



## **Yokogawa Electric Corporation**

Q2 Financial Results Briefing for the Fiscal Year Ending March 2023

November 1, 2022

## Event Summary

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[Company Name]	Yokogawa Electric Corporation		
[Company ID]	6841-QCODE		
[Event Language]	JPN		
[Event Type]	Earnings Announcement		
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2023		
[Fiscal Period]	FY2022 Q2		
[Date]	November 1, 2022		
[Number of Pages]	26		
[Time]	17:30 – 18:29 (Total: 59 minutes, Presentation: 23 minutes, Q&A: 36 minutes)		
[Venue]	Dial-in		
[Venue Size]			
[Participants]			
[Number of Speakers]	2		
	Hitoshi Nara	President and Chief Executive Officer	
	Michiko Nakajima	Vice President, Head of Accounting & Treasury Headquarters	

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# Presentation

## Key Points

### ■ FY22 1H results: Sales were up, but operating income declined. (year on year comparison)

- **Summary** : Orders increased significantly, and sales were up due to the impact of fluctuations in exchange rates and other factors. Operating income decreased due to a decrease in the gross margin, an increase in SG&A expenses, and other factors. Profit attributable to owners of parent increased.
- **Segments** : **Control** : Sales were up, but operating income declined. (excluding the impact of exchange rates, orders increased 23.6% and sales increased 1.2% year on year.)  
**Measuring instruments** : Sales were up, but operating income declined.  
**New businesses and others** : Sales declined. The operating loss shrunk.
- **Regions** : Strong in the Middle East and Africa, Central and South America, and India. Solid in Japan and China.
- **Subsegments** : The energy & sustainability and materials businesses were both strong.
- **Industries** : The upstream and downstream sectors and the chemicals industry were all strong.

### ■ FY22 earnings forecasts: <Change>

- **Reasons for revision:** 1. Revision to exchange rate (US\$1: ¥130 → ¥135)  
2. Upward revision to orders based on 1H results and outlook

- From FY21, as a result of revising the Group's internal management classification, the life innovation business that was previously included in the test and measurement business segment has been reclassified into the industrial automation and control business segment. In addition, the name of the reportable segment previously known as the test and measurement business has been changed to the measuring instruments business. Moreover, segment information for FY20 has been presented based on the changed classification.
- The name of the reportable segment previously known as "aviation and other businesses" has been changed to "new businesses and others" since FY22 following the transfer of the aviation equipment business.

**Nakajima:** This is Nakajima, Vice President of Accounting & Treasury Headquarters.

I would like to give a brief explanation of the 2Q financial results.

Please refer to page four. This page shows key points of the financial results.

I will explain the details on the following pages.

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## Summary of FY22 1H Results (year on year comparison)

- ◆ Orders increased significantly. (excluding the impact of exchange rates: +22.9% year on year.)
- ◆ Sales increased due to the impact of fluctuations in exchange rates and other factors. (excluding the impact of exchange rates: +0.4%.)
- ◆ Operating income decreased due to a decrease in the gross margin, an increase in SG&A expenses, and other factors.
- ◆ Profit attributable to owners of parent increased.

		(Billion ¥)			
		FY21_1H	FY22_1H	Difference	Growth rate
Orders		193.8	264.3	+70.6	+36.4%
Sales		184.4	205.9	+21.5	+11.7%
Operating income		14.2	13.6	(0.6)	(4.2)%
ROS(%)		7.7	6.6	(1.1)pt	—
Ordinary income		15.1	15.9	+0.8	+5.4%
Profit attributable to owners of parent		9.1	9.3	+0.2	+1.8%
Exchange rate	US\$1=	¥109.93	¥135.30	+25.37	—

Page 5, summary of the financial results.

Orders received were JPY264.3 billion, up JPY70.6 billion from the previous year, or 22.9%, excluding the impact of exchange rates.

Sales were JPY205.9 billion, a slight increase of 0.4%, excluding the impact of exchange rates, due in part to a drop in production volume caused by parts shortages.

Operating income was JPY13.6 billion, down JPY0.6 billion from the previous year.

Profit attributable to owners of parent was JPY9.3 billion, the same level as the previous year, due in part to foreign exchange gains and gain on sale of investment securities.

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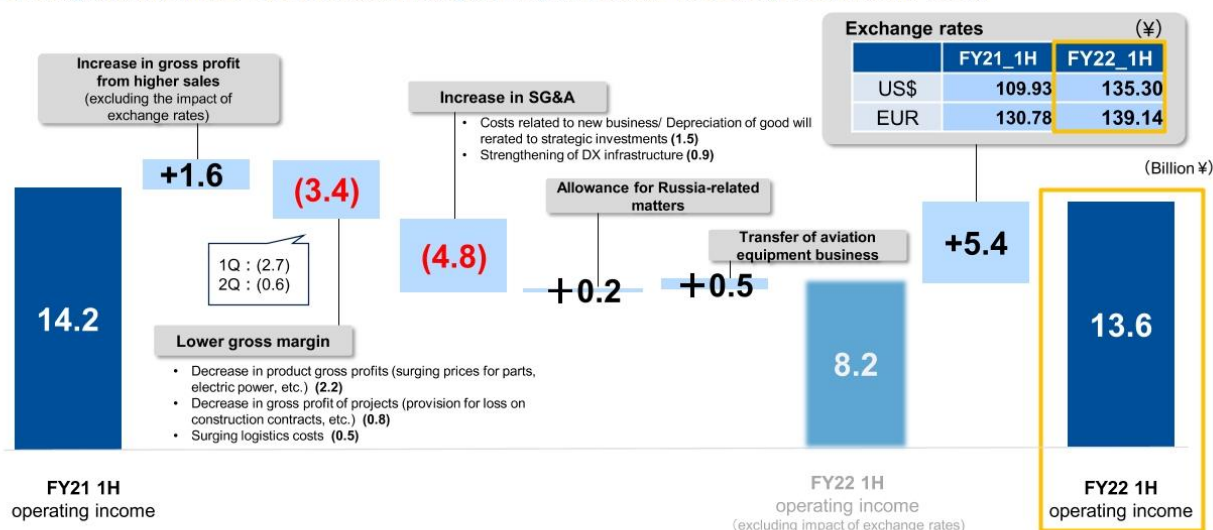
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## Analysis of Operating Income (year on year comparison)

◆ Operating income decreased due to a decrease in the gross margin, an increase in SG&A expenses, and other factors.



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Page 6 shows the analysis of operating income.

Operating income decreased by JPY6 billion from JPY14.2 billion in the previous year's first half, excluding the impact of foreign exchange rates.

While the increase in gross profit from higher sales was only JPY1.6 billion, the gross profit margin deteriorated by JPY3.4 billion, and SG&A expenses increased by JPY4.6 billion, including the Russia-related allowance.

The gross profit margin was affected by several factors, including surging parts prices, deteriorating gross profit of projects, and surging logistics costs. However, as noted in the callout box, the deterioration in the gross margin was much smaller than in Q1.

The reason is the gradual effect of the increase in selling prices on sales and the improvement in gross profit of projects, although it is lagging behind orders.

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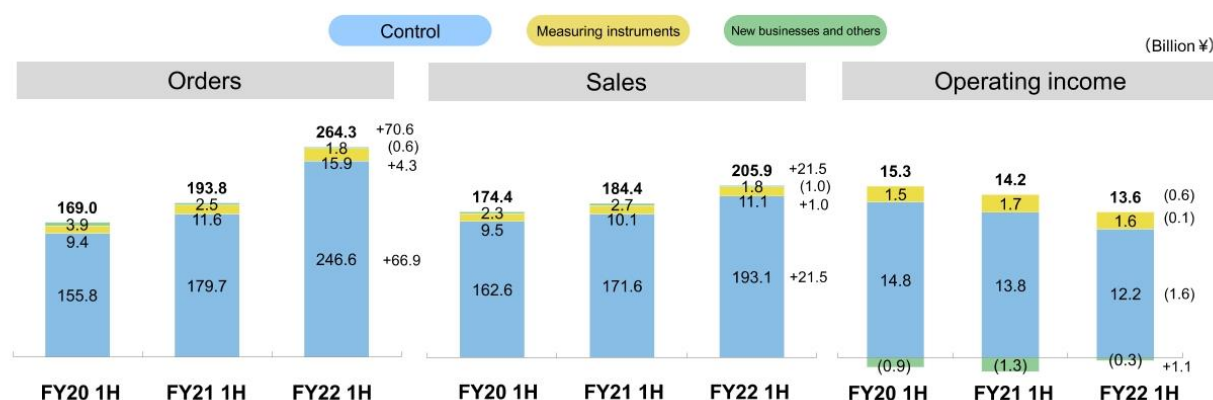
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## Comparison for Orders, Sales, and Operating Income by Segment

- ◆ **Control:** Orders were strong. Sales increased due to the impact of fluctuations in exchange rates and other factors. (excluding the impact of exchange rates, orders increased 23.6% and sales increased 1.2% year on year.) Operating income decreased due to a decrease in the gross margin, an increase in SG&A expenses, and other factors. (excluding the impact of exchange rates: -¥6.4 billion.)
- ◆ **Measuring instruments:** Orders were strong. Sales were up, but operating income declined.
- ◆ **New businesses and others:** Sales declined, and the operating loss shrunk due to the transfer of the aviation equipment business.



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Page 7 shows orders, sales, and operating income by segment.

Control is shown in blue. Orders increased by JPY66.9 billion, or 23.6% excluding the impact of exchange rates.

Sales increased by JPY21.5 billion, and although it was slight, we secured a 1.2% increase after excluding the impact of exchange rates. Despite the long lead time as our business character and extended lead times due to parts shortages, sales finally began to grow in Q2.

As explained earlier, operating income decreased by JPY1.6 billion, partly due to the deteriorated gross margin.

Measuring instruments are shown in yellow. Orders increased by JPY4.3 billion or 23.7% excluding the impact of exchange rates. As was the case through Q1, demand for basic measuring instruments for EV-related and energy efficiency applications, and optical measuring instruments for 5G and high-speed data communications, has been strong.

Sales decreased by 2%, excluding the impact of exchange rates, which was affected by continuing parts shortage. The decline in sales has narrowed.

Operating income was at the same level as the previous year.

Finally, new businesses and others segment in green. Both orders and sales decreased due to the sale of the aviation equipment business.

Operating income improved by JPY1.1 billion due to the elimination of losses in the aviation equipment business and the timing of expense execution in new business.

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## Orders and Sales by Region in Control Segment

- ◆ Orders were strong in the Middle East and Africa, Central and South America, and India, and firm in Japan and China.
- ◆ Orders: +¥42.4 billion, +23.6% (excluding the impact of exchange rates); sales: +¥2.0 billion, +1.2% (excluding the impact of exchange rates)

(Billion ¥)

Orders	FY21 1H (A)	FY22 1H (B)	Difference (B-A)	Sales	FY21 1H (A)	FY22 1H (B)	Difference (B-A)
Japan	55.4	65.2	+9.8	Japan	49.6	51.8	+2.2
Asia	67.0	90.6	+23.6	Asia	61.5	70.3	+8.8
(Southeast Asia, Far East)	29.2	37.2	+8.0	(Southeast Asia, Far East)	28.5	30.5	+2.0
(China)	30.9	42.0	+11.1	(China)	27.1	31.8	+4.7
(India)	6.9	11.4	+4.5	(India)	5.9	8.0	+2.1
Europe and CIS	22.0	22.5	+0.5	Europe and CIS	21.9	21.3	(0.6)
Middle East and Africa	17.4	38.7	+21.3	Middle East and Africa	18.6	25.2	+6.6
North America	12.9	19.0	+6.1	North America	14.6	18.4	+3.8
Central and South America	5.1	10.6	+5.5	Central and South America	5.4	6.1	+0.7
Outside Japan	124.4	181.4	+57.0	Outside Japan	122.0	141.3	+19.3
Consolidated	179.7	246.6	+66.9	Consolidated	171.6	193.1	+21.5
Exchange rate US\$1 =	¥109.93	¥135.30	+25.37	Exchange rate US\$1 =	¥109.93	¥135.30	+25.37

Page 8 shows orders and sales by region in the control segment.

This table shows the results including the impact of exchange rates, but even excluding it, orders in the most region grew at a high rate.

Particularly strong are the Middle East and Africa, where order recovery has been progressing significantly since H2 last year, more than doubling in growth, even excluding the impact of exchange rates. Latin America, where we won a large order for mining in Q1, and India, supported by strong demand, showed a high growth rate.

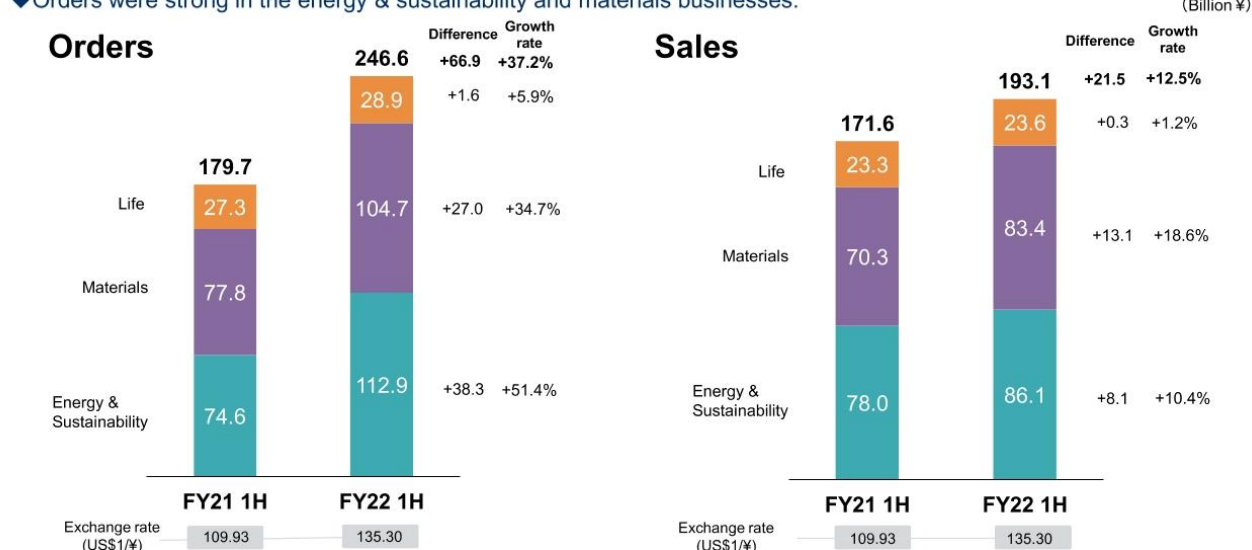
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## Orders and Sales by Control Subsegment

◆ Orders were strong in the energy & sustainability and materials businesses.



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Page 9 shows orders by the control sub-segment.

The three subsegments from the bottom are energy & sustainability, materials, and life.

Energy & sustainability sub-segment at the bottom increased by JPY38.3 billion, or 34.8% excluding the impact of exchange rates.

The recovery from H2 of last year has progressed in Upstream, which has grown particularly strongly, with a 68% increase, excluding the impact of exchange rates. Downstream also grew by 23%. Renewable energy increased by 52%, which would be volatile due to the small volume.

Next is materials sub-segment in purple. Orders received increased by JPY27 billion, or 22.7% excluding the impact of exchange rates.

Recovery from COVID-19 in the chemical industry has progressed since Q2 last year. Although the YoY growth rate shrank compared to Q1, we have secured 17% growth supported by the demand for materials and other factors. Orders for the mining and electrical industries also remained strong.

Life sub-segment increased by JPY1.6 billion, almost unchanged from the previous year excluding the impact of exchange rates.

On the right side are sales. These figures are showing up later than the orders. I will not go into individual explanations, but I would like to make one comment. Materials, for which orders recovered ahead of other industries last year, contributed to increased sales this H1.

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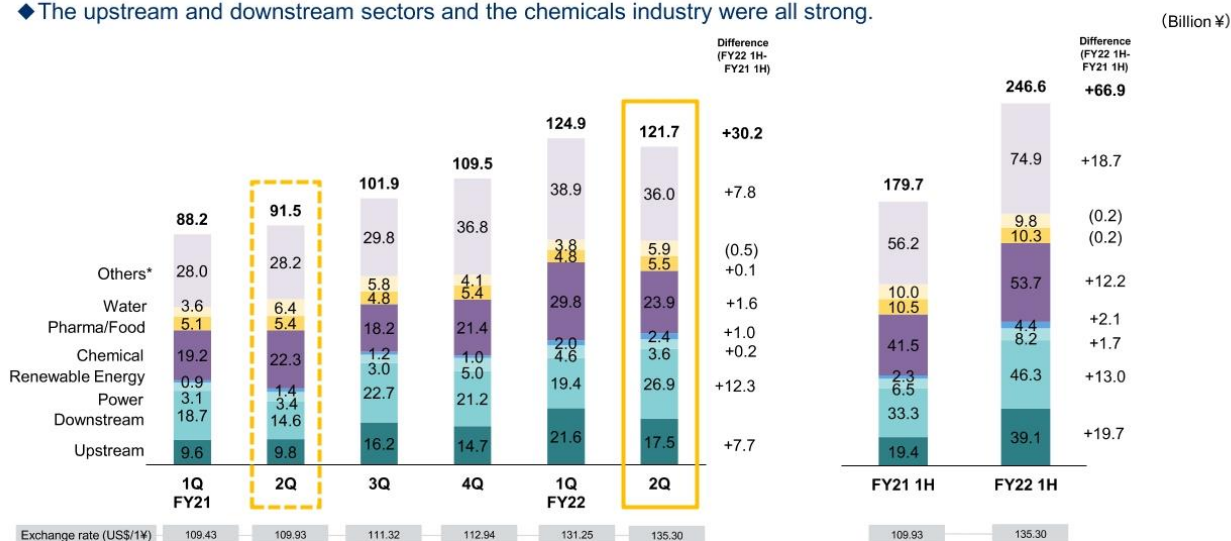
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## Orders by Industry in Control Segment

◆ The upstream and downstream sectors and the chemicals industry were all strong.



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Page 10 shows trends by industry in the Control segment as in the past.

Although the impact of exchange rates is included, you can check the trend every three months here. I will leave out this explanation.

## FY22 Forecast (change from August 9, 2022)

◆ Revision to exchange rate (US\$1: ¥130 → ¥135)

◆ Upward revision to orders based on 1H results and outlook

(Billion ¥)

	FY21 (A)	FY22 forecast 8/9(B)	FY22 forecast 11/1(C)	Forecast difference (C-B)	Year on year difference (C-A)	Growth rate (C/A-1)
Orders	420.5	453.0	480.0	+27.0	+59.5	+14.1%
Sales	389.9	421.0	427.5	+6.5	+37.6	+9.6%
Operating income	30.7	41.0	42.5	+1.5	+11.8	+38.5%
ROS(%)	7.9	9.7	9.9	+0.2pt	+2.0pt	—
Ordinary income	35.8	42.0	43.5	+1.5	+7.7	+21.7%
Profit before income taxes	30.1	42.0	43.5	+1.5	+13.4	+44.5%
Tax, etc.	8.8	14.0	14.5	+0.5	+5.7	+64.8%
Profit attributable to owners of parent	21.3	28.0	29.0	+1.0	+7.7	+36.3%
EPS(¥)	79.73	104.90	108.64	+3.74	+28.91	—
Exchange rate	US\$1=	¥112.94	¥130.00	¥135.00	+5.00	+22.06

### ■ Downside risk factors against forecast

- Macroeconomic recession crisis due to inflation
- Economic downturn caused by COVID-19 variants
- Difficulties in the procurement of semiconductors, resin parts, etc.
- Cost increase in parts, energy, labor costs, etc.

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Next on page 12 is the forecast for FY2022.

In this forecast, the assumed exchange rate has been changed from an annual average of JPY130 to JPY135.

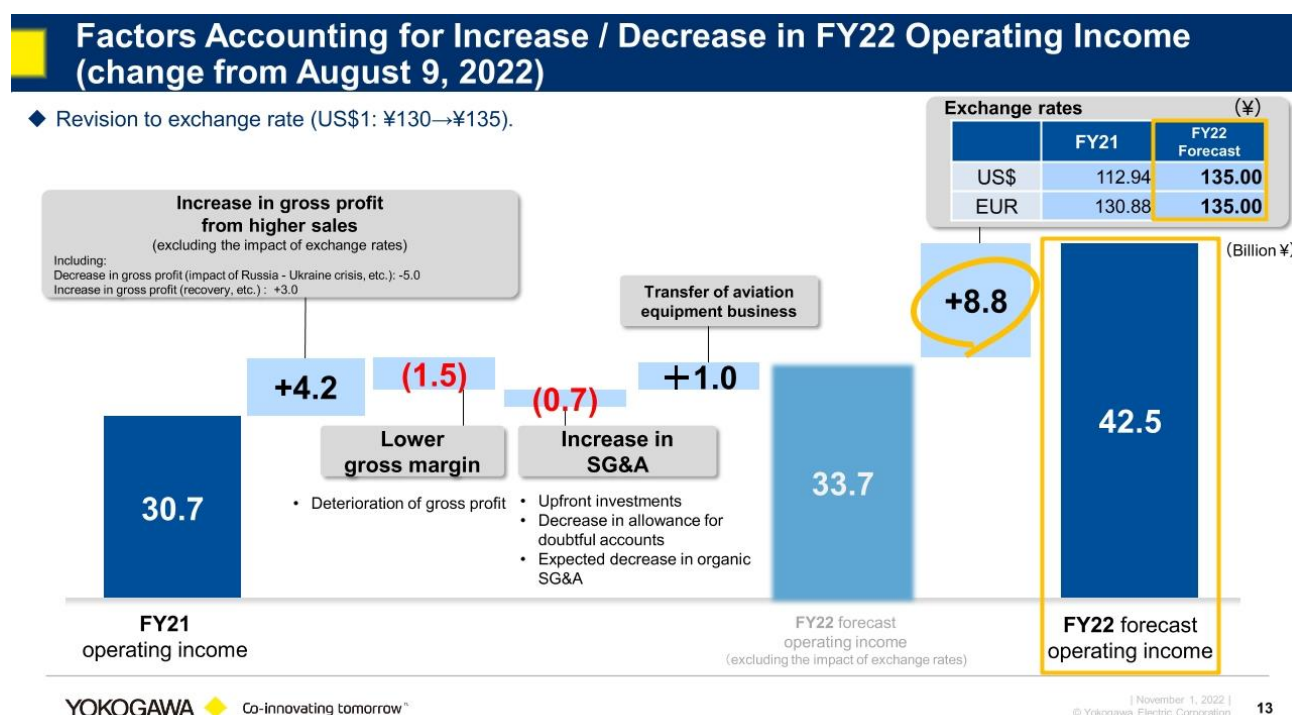
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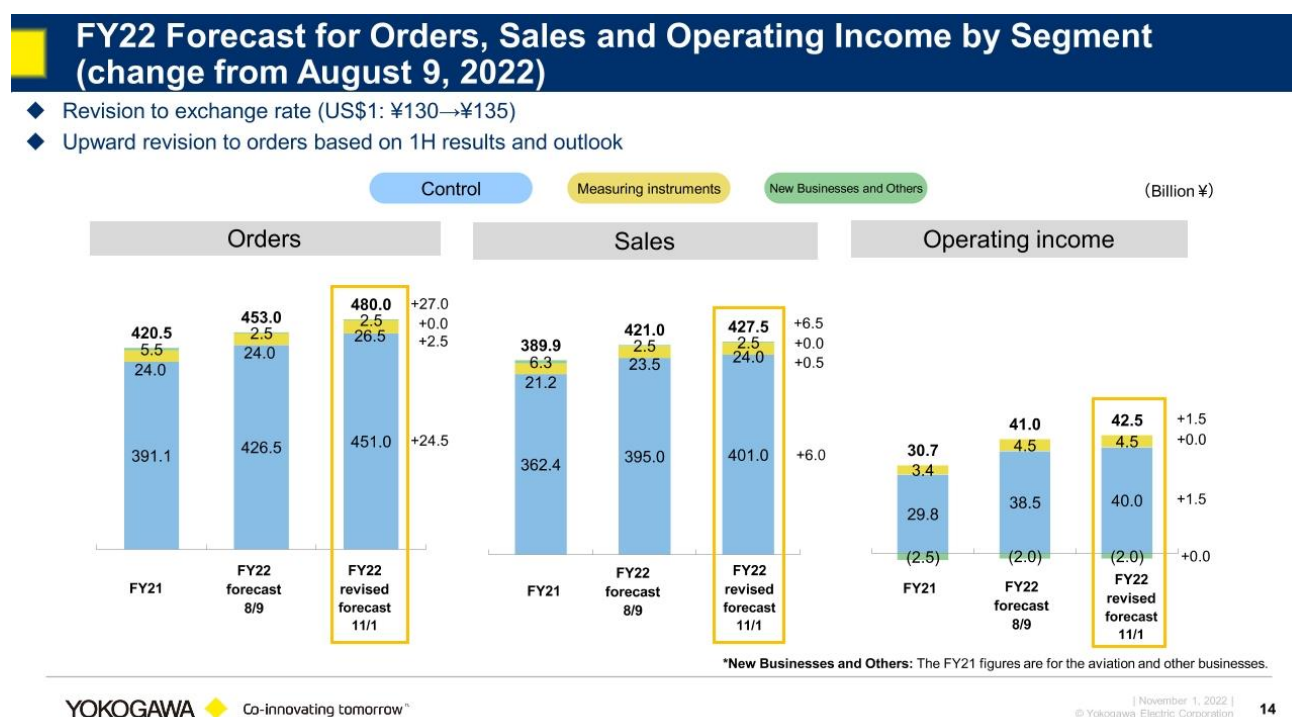
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In addition to this, as a substantive change, the order forecast has been revised upward by JPY20 billion.



Page 13 shows the analysis of changes in operating income.

Since we have not reviewed sales to profit except for the impact of exchange rates, this data represents only the impact of exchange rates.



Page 14 is the forecast by segment.

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Similarly, regarding the upward revision of orders and the revision of exchange rate assumptions, the substantial revision of orders is positive JPY18 billion for control and positive JPY2 billion for measuring instruments.

## FY22 Forecast for Control Orders and Sales by Region (change from August 9, 2022)

◆ Revision to exchange rate (US\$1: ¥130→¥135)

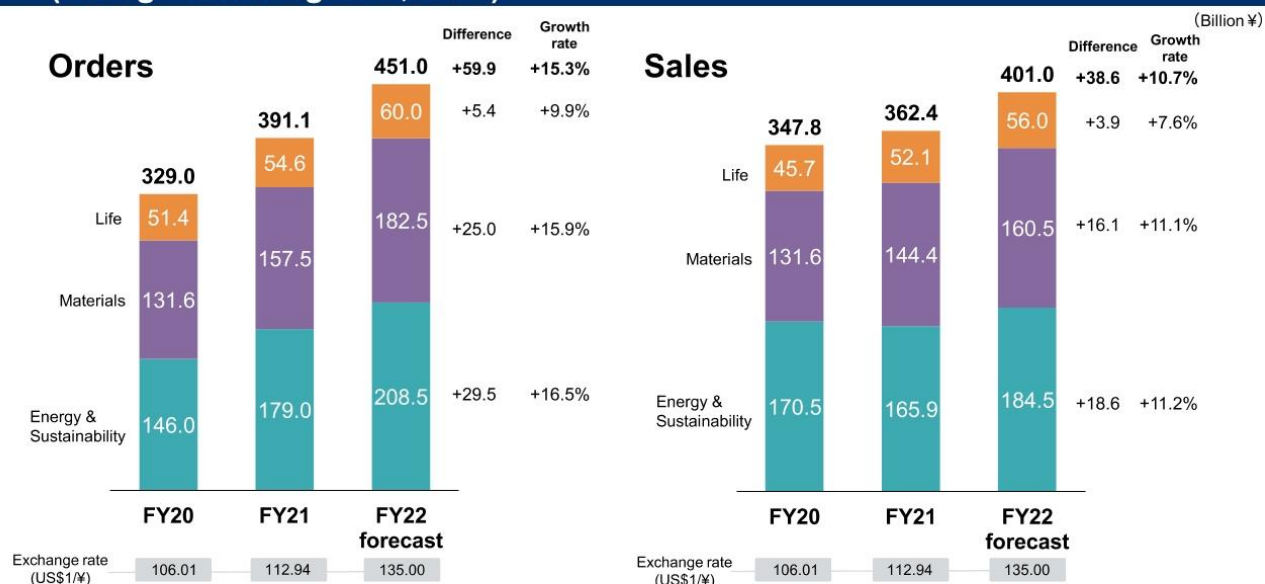
(Billion ¥)

Orders	FY21 (A)	FY22 (B)	Difference (B-A)	Sales	FY21 (A)	FY22 (B)	Difference (B-A)
Japan	120.2	130.0	+9.8	Japan	109.4	117.5	+8.1
Asia	134.0	158.0	+24.0	Asia	125.7	141.0	+15.3
(Southeast Asia, Far East)	59.7	70.0	+10.3	(Southeast Asia, Far East)	56.7	63.0	+6.3
(China)	59.1	69.0	+9.9	(China)	54.6	60.0	+5.4
(India)	15.2	19.0	+3.8	(India)	14.4	18.0	+3.6
Europe and CIS	42.1	39.0	(3.1)	Europe and CIS	43.2	39.0	(4.2)
Middle East and Africa	51.7	68.0	+16.3	Middle East and Africa	43.2	55.5	+12.3
North America	31.8	40.0	+8.2	North America	30.2	35.0	+4.8
Central and South America	11.3	16.0	+4.7	Central and South America	10.7	13.0	+2.3
Outside Japan	270.9	321.0	+50.1	Outside Japan	253.0	283.5	+30.5
Consolidated	391.1	451.0	+59.9	Consolidated	362.4	401.0	+38.6
Exchange rate US\$1 =	¥112.94	¥135.00	+22.06	Exchange rate US\$1 =	¥112.94	¥135.00	+22.06

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## FY22 Forecast for Orders and Sales by Control Subsegment (change from August 9, 2022)



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Page 15 is for control by region, and page 16 is for control by sub-segment, I will leave out this explanation.

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## Dividend

◆ The decision has been made to pay a ¥17 interim dividend.



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The interim dividend was resolved today to be JPY17 as planned at the beginning of the year.

That is all from me.

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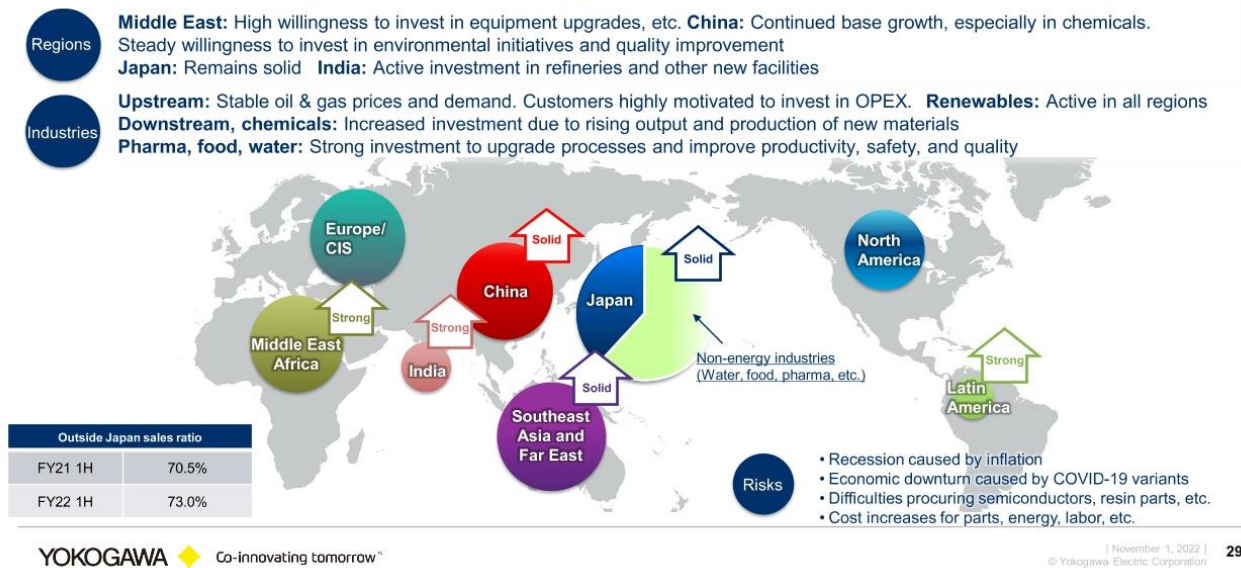
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## Current Situation

### OPEX in the energy sector is strong, and the materials sector is strong overall



**Nara:** I'm Nara. I would like to talk about the current situation and the outlook for the future.

First, let me explain our current situation on page 29. Overall, currently, Orders were strong from OPEX in the energy and various raw materials sectors. On a regional basis, customers in the Middle East continue to be highly motivated to invest, and China continues to be solid, especially in the chemical industry. China, in particular, also continues to demand environmental initiatives and quality improvement. New projects, such as refineries, are booming in India.

By industry, Energy industry customers such as upstream are highly motivated to invest in OPEX due to stable oil and gas prices and increasing demand from the supply chain shift from Russia. Similarly, there is a lot of activity in various regions regarding renewable energy.

In Downstream, the chemical industry continues to perform well against the backdrop of high demand for semiconductors, EVs, and other products. In the pharmaceutical, food, and water industries, upgrading process and customers' willingness to invest in productivity, safety, and quality improvements remain solid.

We expect the external environment to remain challenging, including the recession caused by inflation, the economic downturn caused by COVID-19 variants, difficulties procuring semiconductors, resin parts, etc., and cost increases for parts, energy, labor, etc... However, we will take every possible measure to enhance the resilience of our management.

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## Achieving the FY22 Earnings Forecast

### Sales

- Reliably execute projects
- Implement measures to increase production volume and resolve part procurement issues

### Profitability

- Ensure that cost increases are passed on to customers
- Compensate for rising costs by implementing measures to improve productivity and ensure efficiency in SG&A expenses.

## Achievement of FY22 forecast

Under these circumstances, to ensure that we achieve our FY2022 forecast, with respect to sales, we will continue to improve our production volume by ensuring the execution of projects and responding in every way possible to the difficulties in procuring parts and materials.

In order to improve profitability, we will absorb the impact of rising cost pressures through the continuous and reliable implementation of appropriate price shifting to cope with soaring material prices, as well as continued productivity improvement measures and thorough ensuring of SG&A expenses.

We will continue to make concerted efforts to achieve our FY2022 forecast.

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## Accelerate Growth 2023: 4 Basic Strategies



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Next, I would like to focus on some key points regarding the review of our medium-term business plan, Accelerate Growth 2023.

These are the four basic strategies for achieving the goals set forth in our medium-term business plan, AG2023. I will highlight a few of these four basic strategies and explain our progress.

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# Accelerate Growth 2023: Progress Highlights

## 1 Implement IA2IA & smart manufacturing and transform value provision

### Strategies

Expansion of value provided

- Move IA2IA concept to the implementation phase
- Expand the scope of smart manufacturing solutions provided for customers

### Progress

#### Proceeding to implementation phase to expand value provision

- Development of new solutions to expand IA2IA/smart manufacturing business is progressing as planned.
- Our capabilities as a MAC/MAIC are highly evaluated, leading to orders.
- Steady progress is being made in establishing a global foothold in the ERP system integration business.
- New business models are being promoted (recurring/subscription).

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### Results

#### ◆ Number of new IA2IA/Smart manufacturing solutions

FY21 results: 50

➡ FY22 target: 67 (progress 1H: 17)

FY23 target: 150

#### ◆ Number of orders received for IA2IA/Smart manufacturing business

FY21 results: 195

➡ FY22 1H results: 100

#### ◆ Orders received / Project wins

- Yokogawa selected as MAC for construction of Europe's largest renewable hydrogen plant
- Yokogawa selected by Grön Fuels as preferred supplier of technology, equipment, and services for North America's largest renewable fuels complex



Solution portal (company intranet)



Rendering of the planned Grön Fuels GigaSystem™ renewable fuels production facility

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First, please see page 33. As for IA2IA, so-called automation to autonomy, and smart manufacturing and transform value provision, we have been making steady progress and are moving into the implementation phase of extending the value provided.

See the right side of the slide for specifics. We released 17 new packaged solutions for IA2IA and smart manufacturing in the first half of FY2022, and 67 packages in total since FY2021, as planned. As shown in the image below, we have created an environment where information can be shared and utilized by all companies within Yokogawa through a portal site for internal use.

In line with this, orders for IA2IA and smart manufacturing projects have been steadily increasing, reaching 100 projects in the first half of FY2022.

In addition, we have been selected by Shell as MAC for Europe's largest green hydrogen plant in the Port of Rotterdam and as the preferred technology, equipment, and services supplier for North America's largest renewable fuels plant of GrönFuels. Our ability to make comprehensive solution proposals and our capability and track record as a MAC/MAIC have been highly evaluated and have helped us to win the order.

As you can see from these examples, we are steadily moving toward the implementation phase of expansion of the value provided.

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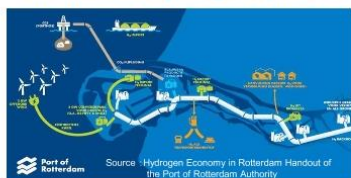
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## Expanding Opportunities – Yokogawa and Smart Manufacturing

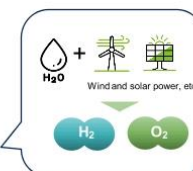
### Yokogawa, connecting entire societies and supply chains

- ✓ Shell selects Yokogawa as MAC for Europe's largest renewable hydrogen plant, the Holland Hydrogen I plant in Rotterdam

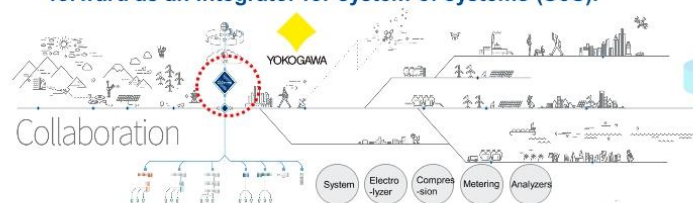


Overview of Port of Rotterdam development project

- To become an international hydrogen hub
- Production, storage, receiving, transportation (ships and pipelines), supply, and utilization: Connection of entire supply chain
- Dramatic reduction of CO<sub>2</sub> emissions by utilizing an offshore wind farm and other renewable power generation facilities



- ✓ CI Server: Through the provision of this key solution to societies and supply chains, Yokogawa is leading the way forward as an integrator for system of systems (SoS).



- Closely connecting entire societies and supply chains
- Integrates, gathers, and analyzes things and data, and implements optimization and operation solutions

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Yokogawa aims to lead the world in which society as a whole becomes a System of Systems (SoS) that organically connects systems and systems.

We are confident that our selection as MAC for “Holland Hydrogen I”, the largest green hydrogen plant in Europe, which I mentioned earlier, will provide value through this SoS and an opportunity for Yokogawa to connect society and the entire supply chain.

In the hydrogen supply chain, there are systems with different owners for each of the various functions, such as production, pipeline transportation, storage, and supply. Yokogawa will be able to provide systems to integrate such systems for optimal operation.

We will provide a system that can be expanded in the future by quickly and flexibly connecting these systems with our knowledge and experience cultivated over the years, as well as advanced technology utilizing solutions such as CI servers. We will continue to transform ourselves into a leading integrator in the SoS world as the most trusted partner of our customers.

Furthermore, through our participation in this project, which will contribute to a significant reduction in CO<sub>2</sub> emissions, we will accelerate our efforts to achieve net zero emissions, one of our sustainability goals.

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## Accelerate Growth 2023: Progress Highlights

2

### Strengthen industry responsiveness and expand cross-industry business

#### Strategies

Expansion of value provided

- Provide new value to customers who are making the shift to being integrated energy companies
- Expand other industry and cross-industry business

#### Progress

##### Steady expansion of three industry business segments

- Our solution business for optimizing energy management with complex energy supply chains that make use of renewable energy, storage batteries, and the like, is winning orders and receiving many inquiries.
- We are making steady progress with the expansion of our solutions business targeting the functional chemicals market.
- We are strengthening our sales organization to expand our business in the pharmaceutical and food industries. The further acceleration of these activities will be key to our success.

#### Results

##### ◆ Orders received in focus industries (FY22 1H results)

- Energy & sustainability business: Renewable energy  
4.4 billion yen (YoY +89.5%)
- Materials business: Functional chemicals  
7.7 billion yen (YoY +88%)
- Life business: Pharmaceuticals and foods  
10.3 billion yen (YoY -1.5%)

##### ◆ Orders received and projects completed

- Creating opportunities through global collaboration, we received our first large order in the South American mining industry.
- First orders in the grid control field. Through synergy with PXiSE Energy Solutions, we received two orders within the first six months after acquiring this company.
- We completed installation of an IoT system for integrated remote performance management at Kenya's Olkaria Geothermal complex, the largest such facility in Africa.



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On page 35, this is the second of the four basic strategies.

We will explain “strengthen industry responsiveness and expand the cross-industry business.” Please see the right side of the slide.

Regarding energy & sustainability business, orders in the renewable energy industry, our focus industry, amounted to JPY4.4 billion, an increase of 89.5% over last year.

Synergies between Yokogawa and PXiSE Energy Solutions, acquired last year, are already being realized, with two orders received within six months of acquisition.

Furthermore, we completed the installation of an IoT system for integrated remote management at Kenya's Olkaria geothermal complex, the largest such facility in Africa. We are making steady progress in its business.

As for the materials business, the functional chemical industry continues to perform well. Against the backdrop of a favorable market environment, overseas orders received amounted to JPY7.7 billion, up 88% from last year, by leveraging the strength of our solutions cultivated in Japan. We are making steady progress in sales, too.

In the mining industry, we strengthened cooperation among our overseas regional offices, resulting in the first major order in South America, which shows the results of our steady progress in global organizational coordination and domain knowledge sharing.

Orders for pharmaceuticals and foods, the focus industries of the life business, totaled JPY10.3 billion, down 1.5% from last year.

At present, we are focusing on strengthening our sales structure to expand our business, including training and assigning personnel to expand our overseas business, and we will further accelerate our activities in the future to increase orders and sales.

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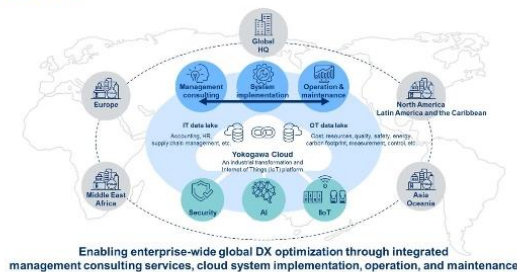
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## Establishment of Yokogawa Digital Corporation

### Establishment of Yokogawa Digital Corporation (July 2022)

- **Providing enterprise-wide solutions** to manufacturers that cover everything from the plant floor to the C-suite
- **Providing one-stop access** to consultation, system implementation, operation, and maintenance services
- Leveraging **Yokogawa's expertise and wealth of experience in DX at manufacturing sites** to provide **DX support that delivers results**



### Accelerating and scaling up the IA2IA/smart manufacturing business

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Now, Yokogawa Digital Corporation was established this past July to support DX and provide new value to our customers in the manufacturing industry. The company will provide consistent solutions to its customers in the manufacturing industry, from the C-suite to the plant floor.

The company can also provide one-stop access to consultation, system implementation, operation, and maintenance services. Yokogawa Digital Corporation will provide practical value that can be felt onsite and DX support that truly leads to results, which can only be achieved by Yokogawa, as we have accumulated DX experience in the manufacturing industry.

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## Toward the Achievement of the AG2023 Targets

In a rapidly changing business environment, we are **implementing the AG2023 strategies with a sense of urgency** and accelerating efforts to achieve our targets.

- ✓ Leveraging Yokogawa's strengths to drive **further growth and development**
- ✓ Achieving **high profitability** by expanding the value that we provide and improving productivity
- ✓ With a long-term perspective, **expanding our business in non-energy industries** and contributing to the realization of a sustainable society

## *Accelerate Growth 2023*

Yokogawa will continue its efforts to accelerate and scale up its IA2IA/Smart manufacturing business.

I have explained our efforts to achieve AG2023.

As you know, the business environment continues to change dramatically, but there is no waver in our direction. Yokogawa remains steadfast in its direction. We will contribute to realizing a sustainable society by accelerating AG2023 initiatives and achieving further growth and development, high profitability, and expansion of our non-energy industry business while each employee will act with a sense of ownership and change their mindset.

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## Yokogawa's Purpose

**Utilizing our ability to measure and connect,  
we fulfill our responsibilities for the future of  
our planet.**

*Measuring* represents Yokogawa's origin as a company. We measure things, grasp and analyze their state, and add value through the information that is derived. *Connecting* refers to how Yokogawa not only combines valuable information, but also builds trusted relationships with customers in various industries and brings together businesses and industries, giving resonance to the value that we create.

*Our ability to measure and connect* is a core competence that Yokogawa must never lose. We wish to use this strength to find solutions to various social issues and create a future where humanity and planet Earth can co-exist in symbiotic harmony. This aspiration is expressed in our commitment to *fulfill our responsibilities for the future of our planet*.

Under Yokogawa's Purpose, "Utilizing our ability to measure and connect, we fulfill our responsibilities for the future of our planet," we will work as one.

We would like to thank our shareholders, investors, and other stakeholders for their continued support.

Thank you very much.

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## Question & Answer

**Q:** Please tell us about the changes in business environment perceptions compared to three months ago by region and industry.

**A:** There looks to be no significant change from three months ago.

In the regions of Europe and the CIS, we have stopped new business deals in Russia. Europe, which has close relations with Russia, has also been somewhat affected. That gives us the impression that Europe is growing a little slower than other regions. Other regions are very strong, showing strong order growth compared to the same period last year.

On the other hand, there are risk factors, such as a more apparent slowdown in China, rising energy costs, including electricity costs, particularly in Europe and the United States, and concerns about a macroeconomic recession due to inflation.

In addition, the semiconductor parts procurement also continues to be severe, as it was three months ago and has not improved yet.

We are also concerned about the rising labor and other costs, and we expect the impact to start in the second half of fiscal year 2022.

Currently, there is no major impact, but there is a possibility of an impact in the 3Q and 4Q of the fiscal year, and we will respond carefully, flexibly, and promptly.

The key will be to ensure that the order backlog will lead to sales and secure profits in conjunction with implementing measures to improve productivity.

**Q:** Please also tell us your approach to the next fiscal year's performance.

With strong orders received in the 1H and the high backlog, can we see some increase in sales and profits for the next fiscal year? Also, what are your thoughts on the factors that will increase or decrease operating profit in the next fiscal year?

**A:** I would like to refrain from making a clear statement about the next fiscal year at this time.

As orders at the end of the 2Q were very strong, we intend to continue to win orders in the 3Q and 4Q. In the next fiscal year, the final year of AG2023, we will focus on steadily increasing the top line and achieving profitable results.

We have reorganized our control business segment into three subsegment structures, and at the same time, the regional headquarters were aligned with this structure. As a result, we have been able to further expand the industries we handle globally, and our pipeline and inquiries are increasing.

It will become increasingly important to clarify and focus on areas where we can scale up our business with Yokogawa's strengths and synergies. We are also building and optimizing internal systems and will continue to improve our business efficiency and productivity.

In addition, when we consider the factors that will increase or decrease operating income in the next fiscal year, we are struggling with rising costs on the procurement side. We have asked our customers to raise the

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price, and we are beginning to see the effect on the profit, but we are also losing a little bit, offset by higher costs.

We will firmly implement activities to secure profit from price improvement on the front side and efficiency improvement through internal DX.

**Q:** Please tell us how the actual performance compared to the assumptions of the internal plan when viewed from three months ago.

**A:** We are unable to give you a specific figure because we have not disclosed our internal plan. We would appreciate your estimation based on the details of this upward revision forecast. Orders exceeded our assumptions. Sales, excluding foreign exchange, were expected to be about the same as in the previous year, but the results slightly exceeded those expectations.

On the other hand, the gross margin was quite low in the 1Q, so it ended the 1H without a full recovery.

As for SG&A expenses, there was considerable pressure to raise prices, but we were able to control them as planned.

**Q:** For the full year, please tell us to what extent the increase in sales in the 2H will cover the decline in gross margin in the 1H.

**A:** The gross margin of the 1H was slightly tough, and there is considerable ongoing cost pressure, so achieving our estimated margin at the beginning of the year might be tough. However, we have not changed our initial plan for operating income at the beginning of the term, taking into account the possibility of increased sales since orders received in the 1H exceeded our plan and the implementation of group-wide efforts to recover the gross profit margin.

**Q:** What are the trends and prospects for orders for control projects if the project is divided into OPEX/CAPEX?

**A:** OPEX investment has been fairly steady. In particular, customers are investing in productivity and quality improvement/enhancement.

On the other hand, CAPEX investment varies by region. In the Middle East, one of the regions where we are strong, customers' willingness to invest is increasing considerably. Although we cannot expect to see a large number of CAPEX projects globally, we can expect a large number of CAPEX projects, especially in the Middle East, due to energy transitions to the other regions from Russia. The U.S., the region with strong competitors, will also have more CAPEX projects.

**Q:** Are there any reasons why the forecast for orders looks a little weak in the 2H?

**A:** We are not being conservative. We are planning based on the timing of acquiring orders. Not all CAPEX projects will necessarily be obtained in the current fiscal year. CAPEX projects have relatively long lead times.

**Q:** I ask about resources to grow the business, especially human resources, in the short and medium term.

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<In the short term> Please tell us if it is necessary to increase the number of personnel in the next fiscal year, given that orders are trending steadily.

<In the medium- to long-term> Please tell us about the current efforts to accelerate human resource development. To take the offensive, I think you need to develop digital human resources, also human resources with the qualifications to carry out the MAC project.

**A:** In the short term, we do not intend to increase our human resources headcount from just under 18,000, as we have been telling you so far.

Our business area is expanding from the OT field we excel to the field of converging IT technologies.

We are expanding our new business areas, such as life and materials. So we need people familiar with our client's business processes and capable of providing consulting services that will accompany our client's issues, challenges, and various strategies. Therefore, we need to hire personnel to meet the new needs, and we will be replacing our personnel.

In addition, we will utilize internal DX to optimize and improve efficiency so that a job that used to require 100 people will be able to be done by 80, for example. By seeking efficiency by taking advantage of DX, we will change the capability of human resources and maintain headcounts of human resources globally.

We will acquire people who understand DX, IT, and OT and who can contribute to the manufacturing industry to grow our business as well as by making changes and increasing efficiency.

For the medium-term, We need diverse human resources related to MAC/MAIC and IT/OT convergence. We now have more than 30 people globally who hold S.I.R.I. certification, which evaluates and advises on Smart manufacturing. They are the human resources who can realize Smart manufacturing through IT and OT. Compared to our competitors, we have the most significant number of qualified personnel. In order to carry out Smart manufacturing projects in the future, it will be essential to increase the number of such personnel, gain customers' trust, and carry out the jobs.

**Q:** In a longer term, you have a target figure of a trillion yen in sales by 2030. In the area of control in the plant industry, what is the potential market size that Yokogawa can capture? (e.g. Total Addressable Market: TAM)

**A:** In the past, when we were only targeting plant control and instrumentation in the OT field, the TAM(Total Addressable Market), SAM(Serviceable Available Market), and SOM(Serviceable Obtainable Market) were quite limited.

Yokogawa is currently moving from a business focused on the oil and gas industry to a multi-industry business that is not dependent on industry, and the expansion speed is accelerating more than expected. In addition, we can expand to meet customer issues and common challenges to all manufacturing industries, such as quality improvement, asset management, and energy management, regardless of industry. Also, we can expand into the supply chain. From the control level of plants referred to as L1 and L2, the number of L3 and L4 information-related businesses, such as MES and ERP, which utilize the cloud, will increase rapidly.

Although it is not possible to cover everything, We think that there will be many areas related to SAM or SOM that can be acquired. If we identify areas where we can make full use of our strengths and invest in human resources and technology in those areas, we will naturally be able to see what we will be like in 2030. I have answered your questions, including our wishful thinking.

**Q:** You haven't changed your plans for the 2H, but will you be able to recover from the increase in SG&A expenses, or should we assume that the situation will remain a bit difficult?

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**A:** SG&A expenses for the 1H were in line with the plan. However, from the standpoint of Accounting & Treasury, we think it would have been better if results in the 1H had a little more afford.

We can manage the 2H of fiscal year 2022 within our plan, given the concentration of SG&A expenses executed in the 2H of fiscal year 2021, especially in the fourth quarter, and the concentration of DX infrastructure-related expenses executed in the 1Q of fiscal year 2022.

However, future risk factors include inflationary pressures, price pressures on external contractors, and labor costs that take effect over time. We would like to control overall execution by keeping a watchful eye on the situation.

**Q:** With the strong demand for product business going into the 2H, parts procurement has been difficult. Do you have any prospects for increasing production and sales?

**A:** Amid the continuing difficulties in parts procurement, we are constantly responding to this situation by working with our partners and making efforts in the business and production departments. For example, suppose a partner company has an unavailable part. In that case, Yokogawa obtains it instead and supplies it to them. There is an effort to work together to manage to secure it. We can't be optimistic, but we will continue growing our production and sales while responding flexibly every day.

**Q:** The full-year operating profit analysis forecast does not change the portion of the decline in gross margin, but how will it recover in the 2H?

**A:** Cost pressures not anticipated at the beginning of the year have emerged, and the situation is challenging. The effect of the price increase from 1Q of fiscal year 2022 has yet to reach even 1/3 in sales. We expect the price increase's effect to come out in the 2H.

As for the impact of price increases on order intake, they are certainly showing up month by month. We will continue to make solid improvements.

As for project-related orders, depending on the region, we are receiving more and more orders at prices that are relatively commensurate with the cost. In the 1H, we have not fully recovered from losses on construction contracts and other losses incurred in the 1Q, we can recover to some extent in the 2H based on gross margin on order backlogs. We will steadily implement additional measures on the recovery side.

**Q:** What are the assumptions of currency sensitivity?

While the yen has been revised downward by 5 yen, there is an impression that the impact of the foreign exchange effect on operating income is somewhat less.

**A:** In the past, foreign exchange movements have often been characterized by the yen rising or falling independently. This time, currency sensitivity is lower than in the past because movements vary by currency, and some currencies are hardly reviewed while the dollar-yen has changed significantly.

Then, we would like to make an announcement.

**M:** We will hold an IR Day and a DX briefing on December 9. I know you are busy, but I would like to ask for your participation.

[END]

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