

Risks Relating to the Group's Business

Described below are matters related to the Group's business that are considered to be the main sources of risk or that could significantly affect investor's decision-making. Recognizing the possibility that these risks may materialize, the Group will work to avoid these risks and take appropriate measures should they occur. However, investment decisions regarding Yokogawa's securities should be made carefully by evaluating the matters stipulated below along with the matters discussed in other sections of this document. The risks described below include forward-looking statements that are based on judgments made by the Group at the end of fiscal year 2022 and are subject to uncertainties. Therefore, actual results may vary from the statements.

(1) Risks relating to the external environment (Related to social conditions)

The scope of the Group's activities extends not just to Japan but also to various parts of the world. Changes in external conditions in each region could adversely affect the Group's business results and financial situation. Specifically, the following risks have been identified.

- Political or economic factors in each country
- Impact of taxation and trade restrictions
- Differences in commercial practices outside Japan
- Social turmoil stemming from natural disasters (earthquakes, fires, floods, tsunami, etc.), wars, riots, terrorism, infectious diseases, strikes, and other factors
- Cyberattacks affecting the Company products, services and infrastructure
- Incomplete understanding of regulations, sanctions, patents, etc., and new laws or revision of regulations in countries where we operate, including those pertaining to the protection of the environment

The Company strives to prevent, avoid, and reduce the impact of these risks by collecting information within the Group and contracting external organizations.

For the global outbreak of COVID-19, we are assessing the impact on economic activity, including supply chain disruptions due to localized lockdowns. In addition, we are responding to "Coexist with COVID-19" by transitioning to a flexible work style that combines office work and telework.

In addition, the situation in Russia and Ukraine continues to be characterized by a tightening of energy supply and demand and soaring prices for resources and raw materials. The Crisis Management Committee continues to share information and consider policies and measures to address the situation.

The Group's consolidated earnings forecast for the coming fiscal year (FY2023) are projecting decrease for orders based on expectation of slow growth of the global economy as a whole, a perception that the cycle of the orders received for large-scale projects restarted after COVID-19 was coming to an end, and expectation of slowdown in investment in the materials industry. Net sales and operating profit are expected to grow to a limited extent due to ongoing difficulties in procuring production parts including semiconductors and project-procured products. As a result, ordinary profit is expected to increase slightly, while profit attributable to owners of parent is expected to increase due to gains on sales of investment securities.

The world is experiencing increasing needs for the resolution of social issues such as the energy transition to realize a low-carbon society and innovation in digital technology. The Group sees these changes in the business environment as opportunities and will establish a business structure focused on solving common social issues for growth, while expanding its contribution to society and the environment to achieve growth.

(Related to fluctuations in foreign exchange rates, interest rates, or stock prices)

The Group operates globally and uses many currencies for its business transactions and activities. The Group enters into forward exchange contracts in order to respond to fluctuations in foreign exchange rates. However, there is the risk that foreign exchange rates may swing rapidly and sharply, which may affect the Group's business results and financial situation.

There is the risk that changes of interest rates related to the Group's assets and liabilities may impact interest earnings and asset values, which may affect the Group's business results and financial situation.

There is the risk that the prices of the stocks and other securities held by the Group may fluctuate, which may affect the Group's business results and financial situation.

(2) Risks relating to strategy (Related to markets/competitive environment)

1) Cost competitiveness

As the Company aggressively develops its businesses, competition in construction and modernization projects is intensifying, and demand for cost reduction is intensifying. At the same time, resource-rich and emerging countries are increasingly prioritizing their own countries, and there is increasing demand for the localization of employment, services and procurement, including product production. Although the Company is working to increase its cost competitiveness, there is the risk that the Company will lose business opportunities if it cannot effectively respond to the demand in these markets that costs be reduced, including product and service costs and selling, general and administrative expenses. This could affect our Group's business results and financial situation.

2) Establishment of competitive advantages by the use of digital technologies

There is growing demand for a dramatic increase of productivity in business processes throughout the value chain and product life cycle through the utilization of digital technologies. The Company must respond to this demand as a business and establish a competitive advantage. Recognizing this as an opportunity for business growth, the Group is working to create new value through digital transformation in a wide range of fields, not only for itself but also for its customers. If the Company is unable to keep up with new technology or meet the demands of these markets, this could lead to the loss of business opportunities, which could affect the Group's business results and financial situation.

3) Transformation of business model to match market needs

While changes in society and technological innovations are creating many new business models, the Group's customers are also increasingly demanding subscription businesses and other businesses that reduce initial deployment costs and provide flexibility in operations and maintenance after deployment. The Group is also transforming its business model by working to establish performance-based compensation businesses and service-providing businesses. There is a risk that business opportunities will be lost if the Group is unable to adequately respond to the new market needs that are changing towards the future, or if it delays its efforts. This could affect the Group's business results and financial situation.

4) Changes in the market environment due to climate change initiatives

Society's increasing demand for action regarding climate change initiatives may affect the strategies of the Group's customers. In the energy-related field, in which the Group's major customers operate, it recognizes that they are studying measures to address environmental change, such as a shift of energy resources from a long-term perspective. The Group views these changes as business opportunities and is working to respond to changes in the market environment. However, if the Group is unable to respond to these changes in the customers' environments or if its efforts are delayed, there is the risk that business opportunities may be lost or corporate value may decline. This could affect the Group's business results and financial situation.

(Related to strategic investment)

The Group is investing mainly to acquire technologies, sales channels, products and services, customers, human resources, and expertise, while strengthening its strategic growth investments in the creation of new businesses and new fields and examining M&A and alliances as necessary. The Company is fully prepared to carry out the entire process from project discovery to investment, to improve the accuracy of evaluation and verification, and to swiftly launch businesses after investment. The Company is also working to develop and utilize the human resources that support it. However, there is the risk that the expected results will not be achieved due to unexpected changes in the environment. In addition, there is the risk that a business may not be able to start up quickly after investment if the acquired assets and opportunities are not fully utilized, and that the expected results may not be achieved. This could affect the Group's business results and financial situation.

(Related to R&D)

The Group regards basic research into measurement, control and information, and the development of advanced technologies and digital technologies such as the IoT and AI as its most important management issues, and is continuously promoting the development of new technologies with a view toward the future. In addition, in response to changing international standards, efforts to realize a sustainable society such as the SDGs are being strengthened. However, there is the risk that development investments will not meet future market demands and targets as planned. In this event, business opportunity losses may affect the Group's business results and financial situation. The Company also continues to invest in R&D for product technology and service innovation to maintain its competitiveness. However, there is the risk that the Company's R&D investments will not succeed if it fails to understand market trends regarding products and services with growth potential. In addition, there is the risk that R&D investments do not produce innovative technologies or produce the results that were expected even if they fit the market, or competitors may precede the Group in the development of the technology. In these cases, business opportunity losses may affect the Group's business results and financial situation.

(Related to the recruitment and training of human resources)

The Group's growth is supported by its capable personnel, such as the human resources who support its leading-edge technologies and the engineers who ensure high product quality. In particular, the importance of human resources capable of proposing solutions, human resources with engineering and project-management abilities, and human resources with skills and knowledge related to AI, digital technologies, and the company's new businesses is increasing. The Group continues to globally recruit and develop human resources through education and training. However, there is the risk that we may not be able to secure and train the necessary human resources as planned. If so, the Group's business results and financial situation may be affected as well as the effectiveness of its business operations.

(Related to human rights)

The Group's established policy is to respect human rights and it has expressed its support for the U.N. Global Compact. Consequently, the Group is stepping up its efforts based on the human rights policy and international human rights standards set forth in the Compact. Regarding human rights initiatives in the supply chain, the Group has provided guidelines prohibiting forced labor, inhumane treatment, child labor and discrimination, and protecting appropriate wages, compliance with laws regarding work hours, and the right to organize. The Group supports internationally demanded human rights and strives to respect human rights. However, if a human rights problem occurs due to an unexpected situation, there is the risk that the Group may be liable for compensation, and there is the risk that the Group's corporate value may decline, which could adversely affect its business results and financial situation.

(Related to depreciation of owned assets)

There is the risk that the value of the Group's business assets may decline due to decreased market prices or reduced profitability. If so, the Group's business results and financial situation could be affected, including the occurrence of impairment losses.

(3) Risks relating to operations (Related to product quality and supply)

The Group provides highly reliable products and services to customers through its accumulation of technology and expertise over many years and the development of a strict quality control system. However, there is the risk that defects in the Group's products and services may exist, and that damage may result from these defects. In this event, the Group's business results and financial situation may be affected and the Group's overall business activities may be affected. In addition, the Company is striving to reduce risks by constantly collecting information about market trends in major electronic parts and other products and striving to ensure stable procurement. In addition, the Company is thoroughly managing the quality and delivery dates of its suppliers and diversifying its suppliers to avoid excessive concentration and dependence on specific suppliers. However, there is the risk that the delay or suspension of product supply in the event that the procurement of electronic parts and the manufacturing of important products become difficult due to supply chain disruptions caused by changes in the external environment. If this happens, the Group's business results and financial situation and the Group's overall business activities, including the Group's production activities, could be affected.

(Related to project management)

In the Group's business, particularly in project-type businesses that provide customers with the products, engineering solution services, and products of other companies in bulk, the reliable execution of project management is a necessity. We are striving to prevent the occurrence of unprofitable projects through such efforts as profit estimation in the process leading up to the receipt of orders, the improvement of the accuracy of profitability management until delivery, and the thorough control of production and quality. However, there is the risk that we may incur unexpected costs or may be liable for compensation due to delayed delivery if there are deviations from the assumed estimates, or problems in the management of profit, production, quality, etc. This could affect the Group's business results and financial situation.

(Related to intellectual property rights)

The Group has established a complete management system to protect its intellectual property rights and preventing its infringement on the rights of other companies in the course of its development of proprietary products and services. However, if intellectual property rights are infringed upon by a third party and the Group is therefore unable to make an expected profit, or if the Group is deemed to have infringed upon the intellectual property rights of another company due to a difference in viewpoint or some other reason, there is the risk that the Group will be subsequently disadvantaged by its inability to use important technology, may be liable for compensation, or its corporate value may decline, which could adversely affect the Group's business results and financial situation.

(Related to information security)

Through its business activities, the Group acquires personal or otherwise confidential information about its customers and trading partners. It therefore establishes systems to manage this information and provides its employees with training on information security. However, in the event that information is leaked or abused due to some unforeseen circumstances, there is the risk the Group will be liable for compensation or the Group's corporate value will decline, which could adversely affect the Group's business results and financial situation.

See p. 90 for Risk Management. ➡