

Yokogawa Electric Corporation

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

February 5, 2019

■ 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.

1. Financial Results for 3rd Quarter of Fiscal Year 2018

Junichi Anabuki
Director, Senior Vice President
Corporate Administration Headquarters

2. Current Situation and Forecast (Forecast : No change)

3. 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

4. Appendix : Other Items

- TF2020 Management Indicators
- Trend of Global Sales in Control Segment
- News
- Trend of Stock Price
- Yokogawa's Main ESG Indexes

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	¥111.34	(0.43)	—	—

Analysis of Operating Income (FY17 1Q-3Q/FY18 1Q-3Q comparison)

(Billion¥)

Higher gross margin

Effect of KBC acquisition

Exchange rate

(¥)

	FY17 3Q	FY18 3Q
US\$	111.77	111.34
EUR	129.57	129.18

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

(Decrease of goodwill and allowance for doubtful accounts at KBC)

+2.8

+1.6

(2.3)

+3.6

(0.4)

(0.8)

Changes in accounting method

Organic increase in SG&A

(including strategic investments [1.6])

25.1

FY17 1Q-3Q

Operating income

FY18 1Q-3Q

Operating income

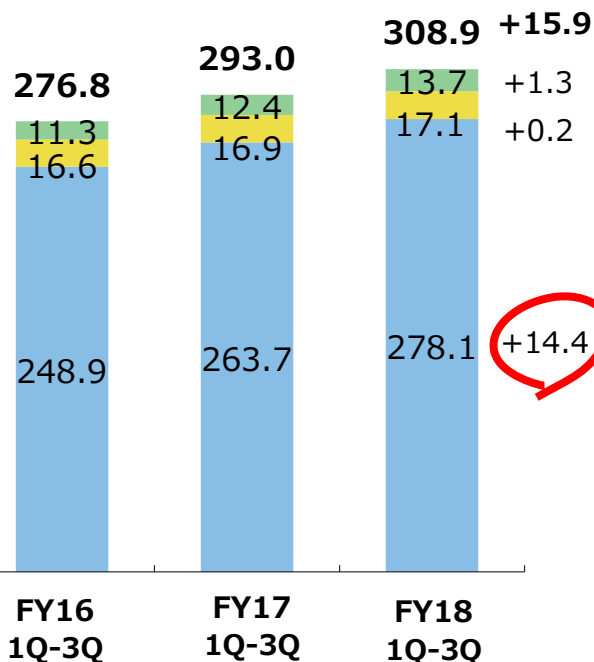
FY17 1Q-3Q/FY18 1Q-3Q Comparison for Orders, Sales, and Operating Income by Segment

- ◆ Control: System orders and product sales were strong mainly outside Japan; operating income was up year on year due to the increased sales, improvement of the gross margin mainly in Japan and the decrease in the allowance for doubtful accounts.
- ◆ Measurement: Orders, sales, and operating income were roughly the same, year on year.
- ◆ Aviation and other: Operating income declined year on year due to a decline in sales and the gross margin.

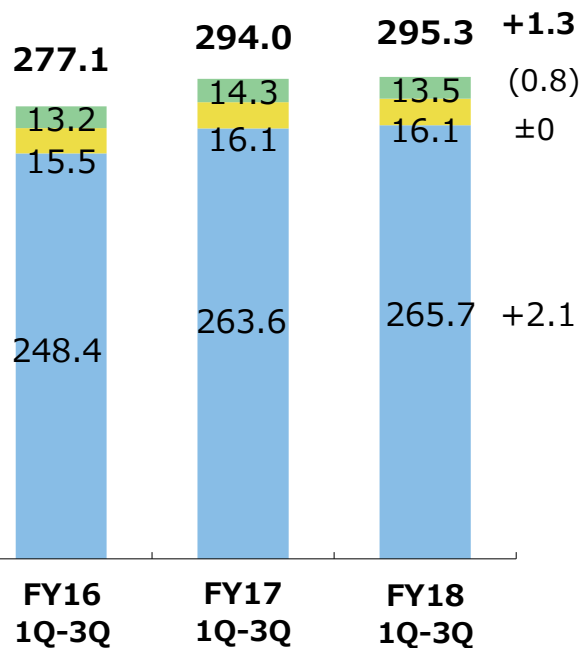
■ Control ■ Measurement ■ Aviation and other

(Billion¥)

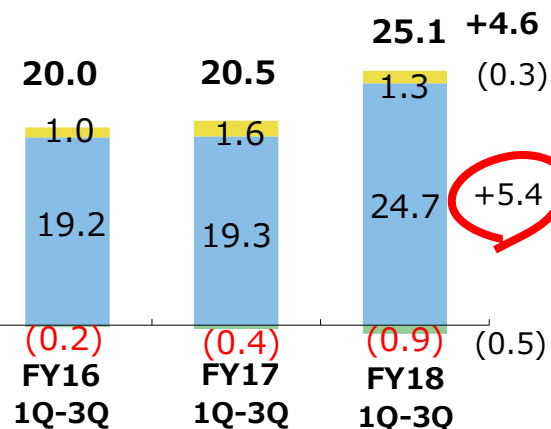
Orders



Sales



Operating income



Orders and Sales by Region in Control Segment

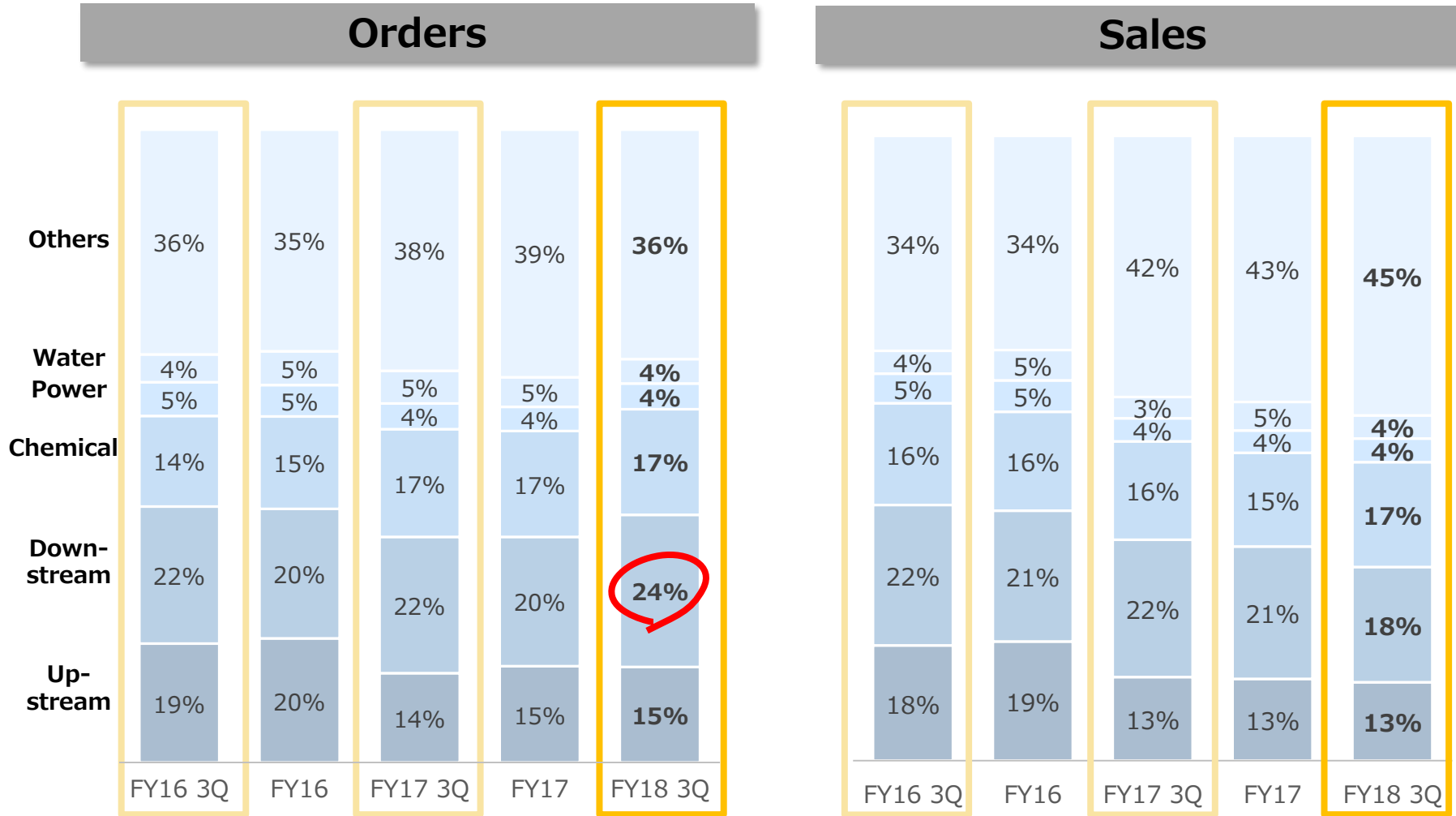
- ◆ Orders were up outside Japan, particularly in India and the Middle East.
- ◆ Sales were up in Asia, particularly in China.

Orders	FY17 1Q-3Q (A)	FY18 1Q-3Q (B)	Difference (B-A)
Japan	77.9	77.6	(0.3)
Asia	89.8	94.9	5.1
(South-eastern Asia and Far East)	51.5	48.9	(2.6)
(China)	30.3	31.8	1.5
(India)	8.0	14.2	6.2
Europe and CIS	37.5	38.3	0.8
Middle East and Africa	32.9	39.1	6.2
North America	19.8	21.8	2.0
Central and South America	5.8	6.4	0.6
Outside Japan	185.8	200.5	14.7
Consolidated	263.7	278.1	14.4
Exchange rate 1\$ =	¥111.77	¥111.34	(¥0.43)

Sales	FY17 1Q-3Q (A)	FY18 1Q-3Q (B)	Difference (B-A)
Japan	74.9	75.2	0.3
Asia	84.4	89.2	4.8
(South-eastern Asia and Far East)	49.0	49.7	0.7
(China)	27.2	31.3	4.1
(India)	8.2	8.2	0.0
Europe and CIS	36.7	37.6	0.9
Middle East and Africa	40.5	35.8	(4.7)
North America	21.3	21.7	0.4
Central and South America	5.9	6.2	0.3
Outside Japan	188.8	190.5	1.7
Consolidated	263.7	265.7	2.0
Exchange rate 1\$ =	¥111.77	¥111.34	(¥0.43)

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

◆ Downstream orders were up.

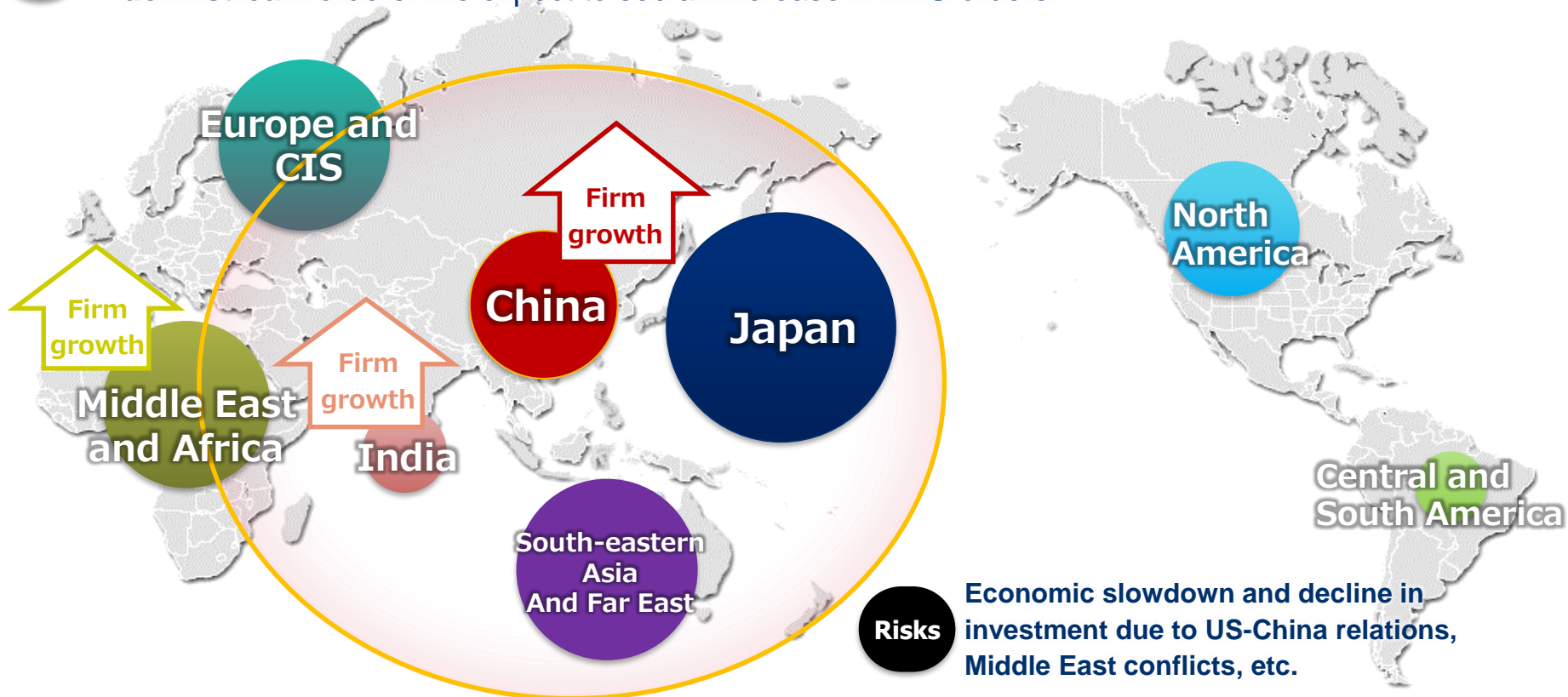


Current Situation

Market conditions **OPEX-related investment** to improve productivity is continuing. Some customers have resumed active CAPEX investment.

Region **Growth is firm** for **system** orders in the **Middle East** and **India**, and **product sales** in **China**. Opportunities to receive project orders are expected in **North America** and **Russia**.

Industry **Growth is firm** in **chemicals** (including petrochemicals), and increases are anticipated in **downstream** orders. We expect to see an increase in **LNG** orders.



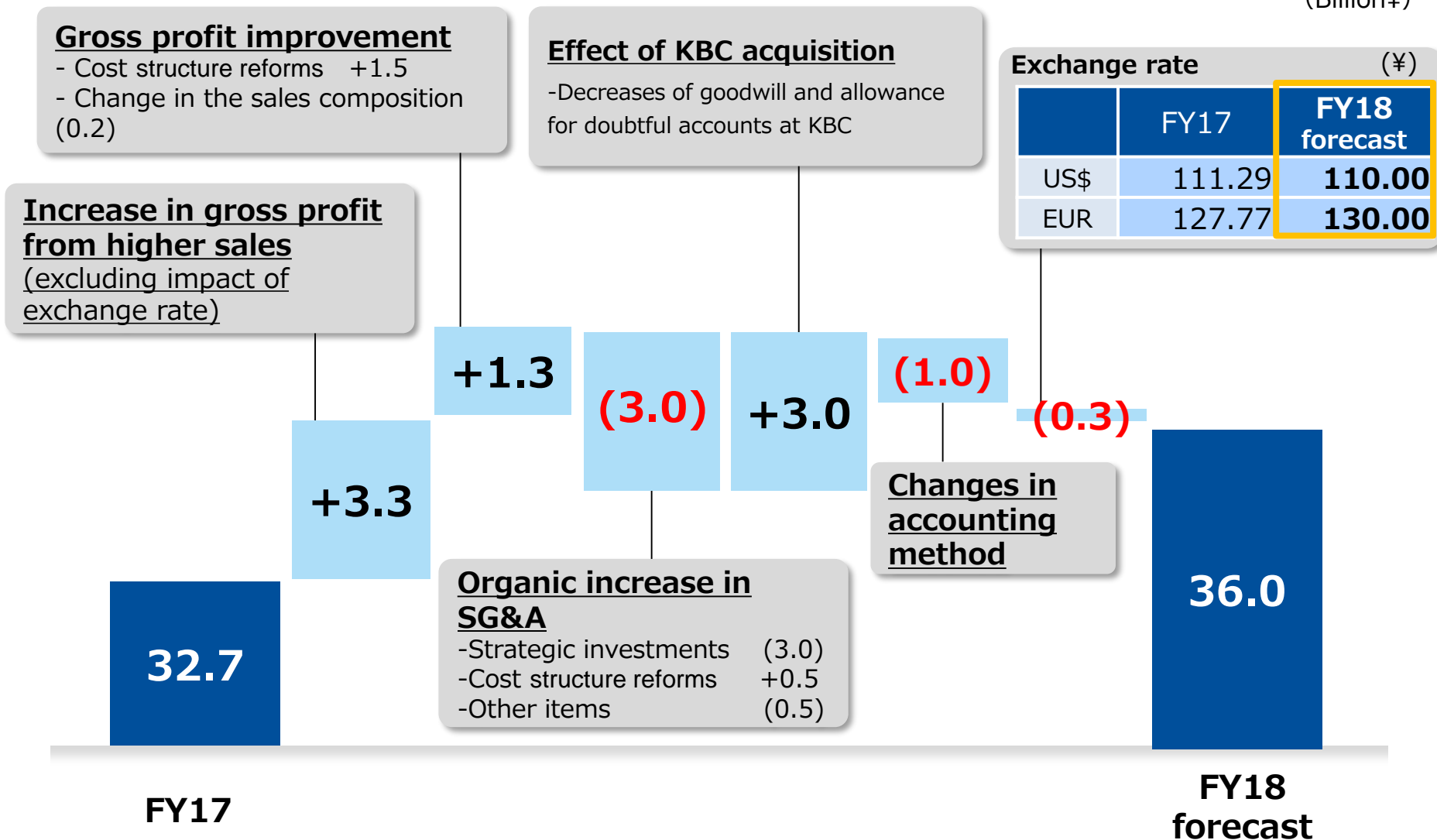
FY18 Forecast

◆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)	—

Factors Accounting for Increase/Decrease in FY18 Operating Income

(Billion¥)



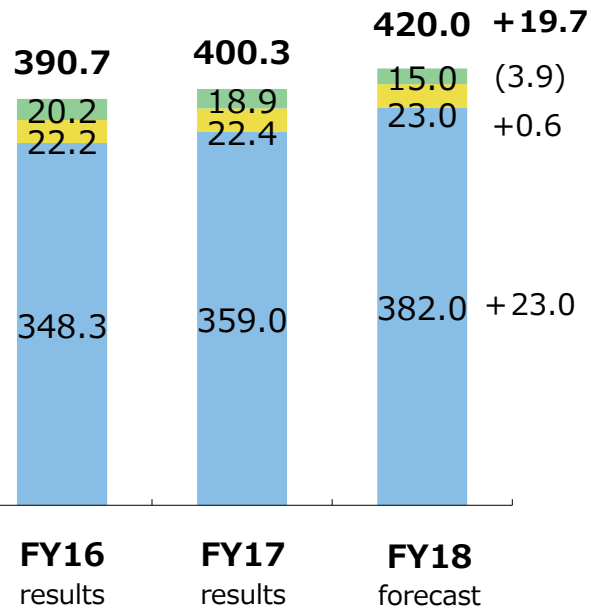
FY18 Forecast for Orders, Sales, and Operating Income by Segment

- ◆ 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.

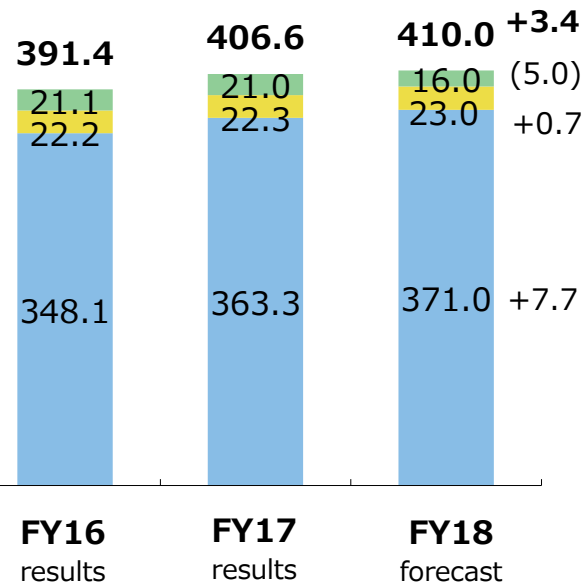
(Billion¥)

■ Control ■ Measurement ■ Aviation and Other

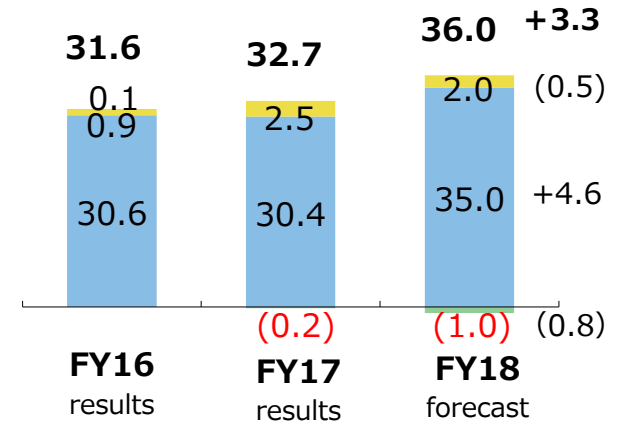
Orders



Sales



Operating income



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
	(A)	(B)	(B-A)
Japan	107.3	110.0	2.7
Asia	118.0	124.0	6.0
(South-eastern Asia and Far East)	66.5	66.5	0.0
(China)	39.7	41.5	1.8
(India)	11.8	16.0	4.2
Europe and CIS	52.6	58.0	5.4
Middle East and Africa	43.7	53.0	9.3
North America	29.3	30.0	0.7
Central and South America	8.1	7.0	(1.1)
Outside Japan	251.7	272.0	20.3
Consolidated	359.0	382.0	23.0
Exchange rate 1\$ =	¥110.70	¥110.00	(¥0.70)

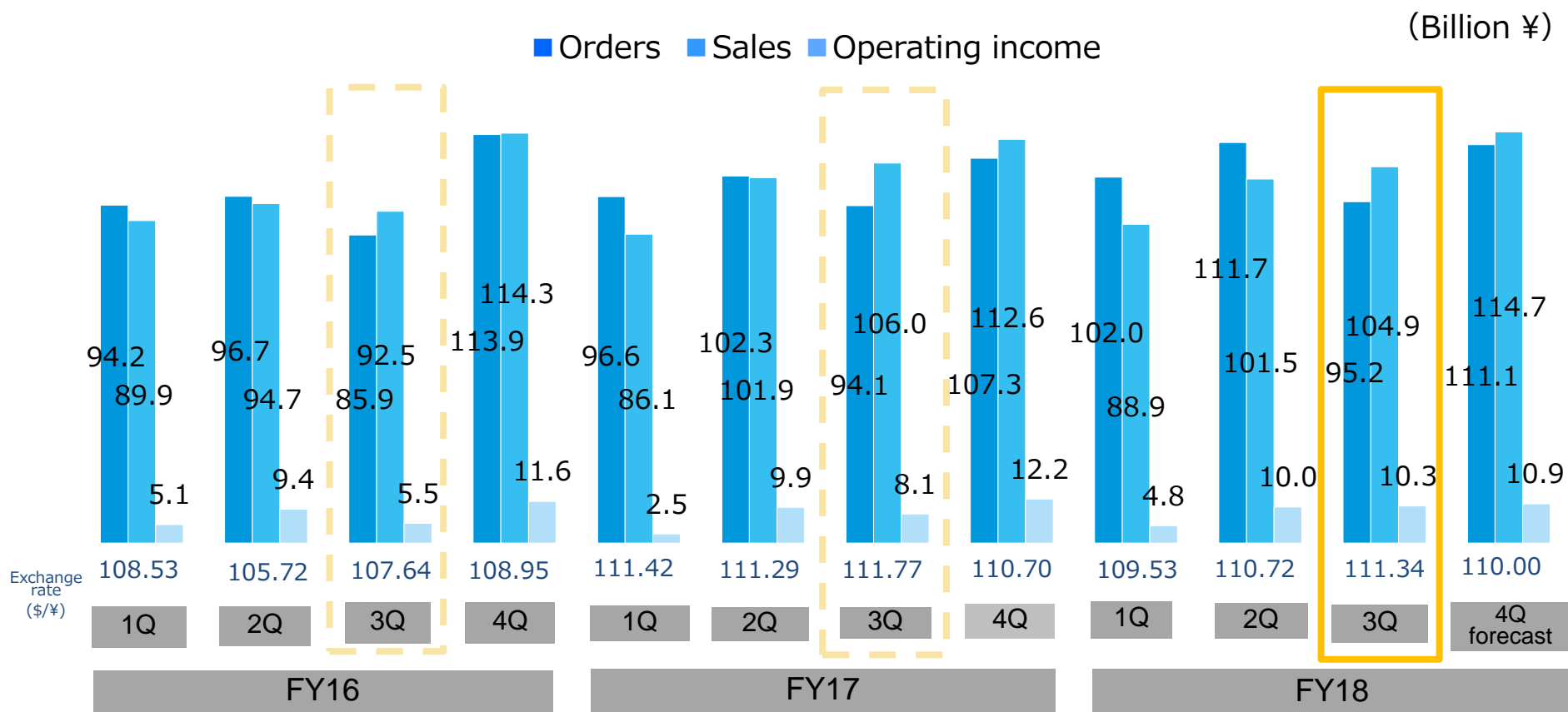
Sales	FY17 Results	FY18 Revised Plan(2/5)	Difference
	(A)	(B)	(B-A)
Japan	107.0	110.0	3.0
Asia	115.5	121.5	6.0
(South-eastern Asia and Far East)	67.4	68.0	0.6
(China)	35.5	40.5	5.0
(India)	12.6	13.0	0.4
Europe and CIS	52.2	56.0	3.8
Middle East and Africa	52.3	47.0	(5.3)
North America	28.5	29.5	1.0
Central and South America	7.8	7.0	(0.8)
Outside Japan	256.3	261.0	4.7
Consolidated	363.3	371.0	7.7
Exchange rate 1\$ =	¥110.70	¥110.00	(¥0.70)

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.

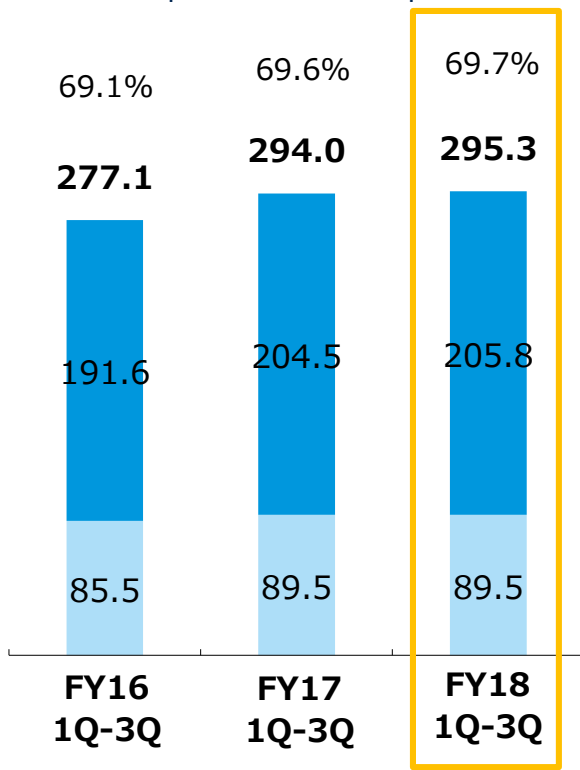


Appendix: Trend of Global Sales

Total

(Billion¥)

■ Japan ■ Outside Japan



By segment

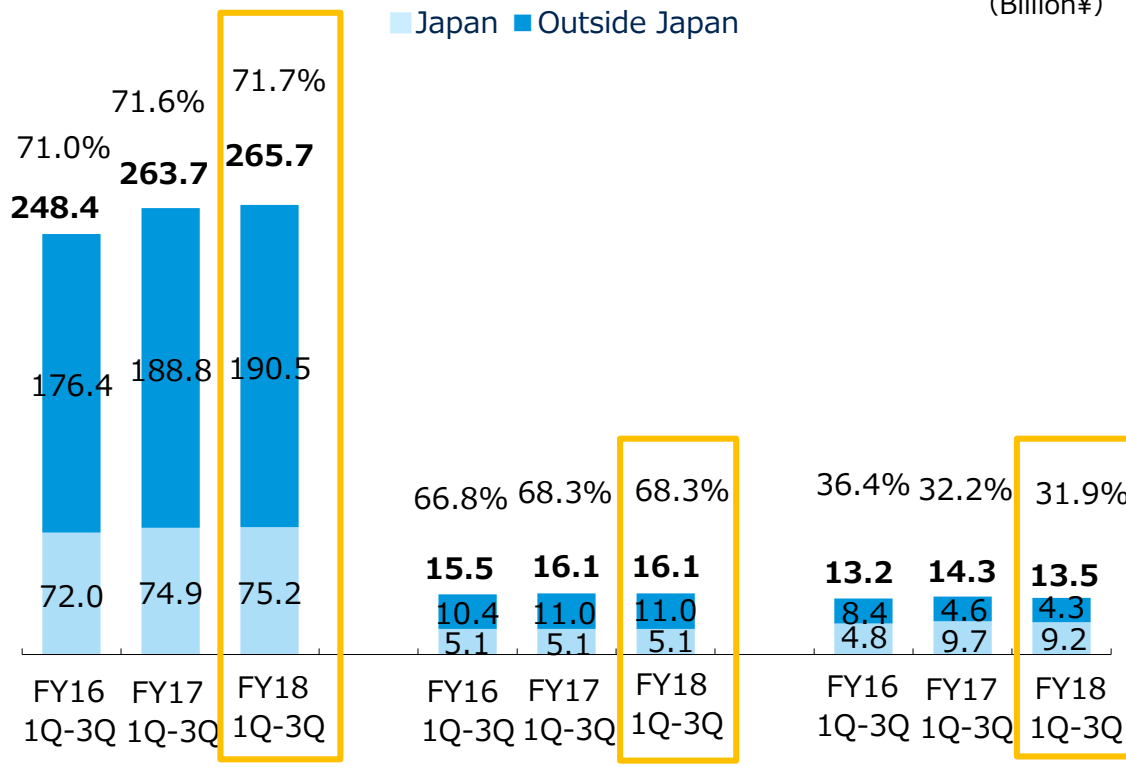
Control

Measurement

Aviation and other

(Billion¥)

■ Japan ■ Outside Japan



Appendix: Non-operating / Extraordinary Income and Expenses

(Billion ¥)

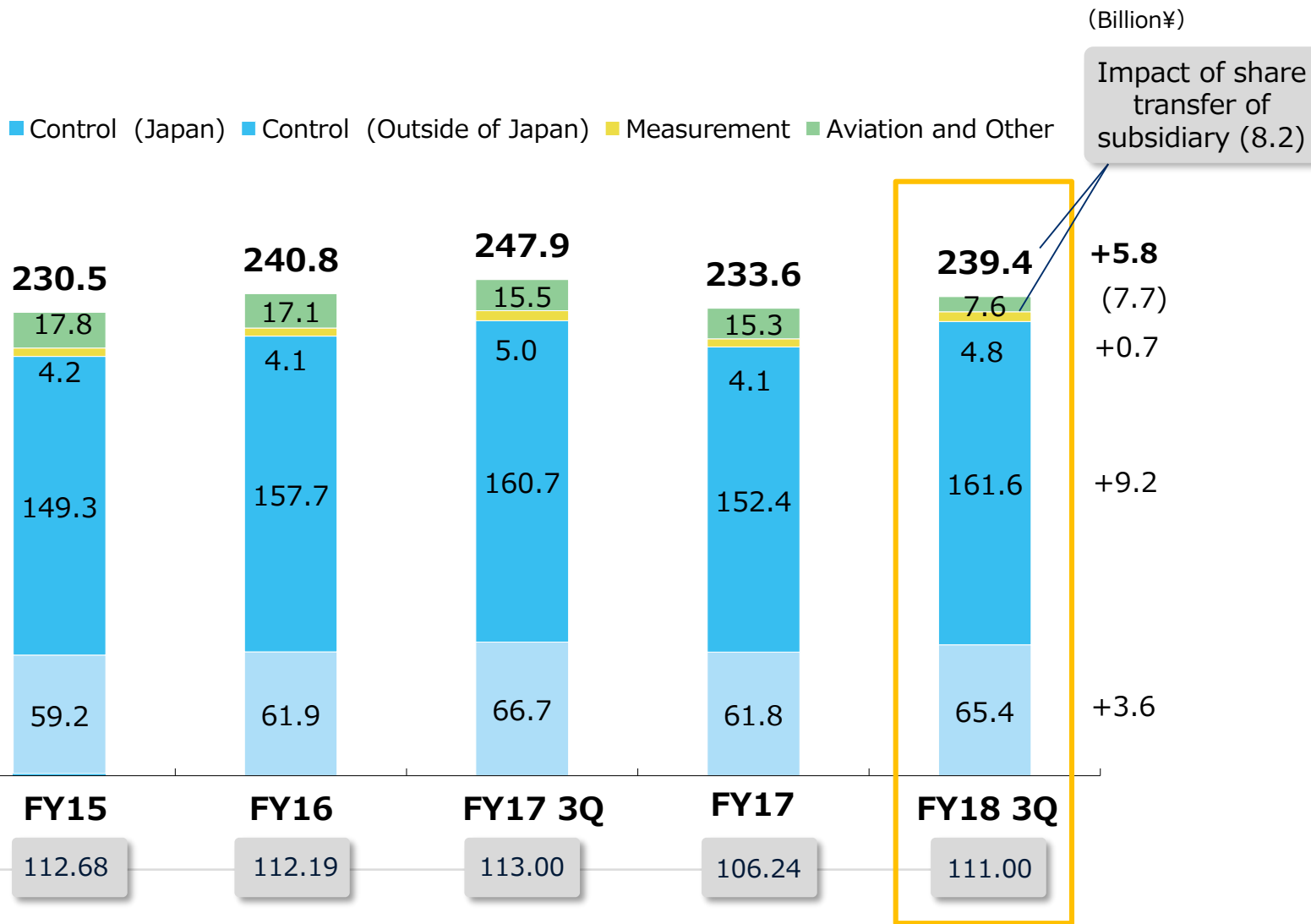
	FY17 1Q-3Q	FY18 1Q-3Q
Operating income	20.5	25.1
Non-operating income	2.5	2.5
Non-operating expenses	2.5	1.5
Ordinary income	20.5	26.1
Extraordinary income	5.7	2.5
Extraordinary expenses	9.4	0.2
Income before tax	16.8	28.4
Tax, etc.	8.1	9.3
Profit attributable to owners of parent	8.7	19.1
(Effective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

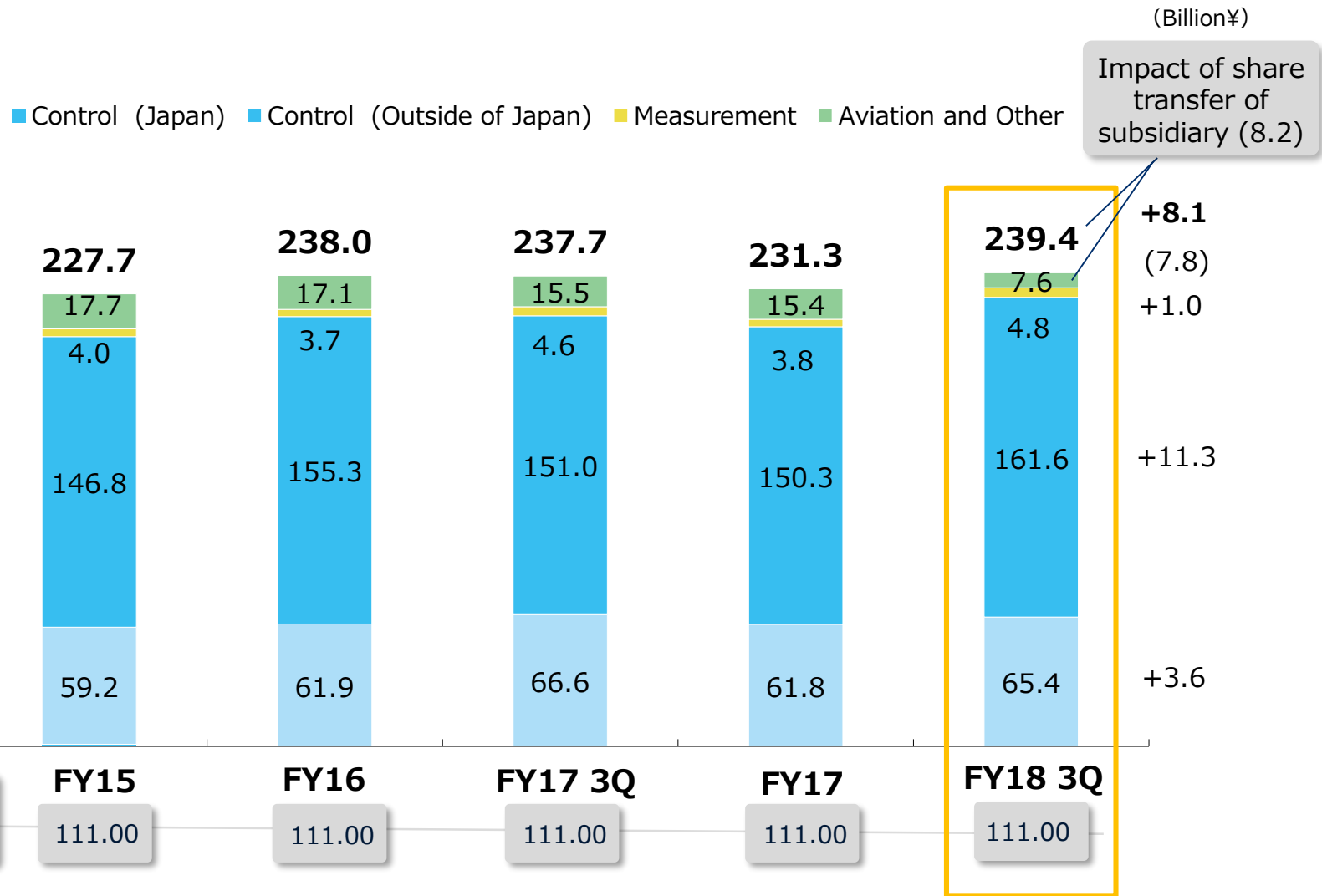
FY18:
Gain on sales of shares of subsidiaries and associates: ¥1.8 billion

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



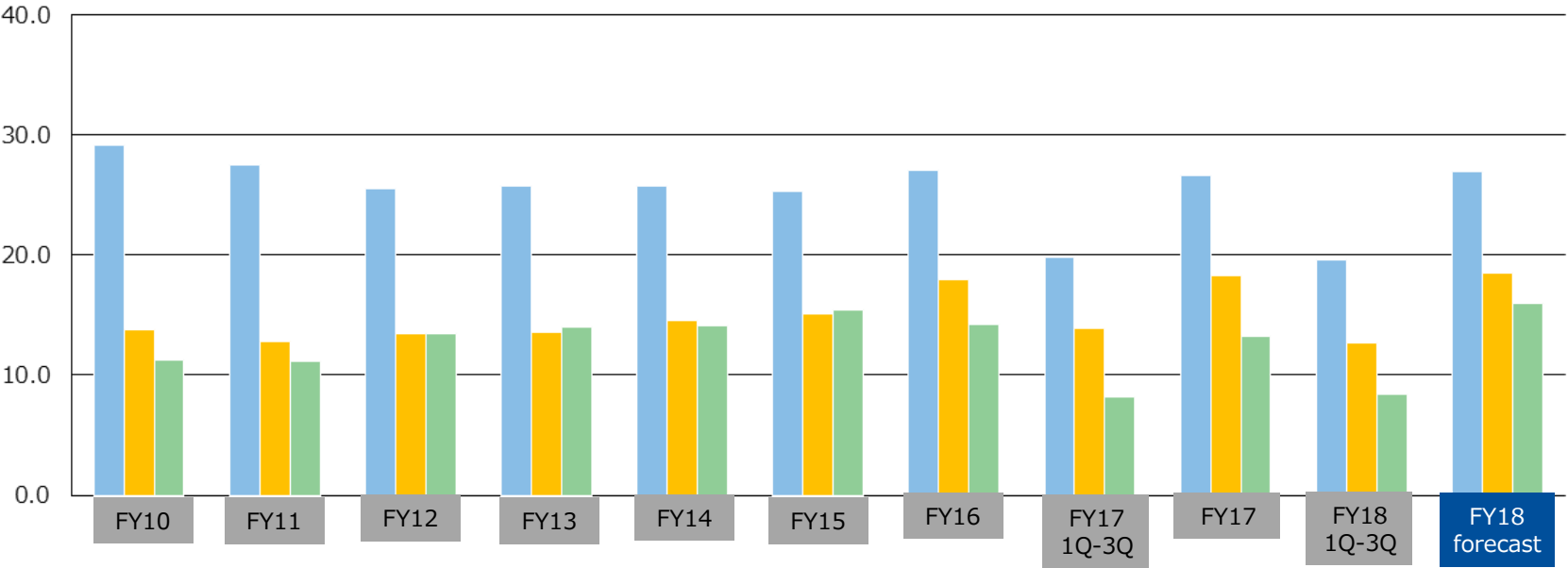
Appendix: Order Backlog Trend by Segment (Using FY18 3Q exchange rate)



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

R&D Depreciation CAPEX

(Billion¥)

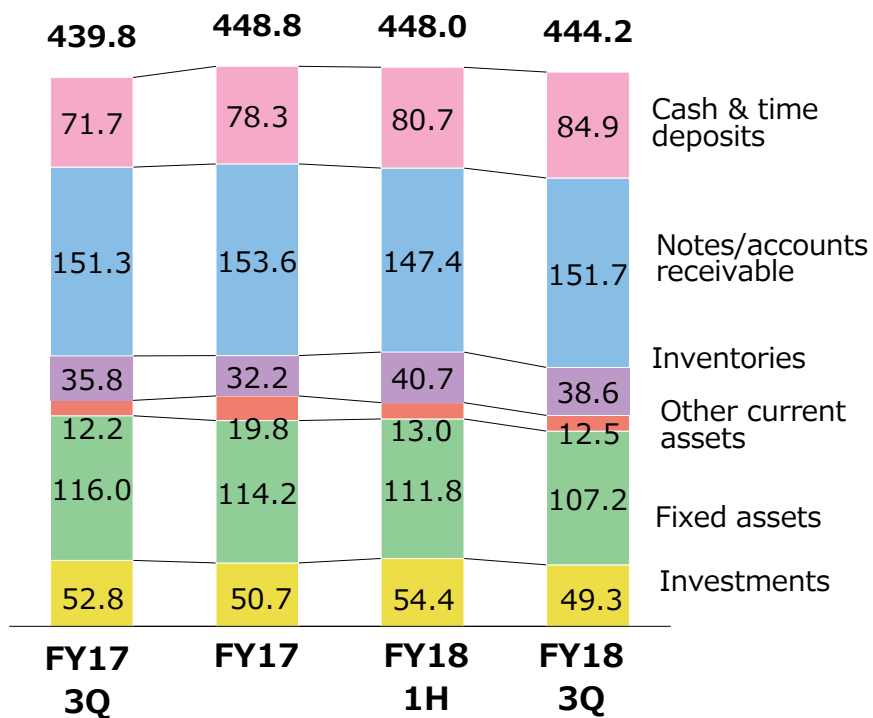


	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17 1Q-3Q	FY17	FY18 1Q-3Q	FY18 forecast
R&D expenses (% of sales)	29.2	27.5	25.5	25.8	25.8	25.3	27.1	19.8	26.6	19.6	27.0
	9.0%	8.2%	7.3%	6.6%	6.4%	6.1%	6.9%	6.7%	6.5%	6.7%	6.6%
Depreciation (% of sales)	13.8	12.8	13.5	13.6	14.5	15.1	18.0	13.9	18.3	12.7	18.5
	4.2%	3.8%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

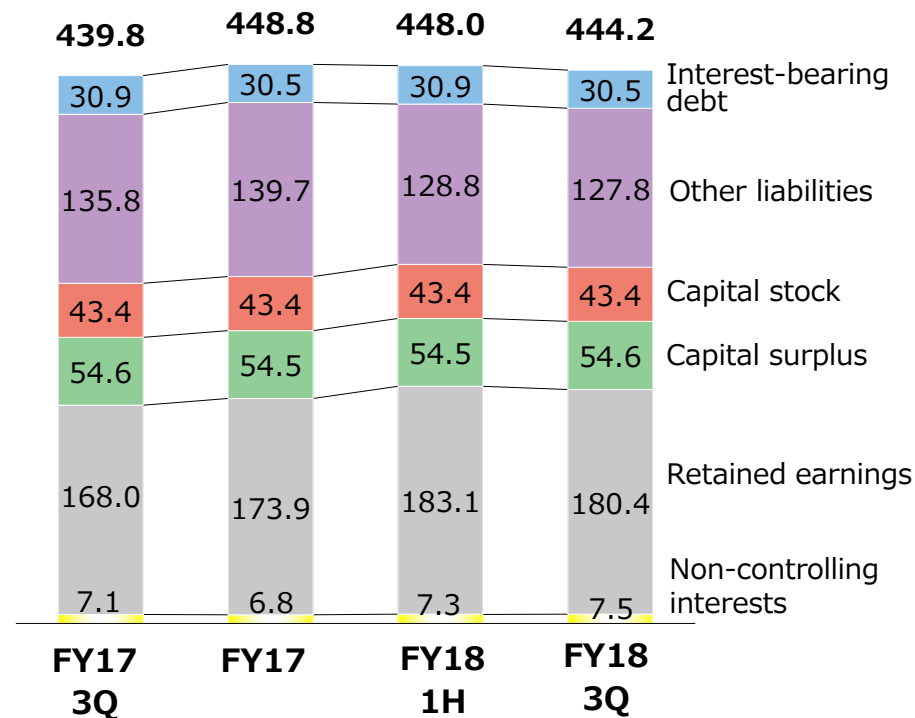
Appendix: Trend of Balance Sheet

(Billion¥)

Assets



Liabilities and equity



Co-innovating tomorrow™

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)

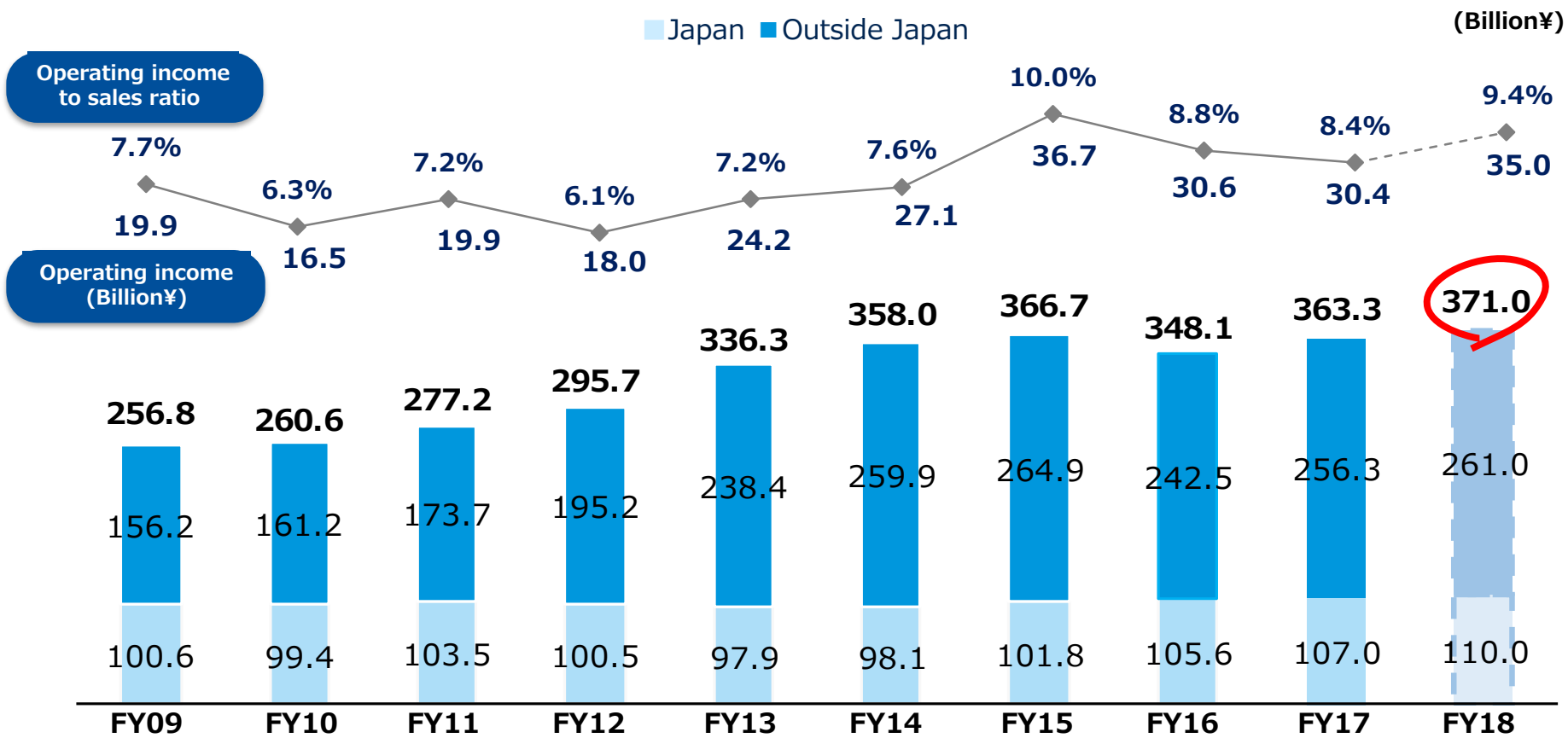
Exchange rate (1\$): 110 yen

*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

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.

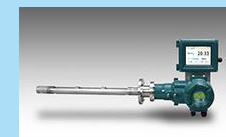
Yokogawa releases Field Assistant R2.03 with enhanced functionality for the field inspection of industrial facilities

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



TDLS8100

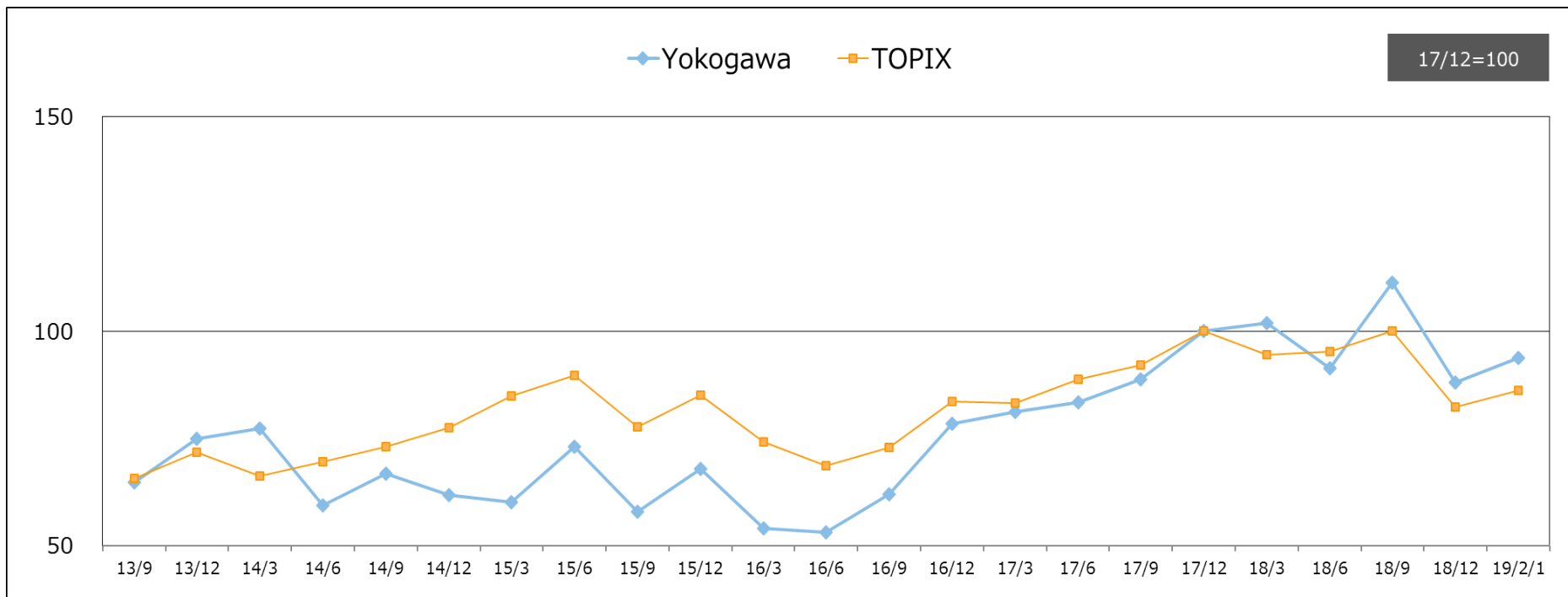
Yokogawa releases TDLS8100 probe type tunable diode laser spectrometer for the direct measurement of oxygen and carbon monoxide gas concentrations at high speeds

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.

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

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

MSCI



2018 Constituent
 MSCI ESG
 Leaders Indexes



Member of SNAM
 Sustainability Index
 2018



FTSE Blossom
 Japan



MSCI



2018 Constituent
 MSCI Japan Empowering
 Women Index (WIN)

MSCI



2018 Constituent
 MSCI Japan ESG
 Select Leaders Index

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.

Yokogawa undertakes no obligation to publicly update or revise any forward-looking statements after the issue of this document except as provided for in laws and ordinances.

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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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