# Yokogawa Electric Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2023

August 9, 2022

# Event Summary

| | |
|---|---|
| **[Company Name]** | Yokogawa Electric Corporation |
| **[Company ID]** | 6841-QCODE |
| **[Event Language]** | JPN |
| **[Event Type]** | Earnings Announcement |
| **[Event Name]** | Q1 Financial Results Briefing for the Fiscal Year Ending March 2023 |
| **[Fiscal Period]** | FY2022 Q1 |
| **[Date]** | August 9, 2022 |
| **[Number of Pages]** | 16 |
| **[Time]** | 17:30 – 18:10<br>(Total: 40 minutes, Presentation: 10 minutes, Q&A: 30 minutes) |
| **[Venue]** | Dial-in |
| **[Number of Speakers]** | 2<br>Michiko Nakajima — Vice President, Head of Accounting & Treasury Headquarters<br>Hirohiko Nakatani — Manager of Investor Relations Department |

## Presentation

## Key Points

- **FY22 1Q results: Sales were up, but operating income declined.**
  - **Summary:** Orders increased significantly year on year. Sales were up due to the impact of fluctuations in exchange rates and other factors. Operating income and profit attributable to owners of parent decreased.
  - **Segments**
    - **Control:** Sales were up, but operating income declined. (Excluding the impact of exchange rates, orders increased 28.6%, and sales increased 0.2% year on year.)
    - **Measuring instruments:** Sales were nearly at the same level as the previous fiscal year. Operating income declined.
    - **New businesses and others:** Sales declined. The operating loss shrunk.
  - **Regions:** Orders were firm in the Middle East, Africa, and Central and South America.
  - **Industries:** Orders were strong in the upstream sector and the chemicals industry.
- **FY22 earnings forecasts: Change** (only forecast exchange rate revised: US$1:¥120→¥130)

> - 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 the previous fiscal year 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 the current fiscal year following the transfer of the aviation equipment business.

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

I would like to give a brief explanation of the 1Q 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.

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

- Orders increased significantly (excluding the impact of exchange rates: +27.6%).
- Sales increased due to the impact of fluctuations in exchange rates and other factors (excluding the impact of exchange rates: -1.1%).
- 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 decreased.

(Billion ¥)

| | | FY21_1Q | FY22_1Q | Difference | Growth rate | Impact of exchange rate |
|---|---|---|---|---|---|---|
| Orders | | 95.6 | 134.3 | +38.7 | +40.4% | +12.3 |
| Sales | | 86.3 | 94.0 | +7.7 | +9.0% | +8.7 |
| Operating income | | 4.8 | 1.4 | (3.4) | (70.7)% | +1.6 |
| ROS(%) | | 5.6 | 1.5 | (4.1)pts | – | – |
| Ordinary income | | 5.3 | 2.6 | (2.7) | (50.6)% | +1.5 |
| Profit attributable to owners of parent | | 3.0 | 1.3 | (1.6) | (55.2)% | +1.5 |
| Exchange rate | 1$= | ¥109.43 | ¥131.25 | +21.82 | – | – |

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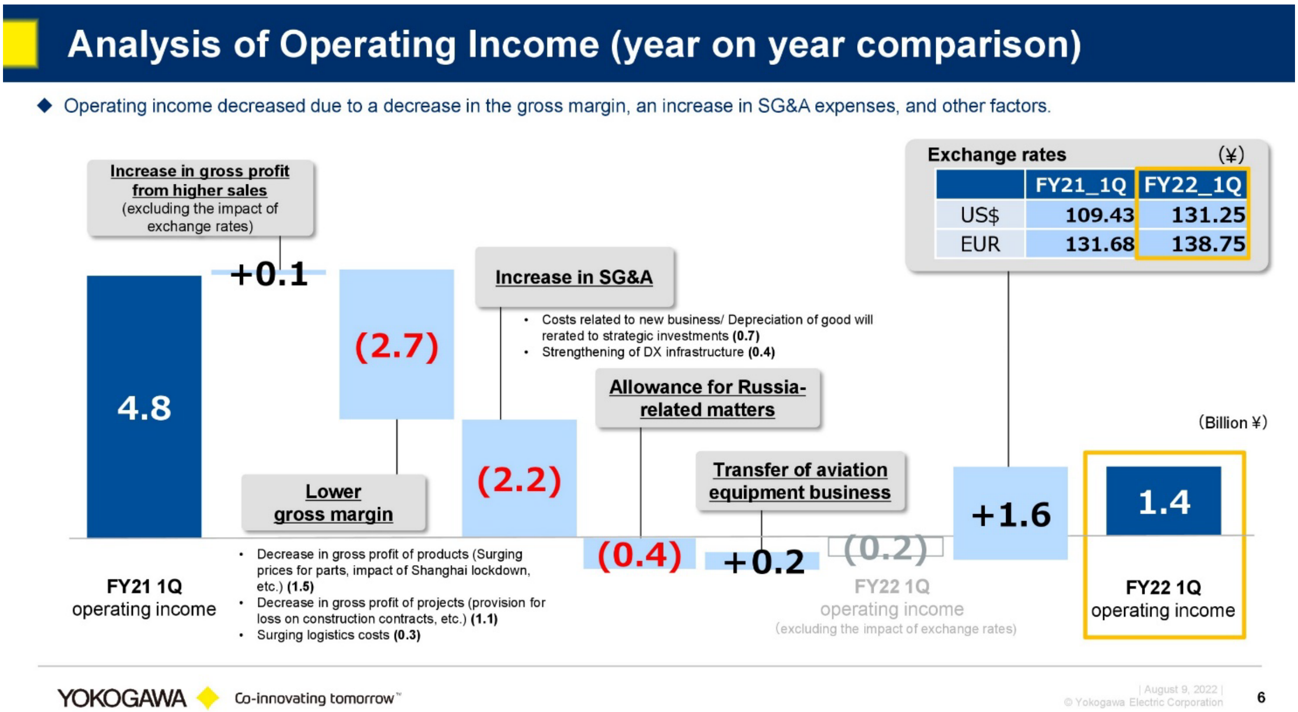
Page 5 is a summary of the financial results.

Orders received were JPY134.3 billion, a significant increase of JPY38.7 billion from the same period of the previous year, or 27.6%, excluding the impact of exchange rates.

Sales were JPY94 billion. Excluding the impact of foreign exchange rates, sales decreased slightly, due in part to a drop in production volume caused by parts shortages and the impact of the Shanghai lockdown. Excluding the impact of the sale of the Aviation business, sales were almost flat.

Operating income was JPY1.4 billion, down JPY3.4 billion from the previous year.

Non-operating income decreased JPY1.6 billion from the previous year to only JPY1.3 billion, mainly due to improved foreign exchange gains and losses and reduced in tax expenses.



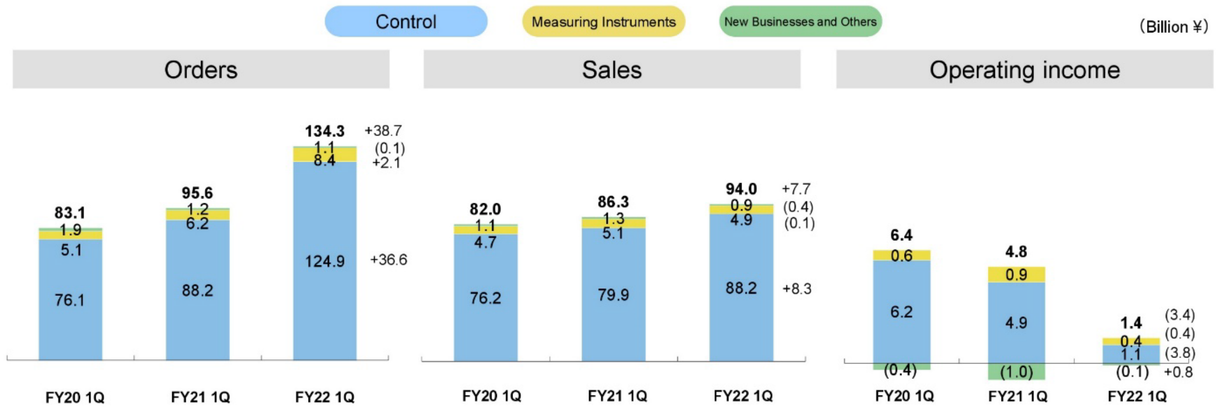

Page 6 shows the analysis of operating income.

Operating income decreased by JPY5 billion from JPY4.8 billion in Q1 of FY2021, excluding the impact of foreign exchange rates. While sales remained flat, the gross margin deteriorated by JPY2.7 billion, and SG&A expenses increased by JPY2.6 billion, including the Russia-related allowance.

The gross profit margin was affected by a provision for loss on construction contracts in the project business due to strategic upfront investments in loss-making projects. In the product business, the effect of higher selling prices was preceded by a surging price for parts, which led to a decrease in profit.

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

- **Control:** Orders were firm. Sales increased due to the impact of fluctuations in exchange rates and other factors (Excluding the impact of exchange rates, orders increased 28.6%, and sales increased 0.2% 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: -¥5.2 billion ).
- **Measuring instruments:** Sales were nearly at the same level as the previous fiscal year. 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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Next, page 7, shows orders, sales, and operating income by segment.

The first is the Control segment, shown in blue.

Orders increased by JPY36.6 billion, or 28.6%, excluding the impact of exchange rates. Sales increased by JPY8.3 billion. Excluding the impact of exchange rates, sales were mostly flat or slightly increased. Operating income decreased by JPY3.8 billion due to the provision for loss on construction contracts in the project business I explained earlier and the impact of surging price for parts.

Next is the Measuring instruments segment, shown in yellow.

Orders increased by JPY2.1 billion. Excluding the impact of exchange rates, the growth was 21.9%. As was the case through Q4 of last year, demand for basic measuring instruments for EV-related investments and optical measuring instruments for 5G related investments, and faster data communications has been strong. Sales remained flat. Excluding the impact of exchange rates, sales decreased by more than 10%. Operating income decreased by JPY400 million due to the sales decline, which was affected by continuing parts shortage.

Finally, see the 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 JPY800 million in total due to the elimination of losses in the aviation equipment business and the timing of expense execution in new business.

## Orders and Sales by Region in Control Segment

- Orders were firm in the Middle East, Africa, and Central and South America.
- Orders: +¥25.2 billion, +28.6% (excluding the impact of exchange rates); sales: +¥0.1 billion, +0.2% (excluding the impact of exchange rates)

(Billion ¥)

| Orders | FY21 1Q (A) | FY22 1Q (B) | Difference (B-A) |
|---|---|---|---|
| **Japan** | **26.0** | **33.9** | **+7.9** |
| Asia | 32.6 | 45.2 | +12.6 |
| (Southeast Asia, Far East) | 14.4 | 16.9 | +2.5 |
| (China) | 15.1 | 22.9 | +7.8 |
| (India) | 3.1 | 5.4 | +2.3 |
| Europe and CIS | 12.4 | 9.4 | (3.0) |
| Middle East and Africa | 8.8 | 21.4 | +12.6 |
| North America | 5.9 | 9.1 | +3.2 |
| Central and South America | 2.5 | 5.8 | +3.3 |
| **Outside Japan** | **62.2** | **90.9** | **+28.7** |
| **Consolidated** | **88.2** | **124.9** | **+36.6** |
| Exchange rate USD1$ = | ¥109.43 | ¥131.25 | +21.82 |

| Sales | FY21 1Q (A) | FY22 1Q (B) | Difference (B-A) |
|---|---|---|---|
| **Japan** | **22.0** | **23.6** | **+1.7** |
| Asia | 28.3 | 33.1 | +4.8 |
| (Southeast Asia, Far East) | 13.4 | 15.0 | +1.6 |
| (China) | 12.8 | 14.6 | +1.8 |
| (India) | 2.1 | 3.5 | +1.4 |
| Europe and CIS | 10.7 | 9.8 | (0.9) |
| Middle East and Africa | 9.0 | 10.4 | +1.4 |
| North America | 7.3 | 8.6 | +1.3 |
| Central and South America | 2.6 | 2.7 | +0.1 |
| **Outside Japan** | **57.9** | **64.6** | **+6.7** |
| **Consolidated** | **79.9** | **88.2** | **+8.3** |
| Exchange rate USD1$ = | ¥109.43 | ¥131.25 | +21.82 |

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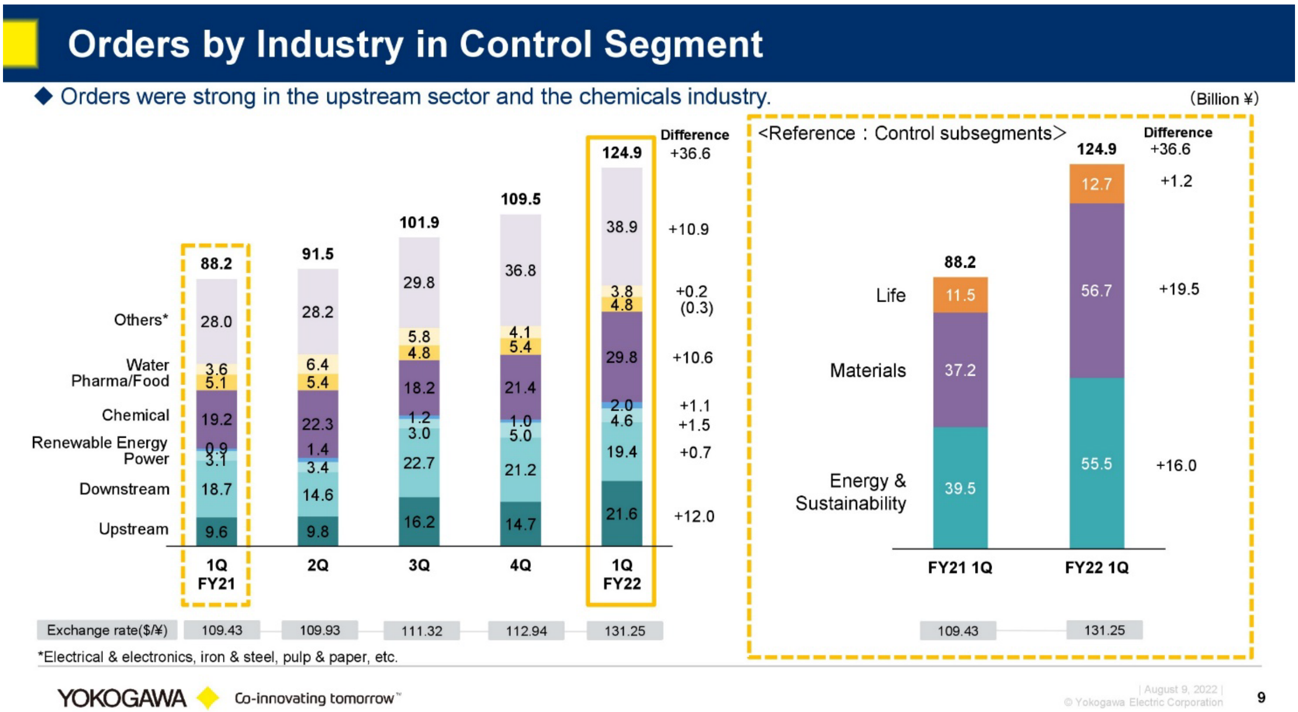
Please move to page 8. Orders and sales by region in the control segment.

Orders on the left include the impact of exchange rates, but even excluding it, orders in most regions grew at a high rate.

Particularly strong is the Middle East and Africa, where orders have recovered significantly since H2 last year, more than doubling in growth, even excluding the impact of exchange rates.

In Central and South America, orders have grown significantly, including large orders for mining.

Other regions are also performing well in general, but the growth rate in Europe and CIS is slightly weaker due to the impact of the Ukraine-Russian crisis. However, in other regions, including Japan, we were able to secure extremely high growth of 20% to 30%, even excluding the impact of exchange rates.




Page 9 shows orders by industry in the Control segment.

The graph on the right shows three industry sub-segments. From the bottom: Energy & Sustainability, Materials, and Life. I would like to explain by this segment classification.

Orders in Energy & Sustainability increased by JPY16 billion from the previous year, or 27.8%, excluding the impact of exchange rates.

Upstream has been recovering since H2 last year and has seen particularly strong growth. Excluding the impact of exchange rates, this is a significant increase of 89% over the previous year.

In renewable energy, although it is impossible to evaluate only the first three months of Q1, the business makes a good start, with orders doubling YoY, excluding the impact of exchange rates.

Since orders recovered in H2 last year, it is difficult to show actual trends by comparing Q1 and Q2. The graph for the eight industries on the left shows, the trend from Q1 of the previous year. Please refer to this as well.

Then, going back to the graph on the right side, the middle one is the Materials sub-segment. Orders received increased by JPY19.5 billion over the previous year, and even excluding the impact of exchange rates, orders increased by 39.4%.

Chemicals remained strong both in Japan and outside Japan, with substantial growth of 42.1%, excluding the impact of exchange rate, and, as explained earlier, orders for mining in South America also contributed to the increase in Materials.

Finally, Life sub-segment. Order increased by JPY1.2 billion. Excluding the impact of exchange rates, growth was 2.7%.

As for the first three months of the first quarter, the market environment is favorable, although the trend is weak compared to other sub-segments. We will work on building up orders in the future.

## Orders and Sales by Control Subsegment

(Billion ¥)

| Orders | FY21_1Q | FY22_1Q | Difference | Growth rate |
|---|---|---|---|---|
| Energy & Sustainability | 39.5 | **55.5** | +16.0 | +40.5% |
| Materials | 37.2 | **56.7** | +19.5 | +52.4% |
| Life | 11.5 | **12.7** | +1.2 | +10.1% |
| Control total | 88.2 | **124.9** | +36.6 | +41.6% |
| Exchange rate 1$= | ¥109.43 | ¥131.25 | +21.82 | – |

| Sales | FY21_1Q | FY22_1Q | Difference | Growth rate |
|---|---|---|---|---|
| Energy & Sustainability | 37.1 | **38.9** | +1.8 | +4.8% |
| Materials | 32.6 | **38.8** | +6.2 | +18.9% |
| Life | 10.2 | **10.5** | +0.3 | +2.8% |
| Control total | 79.9 | **88.2** | +8.3 | +10.3% |
| Exchange rate 1$= | ¥109.43 | ¥131.25 | +21.82 | – |



Please move to page 10. Orders and sales results by Control sub-segment.

We have newly disclosed net sales this time. As orders are explained on the previous page, I will leave out this explanation.

## FY22 Forecast

◆ Only the forecast exchange rate has been revised (US$1: ¥120→¥130).

(Billion ¥)

| | FY21 (A) | FY22 forecast 5/10(B) | FY22 forecast 8/9(C) | Forecast difference (C-B) | Year on year difference (C-A) | Growth rate (C/A-1) |
|---|---|---|---|---|---|---|
| Orders | 420.5 | 439.0 | 453.0 | +14.0 | +32.5 | +7.7% |
| Sales | 389.9 | 407.0 | 421.0 | +14.0 | +31.1 | +8.0% |
| Operating income | 30.7 | 37.0 | 41.0 | +4.0 | +10.3 | +33.6% |
| ROS(%) | 7.9 | 9.1 | 9.7 | +0.6pt | +1.8pts | – |
| Ordinary income | 35.8 | 38.0 | 42.0 | +4.0 | +6.2 | +17.5% |
| Profit before income taxes | 30.1 | 38.0 | 42.0 | +4.0 | +11.9 | +39.5% |
| Tax, etc. | 8.8 | 13.0 | 14.0 | +1.0 | +5.2 | +59.1% |
| Profit attributable to owners of parent | 21.3 | 25.0 | 28.0 | +3.0 | +6.7 | +31.6% |
| EPS(¥) | 79.73 | 93.66 | 104.90 | +11.24 | +25.17 | – |
| Exchange rate 1$= | ¥112.94 | ¥120.00 | ¥130.00 | +10.00 | +17.06 | – |

■ **Downside risk factors against forecast**

・Supply-demand constraints for semiconductors, etc.: Sales↘

・Surging parts/resale product prices and logistics costs: Operating income↘



Next on page 11 is the forecast for FY22.

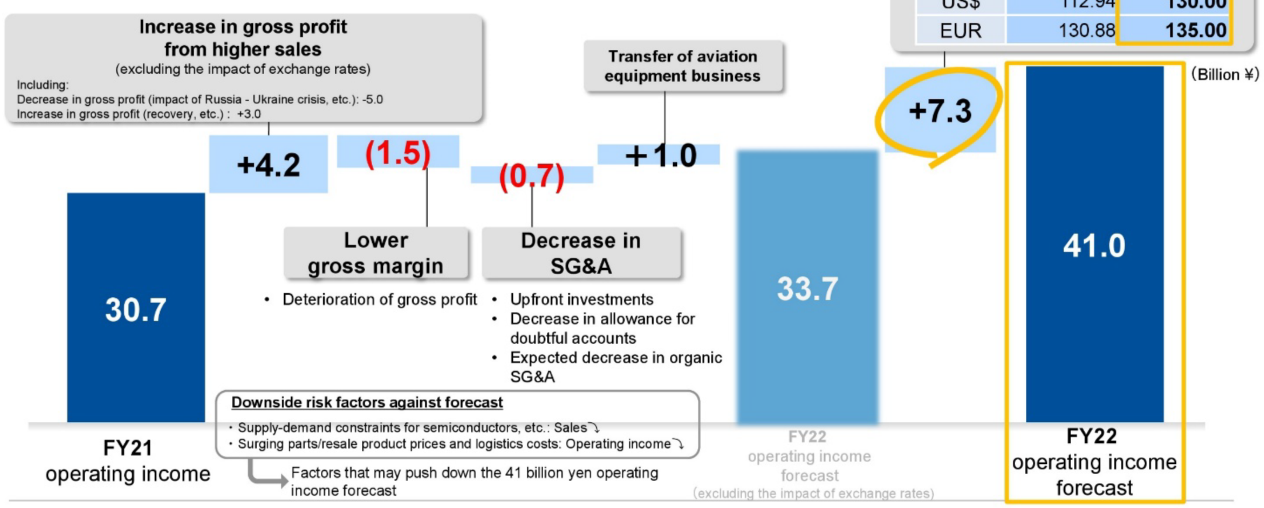
For the current forecast, the assumed exchange rate has been changed from JPY120 to the US dollar at the beginning of the year to JPY130 to the US dollar. Since we have only just finished the first three months of Q1, we have not revised the forecast from the one at the beginning of the year, except for the foreign exchange assumption.

## Factors Accounting for Increase/Decrease in FY22 Operating Income (change from May 10, 2022)

◆ Only the forecast exchange rate has been revised (US$1: ¥120→¥130).

Exchange rates (¥)

| | FY21 | FY22 forecast |
|---|---|---|
| US$ | 112.94 | 130.00 |
| EUR | 130.88 | 135.00 |



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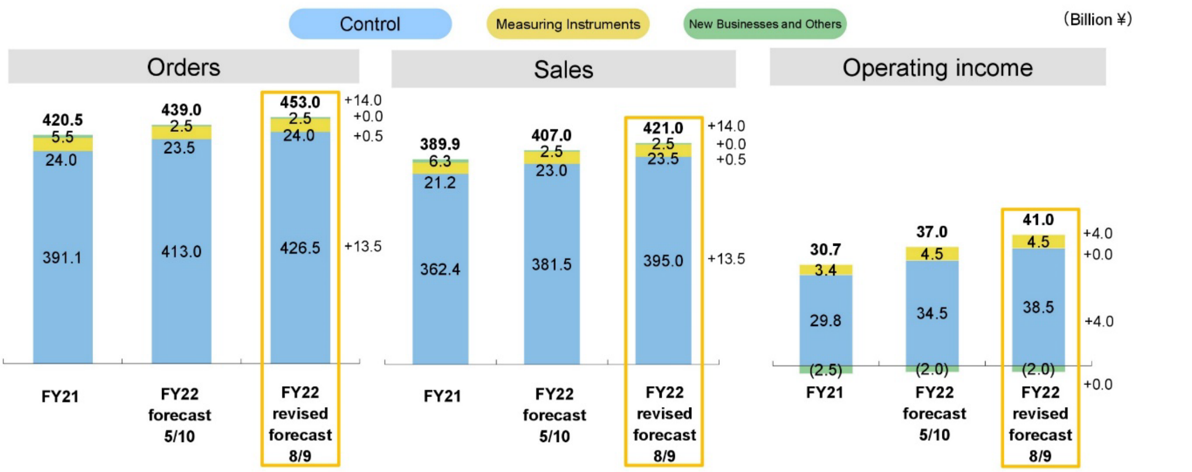
## FY22 Forecast for Orders, Sales, and Operating Income by Segment (change from May 10, 2022)

◆ Only the forecast exchange rate has been revised (US$1: ¥120→¥130).




*New Businesses and Others: The FY21 figures are for the aviation and other businesses.



## FY22 Forecast for Control Orders and Sales by Region

◆ Only the forecast exchange rate has been revised (US$1: ¥120→¥130).

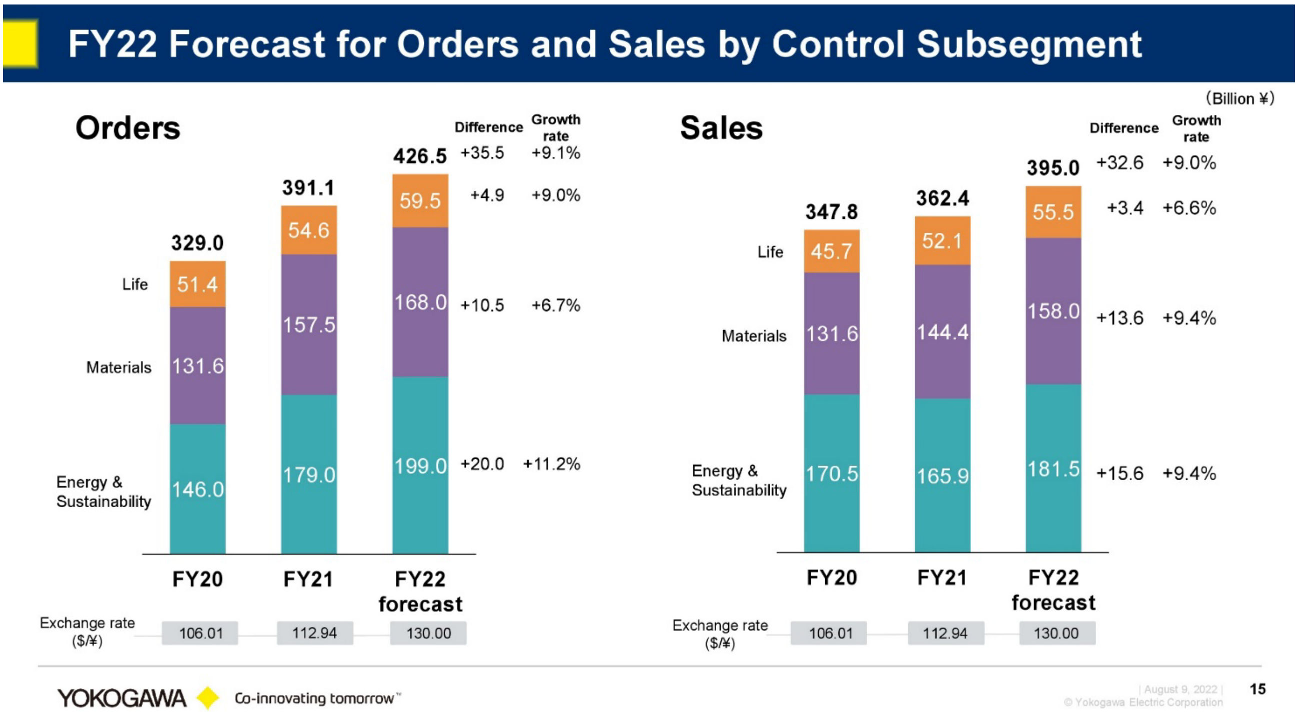
(Billion ¥)

| Orders | FY21 (A) | FY22 (B) | Difference (B-A) |
|---|---|---|---|
| **Japan** | **120.2** | **125.0** | **+4.8** |
| Asia | 134.0 | 150.0 | +16.0 |
| (Southeast Asia, Far East) | 59.7 | 68.0 | +8.3 |
| (China) | 59.1 | 64.0 | +4.9 |
| (India) | 15.2 | 18.0 | +2.8 |
| Europe and CIS | 42.1 | 38.0 | (4.1) |
| Middle East and Africa | 51.7 | 61.5 | +9.8 |
| North America | 31.8 | 39.0 | +7.2 |
| Central and South America | 11.3 | 13.0 | +1.7 |
| **Outside Japan** | **270.9** | **301.5** | **+30.6** |
| **Consolidated** | **391.1** | **426.5** | **+35.5** |
| Exchange rate USD1$ = | ¥112.94 | ¥130.00 | +17.06 |

| Sales | FY21 (A) | FY22 (B) | Difference (B-A) |
|---|---|---|---|
| **Japan** | **109.4** | **117.5** | **+8.1** |
| Asia | 125.7 | 140.0 | +14.3 |
| (Southeast Asia, Far East) | 56.7 | 63.0 | +6.3 |
| (China) | 54.6 | 60.0 | +5.4 |
| (India) | 14.4 | 17.0 | +2.6 |
| Europe and CIS | 43.2 | 38.0 | (5.2) |
| Middle East and Africa | 43.2 | 53.5 | +10.3 |
| North America | 30.2 | 34.0 | +3.8 |
| Central and South America | 10.7 | 12.0 | +1.3 |
| **Outside Japan** | **253.0** | **277.5** | **+24.5** |
| **Consolidated** | **362.4** | **395.0** | **+32.6** |
| Exchange rate USD1$ = | ¥112.94 | ¥130.00 | +17.06 |



For the operating income analysis on page 12, by the segment on page 13, and by region on page 14, only the foreign exchange assumption has been revised.




Finally, page 15.

From this time, we present forecasts for orders and sales in each of the three industry sub-segments. This is what we are presenting from the beginning of the fiscal year, with only the exchange rate change.

That's all I have to say. Thank you very much.

## Question & Answer

**[Q]**: Please tell us whether the Q1 results for orders, sales, and profit were good or bad compared to the internal plan.

In addition, please give us a supplementary explanation, such as the background of strong orders, compared to our expectations.

On the other hand, profits look pretty bad without the yen's depreciation. Please tell us whether the deterioration in gross profit and increase in SG&A expenses in the 1Q is within the expected range or not. Also, is there any prospect of recovery from 2Q?

**[A]:** Regarding the evaluation of the 1Q results, Orders were well in excess of our internal plan.

When we released our financial results and earnings forecast in May, we were quite concerned about the Shanghai lockdown and the loss of Russian business due to the Ukraine crisis, but we recovered from that and built up our performance with even greater momentum.

We believe that our strong performance has been supported by our customer’s willingness to invest in the strong economic conditions recovering from COVID-19.

Regarding the Russian issue, There is some positive aspect, Investment in other regions has become more active due to the energy shift and awareness of geopolitical risks.

Currently, we continue strong performance and expect this momentum to continue for some time.

As for the risks, we are concerned that inflation will cause an economic slowdown. The delay in customers’ project schedules due to the tight supply of materials is also a risk.

As a result of the above factors, orders were quite strong in 1Q, but this time we are only changing the exchange rate.

As for our thoughts on net sales, we are almost in line with our internal plans.

As for profits, there are a variety of expenses, including strategic costs that were not anticipated at the beginning of the year

As I mentioned earlier, it was expected that higher parts prices preceded the transferring cost on the selling prices. Due to the shortage of parts, the lead time from order to sales has been long, so it will take time for the selling price increase to take effect.

On the other hand, we are making steady progress in increasing our selling prices on orders, so we hope to recover as planned.

Regarding the deterioration in the gross margin of the project, it was slightly worse than forecast.

We hope you understand this was in response to the strong orders volume in 1Q. We intentionally posted losses in a way that did not correspond to sales, but we took what we should have taken, even if it was a temporary loss, and that has worked.

We are also scrutinizing the gross margin on the project order backlog. Although there are some loss-making items that we selectively took, but overall the gross margin on the project order backlog is improving, and we believe we will be able to recover in the future.

**[Q]:** Is it correct to understand that the increase in SG&A expenses were also within the expected range?

**[A]:** Regarding the increase in SG&A expenses, The Allowance for Russia-related matters is unplanned. It was not factored into the forecast. Other than that, there are no major deviations.

**[Q]:** Regarding the annual operating income of JPY41 billion, only JPY 1.4 billion came out in 1Q. Can we expect more than JPY10 billion operating profit from this 2Q? How do you envision JPY41 billion in profit for each quarter?

**[A]:** It isn’t easy to give a specific amount for each period. SG&A expenses were concentrated in the fourth quarter of last year and the year before. There are fluctuations depending on the timing of the execution of each expense item.

Recovery of gross profit margin will be seen in the second half of the fiscal year.

Transferring costs to selling prices will affect 3Q due to the extension of lead times, as I mentioned earlier. As for the project, Orders have been growing Q on Q since last year, and that will contribute to sales for this term.

**[Q]:** Orders and sales in China seem to be strong in 1Q, but at the beginning of the fiscal year, you mentioned that the lockdown would impact sales of about JPY3 billion. Please tell us about sales, orders, and production, including the actual situation and impact.

**[A]:** First of all, regarding the impact on the sales, as we assumed at the beginning of the year, it was a negative factor of approximately JPY3 billion. Although It lasted longer than expected, we were able to keep this amount.

The cost of sales ratio increased due to the resulting deterioration in gross profit and factory utilization ratio.

In orders received, the Chinese economy was performing well, supported by the market environment. We can say that there was almost no impact.

**[Q]:** Is it correct to say that the order was strong enough that the negative factors were not felt as expected?

**[A]:** Yes.

**[Q]**: I assume that high order growth may be driving up your market share. What do you think of our internal evaluation?

**[A]:** This is difficult to answer. Our competitors are also affected by the tight supply of parts, and we have sensed that they are making different moves in terms of where to attack and where to pull back, depending on the region.

In such a situation, we are taking a step back while our competitors are taking a step forward, and vice versa, so it is difficult to say how we are doing as a whole.

However, considering the strength in the Middle East and the recovery or growth in Japan, we believe that the overall situation is not bad and will probably grow.

**[Q]:** I would like to ask you about the order environment.

You mentioned that the Russian issue might stimulate investment in energy shift and security. However, growth in both chemicals and mining is also high, as is the case with renewable energy, areas other than energy and security. What keywords do you think are behind this?

**[A]:** As you say, the energy shift is part of the factor. You're right that it's not enough to explain the overall order strength.

We believe the growth in orders is mainly due to the significant recovery of the global economy after the long period of stagnation in COVID-19. the demand is strong, supported by a booming economy.

In the energy shift, what leads to orders is OPEX jobs from increasing higher operating rates outside of Russia.

Geopolitical risks have been recognized, so even if relations with Russia improve in the future, they will continue to secure the energy they need and spread out risks. Maybe CAPEX will come in the future.

In addition, there is a shift or diversification outside Russia in areas other than the energy sector. We see such inquiries on a case-by-case basis, which are included in the figures for this period.

**[Q]:** There's been a lot of talk of recession lately, and I think there's a little bit of a contradiction between the economic rebound you mentioned. How do you see this as a risk? Do you think there will be no problems for the time being, or can you please add a comment on customers' sentiments?

**[A]:** In the earnings forecast, we mentioned the downside risk factors such as surging component prices and resale prices. additionally inflation and economic slowdown are becoming strongly recognized.

In addition, concerns have also arisen that material shortages may cause delays in customers' projects. We recognize such risks. Though we received strong orders in the first quarter, we did not go as far as an upward revision.

**[Q]**: You have disclosed your full-year order forecast this time, but based on the 1Q figure, I think the average will decrease a little from 2Q to 4Q. Does this mean something?

**[A]:** Three months have just ended, and considering the risks of inflation and an economic slowdown, we cannot go into the upward revision based on the 1Q figures. We know that the figures for the remaining nine months are a bit weak. We will continue to observe for a while and make revisions as necessary.

**[Q]:** Downstream and Chemicals have received orders back relatively early and were quite strong in 1Q. Are there any signs that the return from COVID-19 has saturated and will fall from here?

**[A]:** We're not aware of any signs yet. However, while we are suffering from a shortage of semiconductors, There is a strong demand for chemicals for semiconductors. Therefore our customers have invested briskly. We are monitoring the situation, but no such signs have emerged.

**[Q]:** How many energy shift projects do you have, and how much potential will emerge in the next two or three years?

**[A]:** It is difficult to classify an investment in response to an energy shift, and I am sorry, but I would like to refrain from answering about the volume and timing.

**[Q]:** About the figures on page 6, not included in the initial assumptions are JPY400 million for Russia-related allowance and JPY1.1 billion for project gross margin deterioration. Is it right?

**[A]:** Regarding the deterioration in project gross margins, we have few strategic projects, but most were unplanned portions based on strong orders, and we regard them as an additional upfront investment. However, throughout the year, it will be within a plan to be recovered.

**[Q]:** Understood. Looking only at 1Q, "You didn't expect such a big minus JPY1.1 billion," "However, it was aggressive investment under favorable conditions," and "in terms of the year, the amount can be covered by all the other effects."

**[A]:** Yes. Our loss-making strategic projects are an aggressive investment. We are aware that our business is operating properly, but it has been negatively impacted in profits in advance.

**[Q]:** In that case, Combining the positive effect of foreign exchange with the deterioration in project gross profit and the provision for Russia, we can sort out that the profit in 1Q was expected to be about 1 billion yen or JPY2 billion according to the internal plan, but is that correct as an image?

**[A]**: Internally, our management approach is to achieve the target by the planned rate without factoring in the impact of exchange rate fluctuations or the impact of the yen's depreciation. Regarding our internal assessment, we reflected that we couldn’t achieve the plan in 1Q. But just looking at the numbers, we are aware that we did not fall far short.

**[Q]:** In terms of project gross margin deterioration by sector, which industries are most often tied to this deterioration?

**[A]:** It is from a broad sector; Downstream, Upstream, Chemical, and other industries.

Regarding the loss of construction, we will be able to recover properly. In our stance, we will continue to take what we should take.

Regarding SG&A expenses, orders have increased so much that we are growing our business by maintaining a good balance in executing expenditures.

[END]

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***Document Notes***

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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