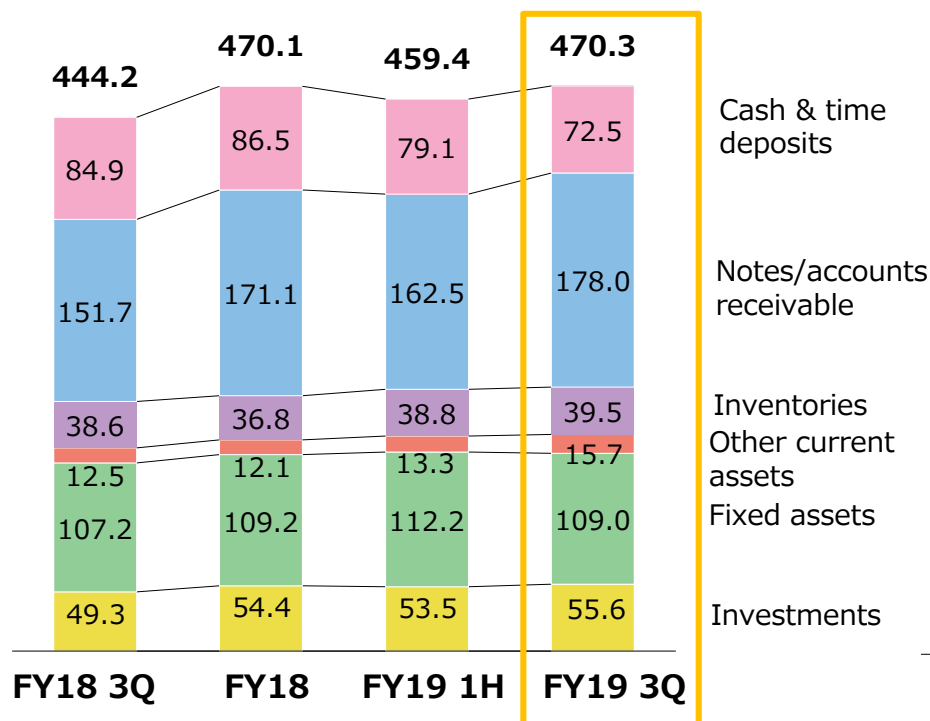


	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18 1Q-3Q	FY18	FY19 1Q-3Q	FY19 forecast
R&D expenses (% of sales)	27.5	25.5	25.8	25.8	25.3	27.1	26.6	19.6	26.2	20.4	27.0
	8.2%	7.3%	6.6%	6.4%	6.1%	6.9%	6.5%	6.7%	6.5%	6.9%	6.6%
Depreciation (% of sales)	12.8	13.5	13.6	14.5	15.1	18.0	18.3	12.7	17.7	14.0	18.0
	3.8%	3.9%	3.5%	3.6%	3.6%	4.6%	4.5%	4.3%	4.4%	4.7%	4.4%
CAPEX (% of sales)	11.1	13.5	14.0	14.1	15.4	14.2	13.2	8.4	15.0	*13.3	17.0
	3.3%	3.9%	3.6%	3.5%	3.7%	3.6%	3.2%	2.8%	3.7%	4.5%	4.2%

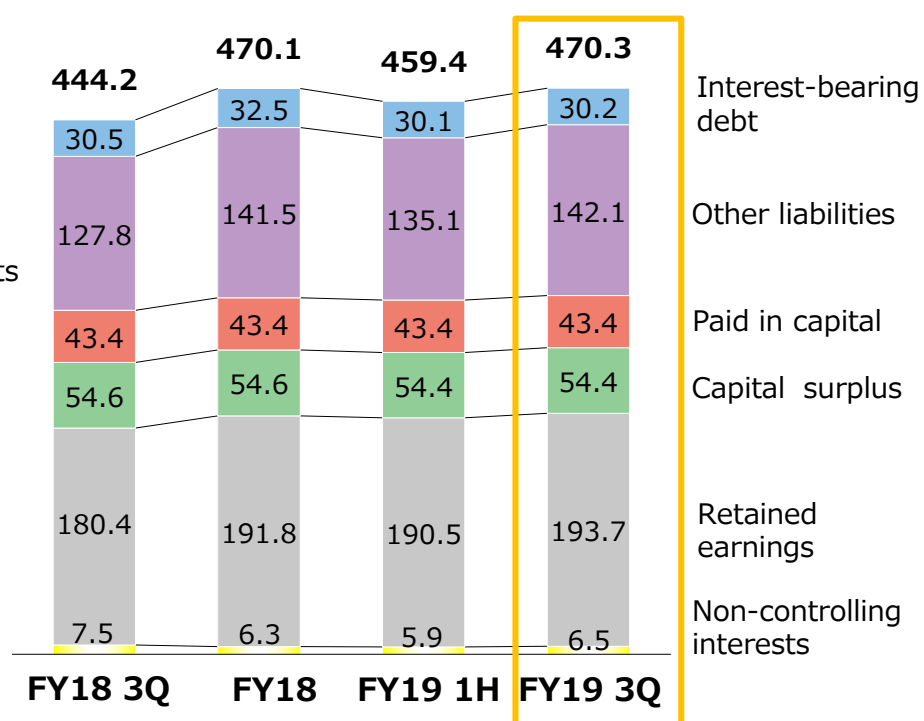
*The Group's consolidated subsidiaries outside Japan have adopted IFRS 16 (Leases) from FY19.

Appendix: Trend of Balance Sheet

Assets



Liabilities and equity

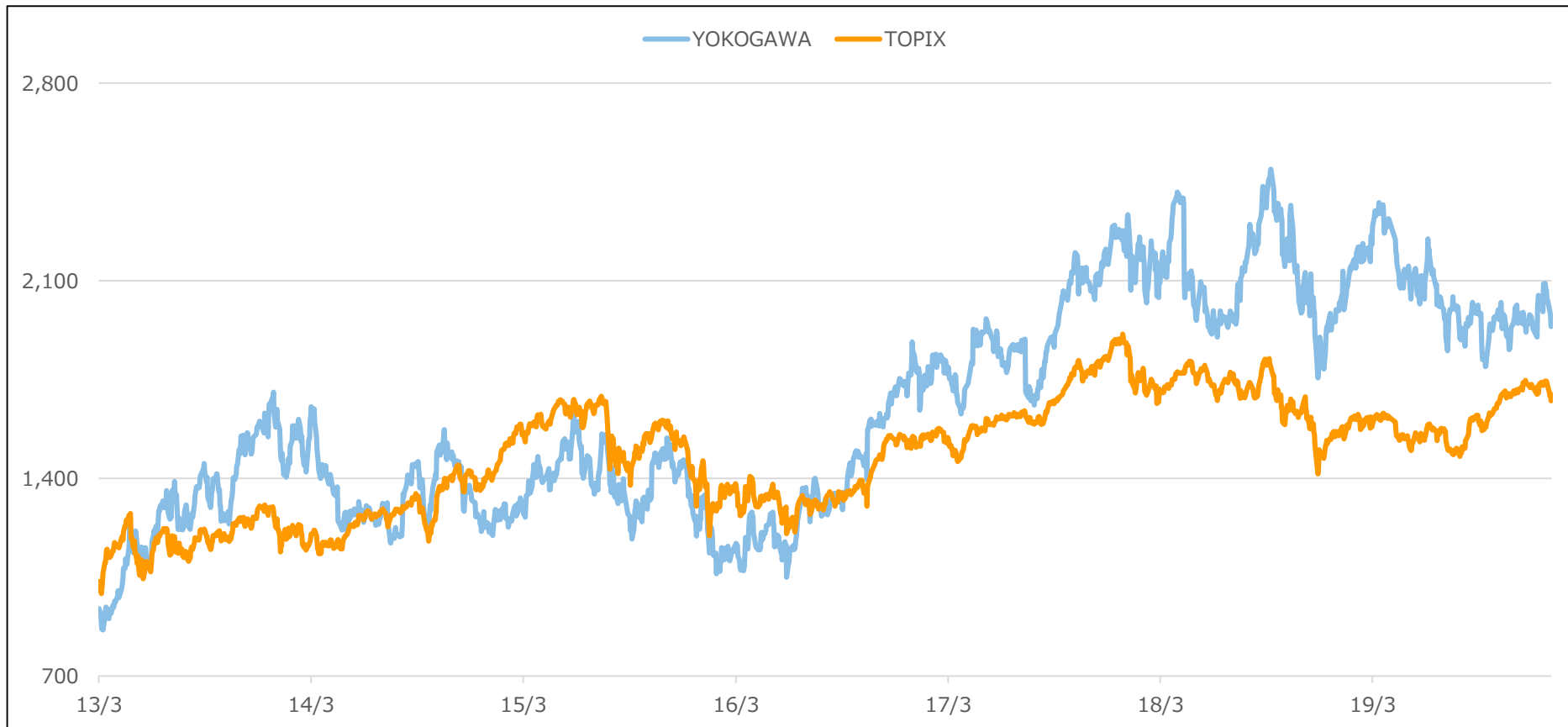


Impact of adoption of IFRS 16 (guidance on accounting of leases) vs FY18

(Debit) Property, plant and equipment/other +¥9.4 billion

(Credit) Current liabilities/other +¥2.1 billion, non-current liabilities/other +¥7.1 billion

Appendix: Trend of Stock Price



(¥)

	13/3	14/3	15/3	16/3	17/3	18/3	19/3	19/6	19/9	19/12	20/1/30
Yokogawa	946	1,667	1,295	1,163	1,752	2,198	2,291	2,112	1,977	1,929	1,938
TOPIX	1,035	1,203	1,543	1,347	1,512	1,716	1,592	1,551	1,588	1,721	1,675

Yokogawa Electric Corporation

Financial Results for Fiscal Year 2019 3Q
Current situation,
and Vision for Working with KBC
Transformation 2020

Hitoshi Nara

President and Chief Executive Officer

February 4, 2020

Current situation

Despite concerns about an economic slowdown, OPEX investment to improve productivity and protect the environment is increasing.

There are opportunities for CAPEX investment, such as the shift to clean energy for solving social issues.

Region

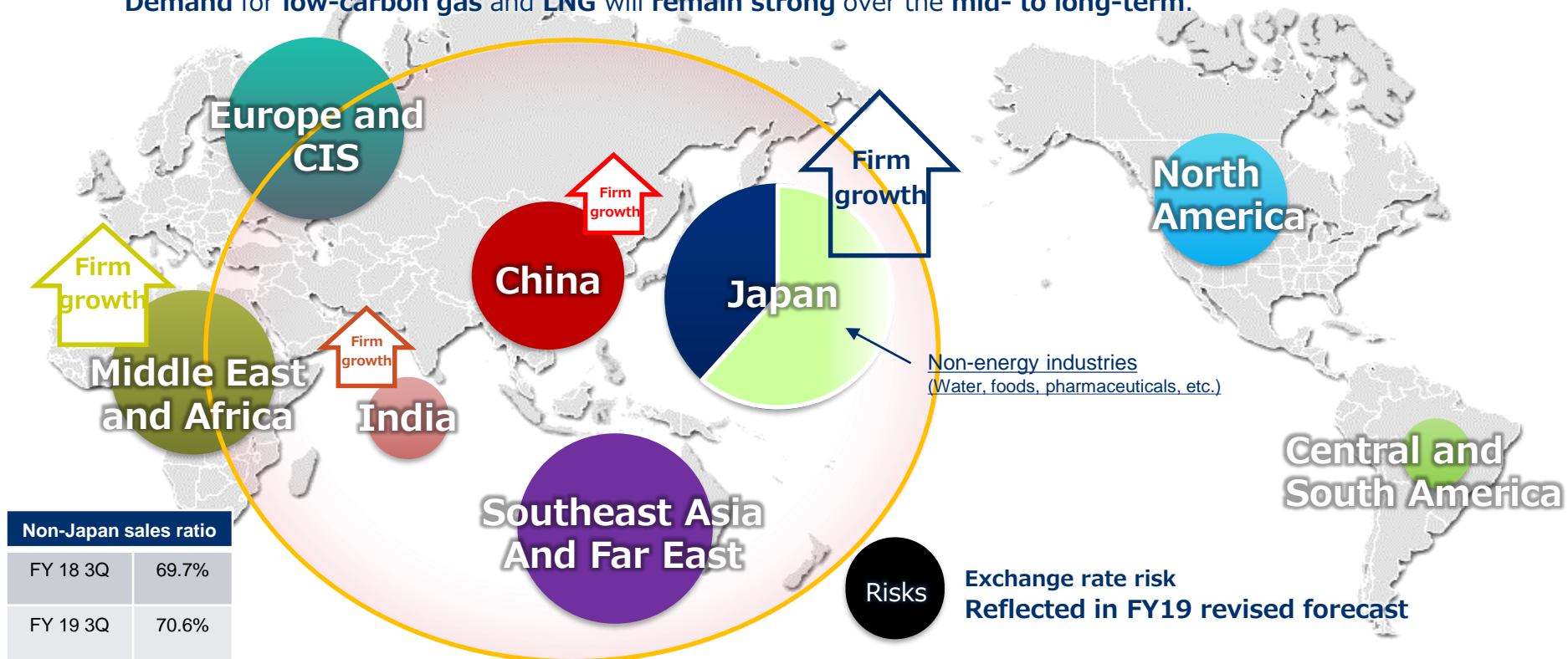
Not dependent on any one market: Orders in **Japan, China**, and the **Middle East**, and sales in **China, India**, and the **Middle East** are firm. We are expecting orders in **North America**.

Industry

Growth remains firm in the **chemical** industry, which is one of our target industries, thanks to rising demand from **oil to chemical projects**.

Growth is also firm in the **food and pharmaceutical** industries.

Demand for low-carbon gas and LNG will **remain strong** over the **mid- to long-term**.



<Results achieved following integration of the two companies>

- **Unique position established**
Able to deliver value to customers through value chain and production optimization, asset management, and other means
- **New models and solutions built** thanks to integrated solutions of Yokogawa and KBC, and transformation of KBC
(e.g. Profit-driven Operation, Dynamic Real Time Optimizer)



Synergies are emerging.
Upward trend in orders



<Issues>

- A changing market
➔ Customers are struggling.
- Consulting business is struggling. The technology business, on the other hand, is growing about 6% annually.
- **Need for quick action**
➔ Building its business by such means as optimally allocating resources (by sharing people, experience, knowhow, etc.).



Deviation from the business plan
Recording of impairment losses





<Examples of synergy>

① Asia: Consulting

➔ Through provision of consulting, obtain new DCS replacement projects

② Asia: Provide digital solutions that ensure the retention of operational expertise

➔ Proposals for collaboration in AI field

<NEW>

③ Middle East: Received Yokogawa's largest-ever DX (digitalization) integration project order

➔ **KBC's consulting** on organizational and training matters **was a differentiator.**



In addition to Europe and the United States, orders are increasing in Asia (including Japan), the Middle East, India, China, etc.



3 synergies (image)

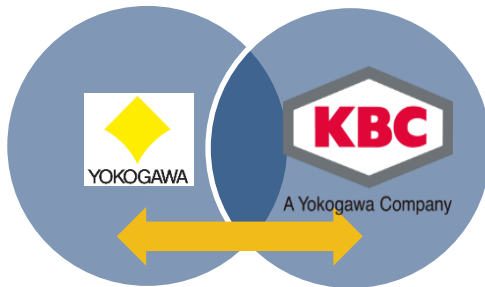
Self-assessment



Increase in orders
from new customer base

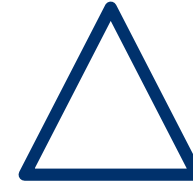
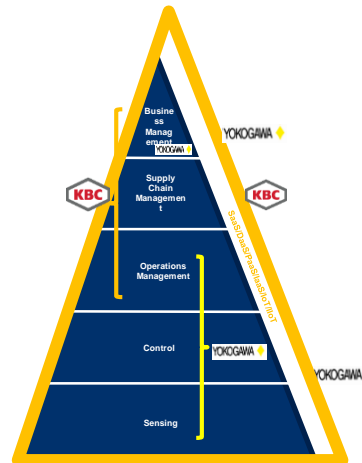
Customer
synergy

April 2016
Acquisition of KBC



Expansion of
business scope in
Yokogawa's forte
industries
(one-stop solutions)

Functional
enhancement
synergy



Value-added
synergy

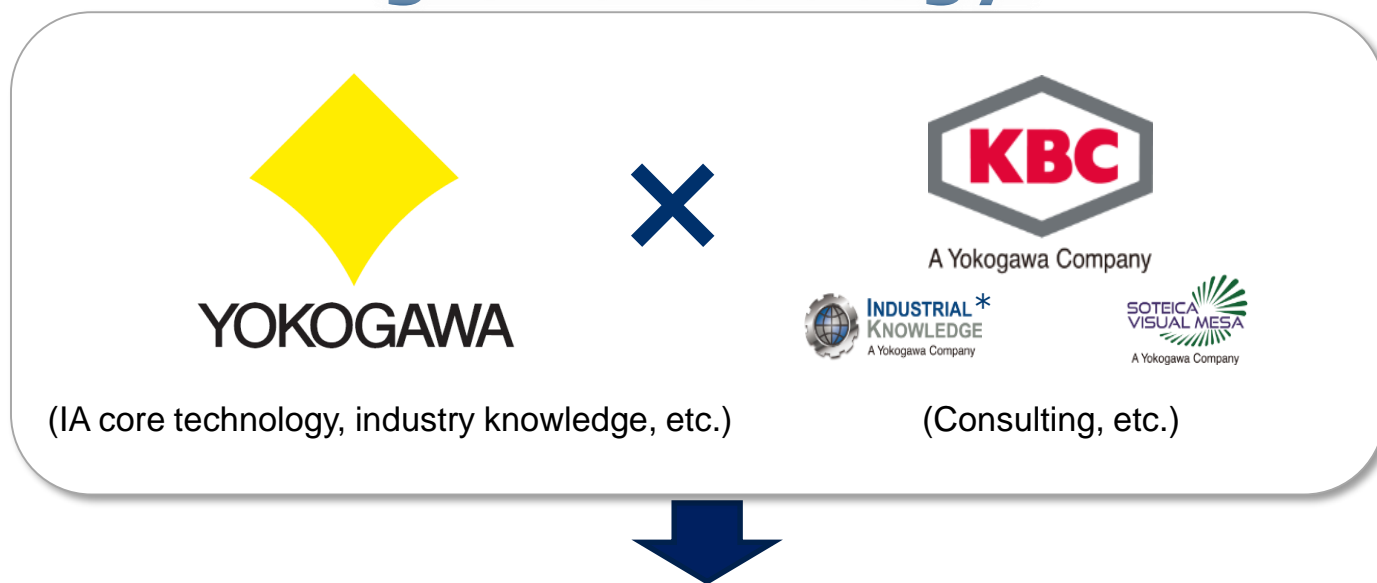
➔ **Joint creation of new
models**
Need for speed

Real synergies through the integration
of people, experience, know-how, etc.
will be visible from here on.



Further synergies are expected with projects in Japan,
the Middle East, etc.

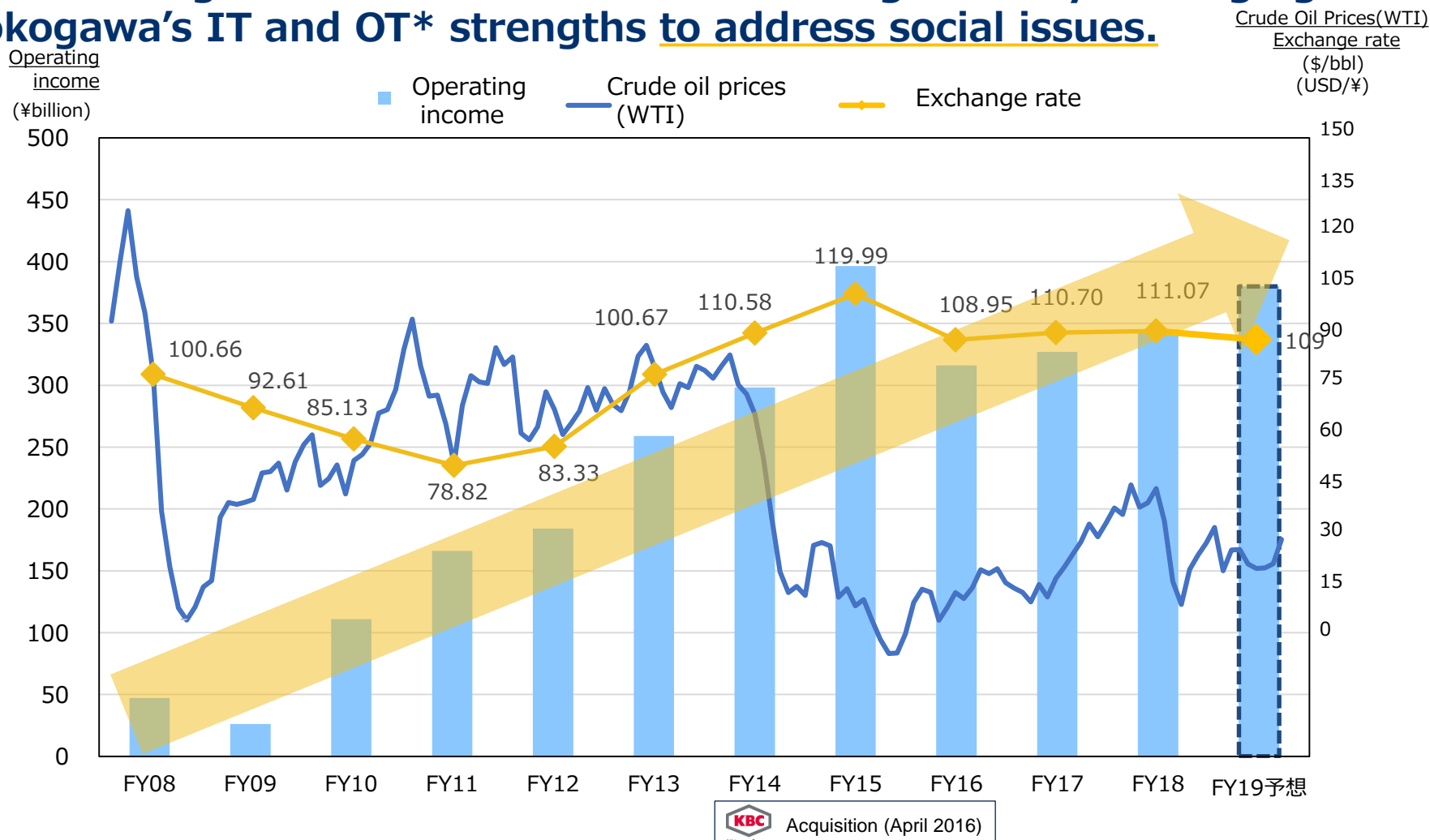
KBC is essential to the Yokogawa Group's growth strategy.



Quickly achieve a digital transformation and
transform based on a new OPEX business model.

Vision: A company that is profitable regardless of what happens in the external environment (more resilient)

Avoid being significantly impacted by factors such as crude oil prices and exchange rates and achieve sustainable growth by leveraging Yokogawa's IT and OT* strengths to address social issues.



Our direction

- Management with a **mid- to long-term perspective**
- Strive to **accelerate transformation** with a focus on **growth** and **efficiency**.
- Aim to **maximize corporate value** by placing the top priority on **growing our business** and **solving social, environmental, and economic issues**.

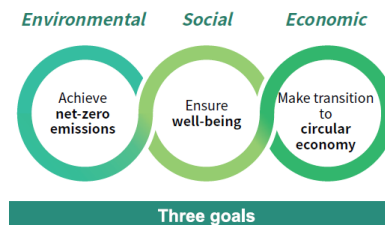


Transformation 2020

Mid-term business plan

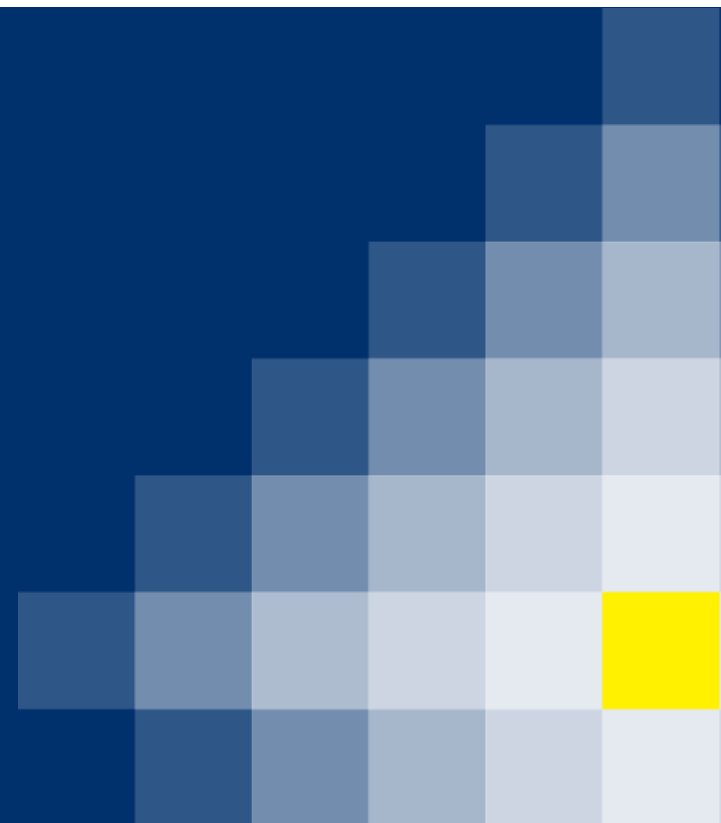
Creating opportunities and
establishing a foundation for growth

Contribute in building a sustainable society.



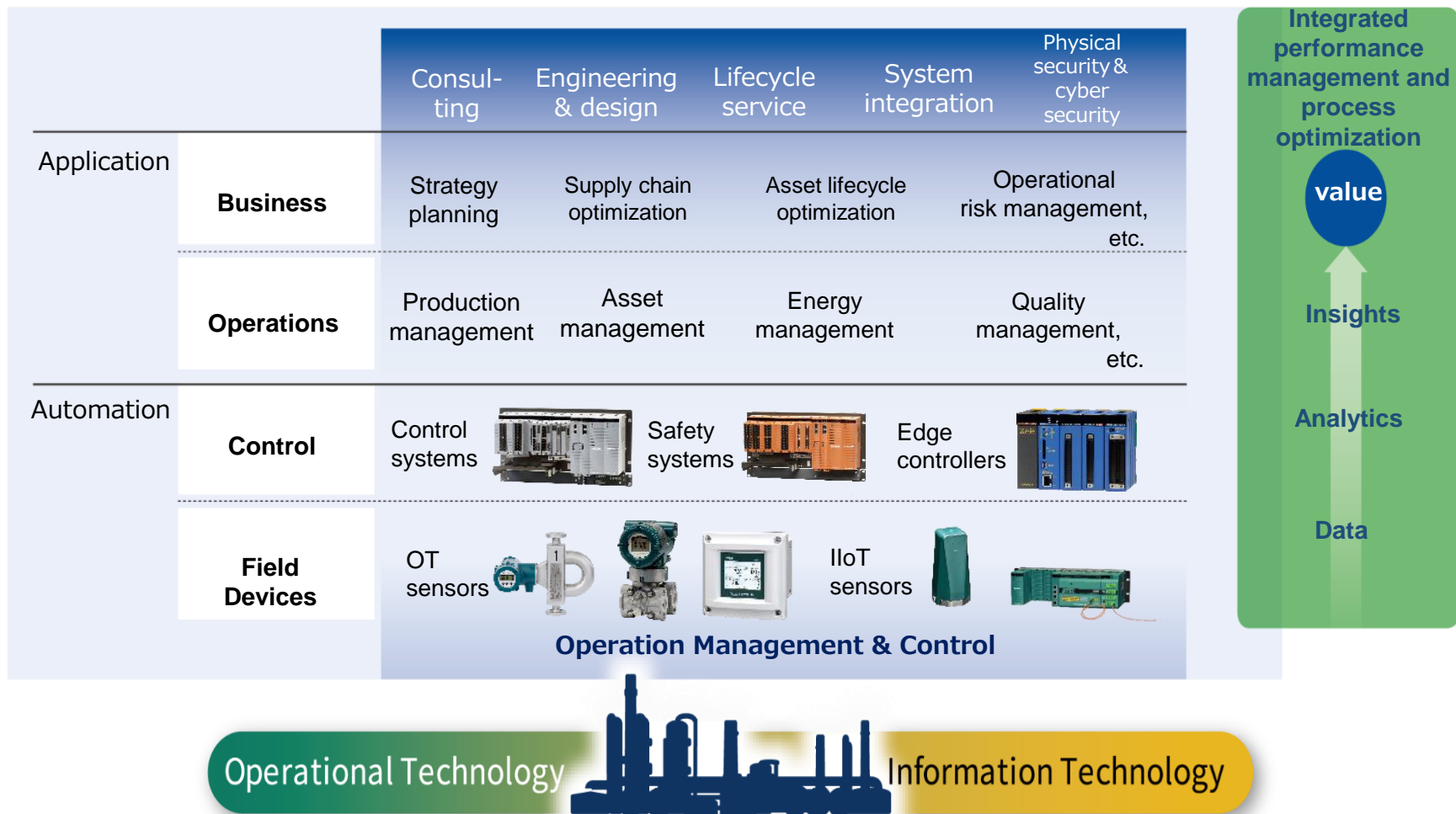
Yokogawa will work to achieve net-zero emissions, make a transition to a circular economy, and ensure the well-being of all by 2050, thus making the world a better place for future generations.

Co-innovating tomorrow™



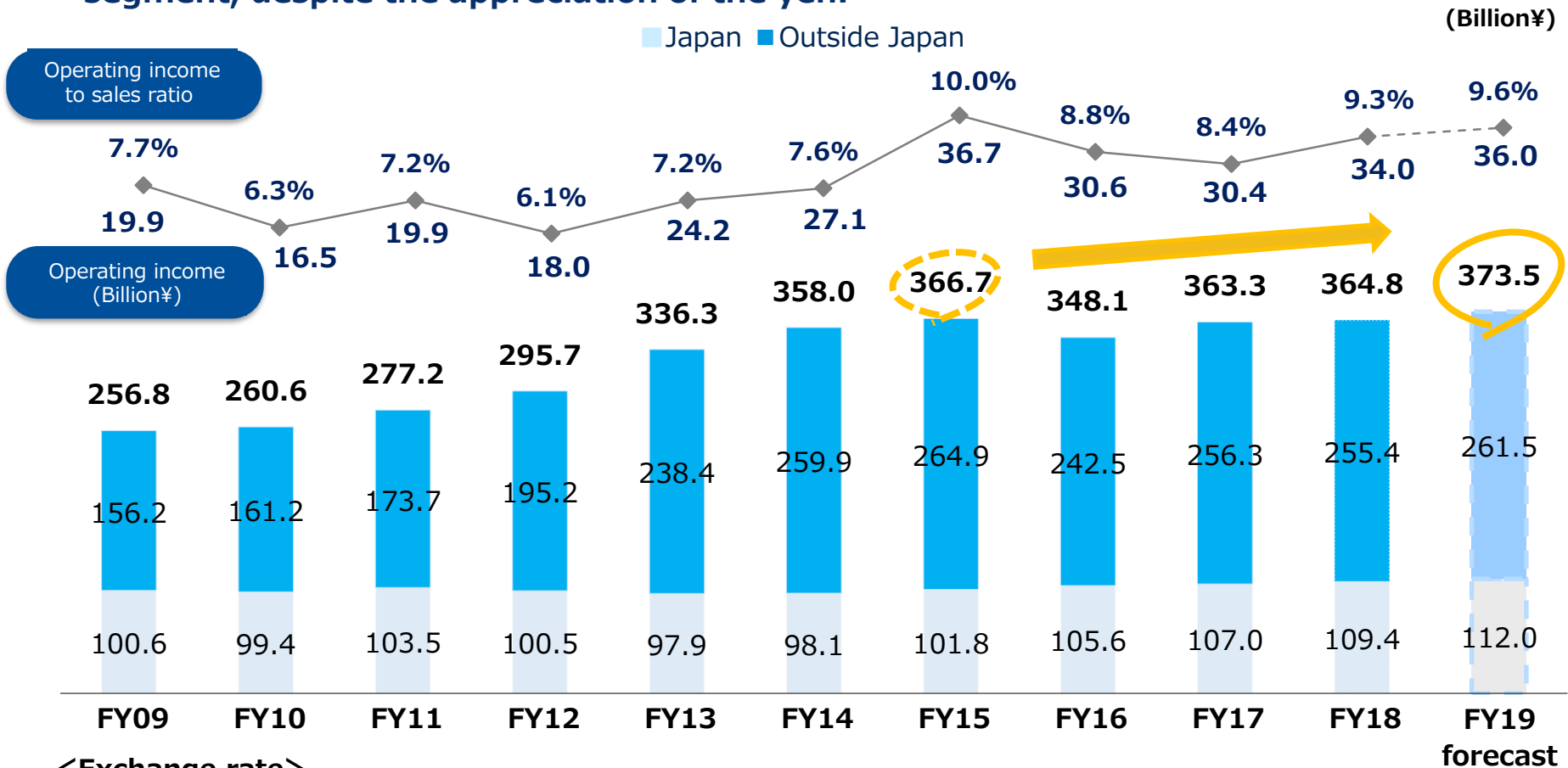
Appendix: Solution Portfolio in Control Segment

From “Automation Supplier” to “Trusted Partner”



Appendix: Trend of global sales in control segment

For the first time in four years, we expect to set a new sales record with the control segment, despite the appreciation of the yen.

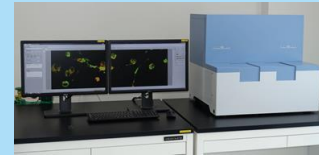


<Exchange rate>

US\$ (¥)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19 Forecast
	92.61	85.13	78.82	83.33	100.67	110.58	119.99	108.95	110.70	111.07	110.00

Appendix: News (from November 6 to February 4)

Yokogawa acquires nanopipette technology from US venture, BioStinger, Inc., for use in life science applications. (single cell analysis solutions)



Nov. Yokogawa receives IR Special Award from the Japan Investor Relations Association (JIRA)

Yokogawa and MetaMoJi Corporation release SensPlus Note, a solution for the digitization of field data using mobile devices



Yokogawa signs strategic alliance agreement with Saudi Basic Industries Corporation (SABIC), ranked among the world's largest petrochemical manufacturers



Yokogawa holds sustainability meeting
https://www.yokogawa.co.jp/about/ir/shiryo/sustainability_meeting-ja/



Yokogawa releases Exaquantum™ R3.20 plant information management system, a software package in the OpreX™ Asset Operations and Optimization family

OpreX™

Jan. Yokogawa obtains ISASecure SDLA certification for control system development process

Completion of Yokogawa project in Indonesia earns credit under Joint Crediting Mechanism (JCM)

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

Appendix: Yokogawa's Main ESG Indexes

As of January 2020

DJSI-Asia Pacific
FTSE4Good Index Series
MSCI ESG Leaders Indexes
FTSE Blossom Japan Index
MSCI Japan ESG Select Leaders Index
MSCI Japan Empowering Women Index
SNAM Sustainability Index
CDP
S&P/JPX Carbon Efficient Index



MEMBER OF
**Dow Jones
Sustainability Indices**

In collaboration with



FTSE4Good



FTSE Blossom
Japan

MSCI 

2019 Constituent
MSCI ESG
Leaders Indexes

MSCI 

MSCI Japan Empowering
Women Index (WIN)

MSCI 

MSCI Japan ESG
Select Leaders Index

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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".

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