



Yokogawa Electric Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

November 7, 2023

Event Summary

[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 2024	
[Fiscal Period]	FY2023 Q2	
[Date]	November 7, 2023	
[Number of Pages]	28	
[Time]	18:30 – 19:32 (Total: 62 minutes, Presentation: 22 minutes, Q&A: 40 minutes)	
[Venue]	Webcast	
[Number of Speakers]	2	
	Hitoshi Nara	President and Chief Executive Officer
	Michiko Nakajima	Vice President, Head of Accounting and Treasury Headquarters

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Presentation

Key Points

■ FY23 1H results: Sales and operating income were up.

- **Summary:** Orders were almost the same level as the previous fiscal year.

Sales were up mainly due to an improved procurement environment for production parts and project-procured products, the effect of price hike measures, recording sales of large-scale projects ordered after COVID-19, and the impact of foreign exchange fluctuations.

Operating income was up mainly due to the increase in sales and the accompanying rise in the gross profit margin.

Profit attributable to owners of parent increased, mainly due to the recording of gains on the sale of investment securities in extraordinary income in the first quarter, despite the recording of an impairment loss on goodwill, etc., related to an overseas subsidiary in extraordinary losses.

- **Segments:**

Control: Sales and operating income were up (excluding the impact of exchange rates, orders decreased 0.6% and sales increased 19.2% year on year).

Measuring instruments: Sales and operating income were up.

New businesses and others: Sales and operating were almost the same level as the previous fiscal year.

■ FY23 earnings forecasts: <Change>

- **Reasons for revision:**

1. Revision to exchange rate (US\$1: ¥130 → ¥140)

2. Upward revision, taking into account the improved procurement environment for production parts and project-procured products.

Nakajima: The key points of the Q2 financial results are listed on page 4 of the materials. I will explain this the following pages.

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Summary of FY23 1H Results (year on year comparison)

- ◆ Orders were almost the same level as the previous fiscal year (excluding the impact of exchange rates: -¥5 billion, -1.9%).
- ◆ Sales were up due to an improved procurement environment for production parts and project-procured products, the effect of price hike measures, recording sales of large-scale projects ordered after COVID-19, and the impact of foreign exchange fluctuations (excluding the impact of exchange rates: +¥40.2 billion, +20.4%).
- ◆ Operating income was up mainly due to the increase in sales and the accompanying rise in the gross profit margin (excluding the impact of exchange rates: +¥17.8 billion).
- ◆ Profit attributable to owners of parent increased, mainly due to the recording of gain on sale of investment securities in extraordinary income in the first quarter, despite the recording of an impairment loss on goodwill, etc., related to an overseas subsidiary in extraordinary losses (excluding the impact of exchange rates: +¥23.2 billion).

	FY22_1H	FY23_1H	Difference	Growth rate	Impact of exchange rate	(Billion ¥)
Orders	264.3	266.1	+1.8	+0.7%	+6.8	
Sales	205.9	254.5	+48.6	+23.6%	+6.6	
Operating income	13.5	33.7	+20.2	+149.0%	+2.3	
ROS(%)	6.6	13.2	+6.7pt	—	—	
Ordinary income	15.9	37.1	+21.2	+133.6%	+2.7	
Profit attributable to owners of parent	9.2	35.1	+25.8	+279.4%	+2.6	
Exchange rate	US\$1=	¥135.30	¥142.61	+7.31	—	

Page 5 is summary of the financial results.

Orders received were JPY266.1 billion, a decrease of JPY5 billion, or 1.9%, excluding the impact of foreign exchange rates. Despite the decrease, orders are slightly higher than we had expected at the time of our forecast at the beginning of the year, supported by firm energy-related orders.

Sales were JPY254.5 billion, a significant increase of JPY42 billion from the previous year, or 20.4%, excluding the impact of foreign exchange rates. Since H1 of the previous year was the bottom of sales affected by COVID-19, the improvement reacted to that. In addition, the improvement in the procurement environment for production parts and project-procured products has also boosted sales by eliminating the backlog of orders received.

Operating income was JPY33.7 billion, an increase of JPY20.2 billion from the previous year, and net income was JPY35.1 billion, an increase of JPY25.8 billion from the previous year. As an extraordinary loss, an impairment loss of JPY5.6 billion for goodwill and other assets of PXiSE Energy Solutions, which was acquired in December 2021, was recorded in this Q2. However, in addition to the improvement in operating income, the gain on the sale of a large strategic holding recorded in Q1 contributed significantly to the improvement in final income.

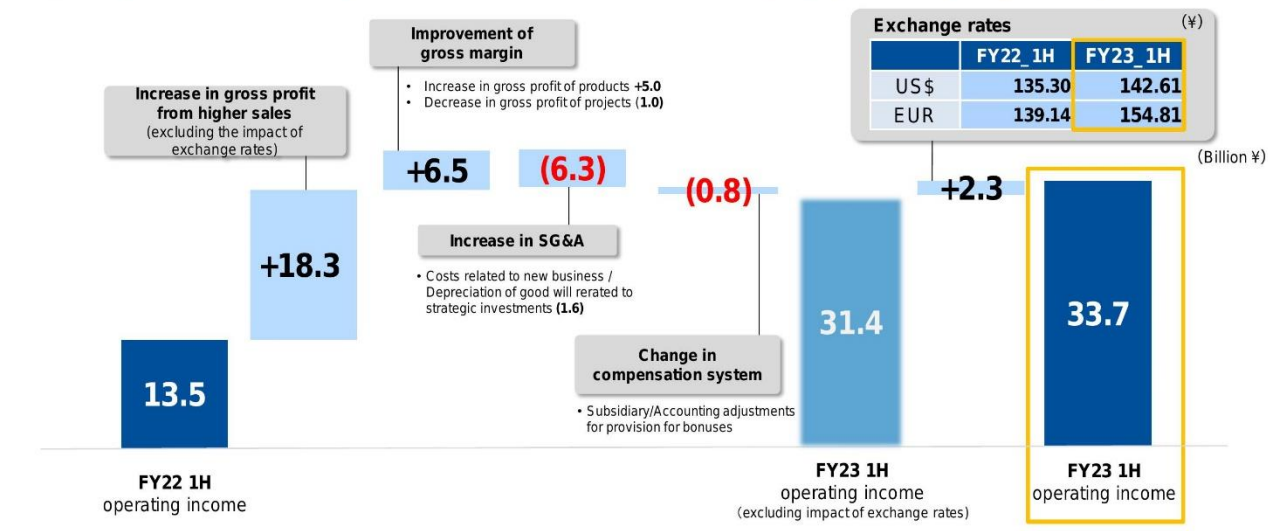
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Analysis of Operating Income (year on year comparison)

◆ Operating income was up mainly due to the increase in sales and the accompanying rise in the gross profit margin.



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Page 6 is the analysis of changes in operating income.

Operating income increased by JPY17.8 billion from JPY13.5 billion in FY22, excluding the impact of foreign exchange rates. In addition to an increase in gross profit of JPY18.3 billion due to higher revenues, an improvement in the gross profit margin of JPY6.5 billion was a major contributor.

The gross profit margin improvement per product was JPY5 billion, as shown. As the production utilization rate is being raised as the company digests its abundant backlog of orders, a decline in the fixed ratio of cost-effectiveness has boosted gross margin. In addition, the effect of the price increase is taking effect.

The gross profit of project decreased by JPY1 billion, but this was affected by the timing to record the provision for construction losses associated with the award of strategic projects and the concentration of sales from large-lot projects with low profit margins.

SG&A expenses increased by JPY6.3 billion from the previous year. As a factor, activity expenses were strengthened in stages during FY22 in line with the increase in orders. In addition, amortization of goodwill from last year's acquisition and sales commissions have increased due to the recent increase in sales.

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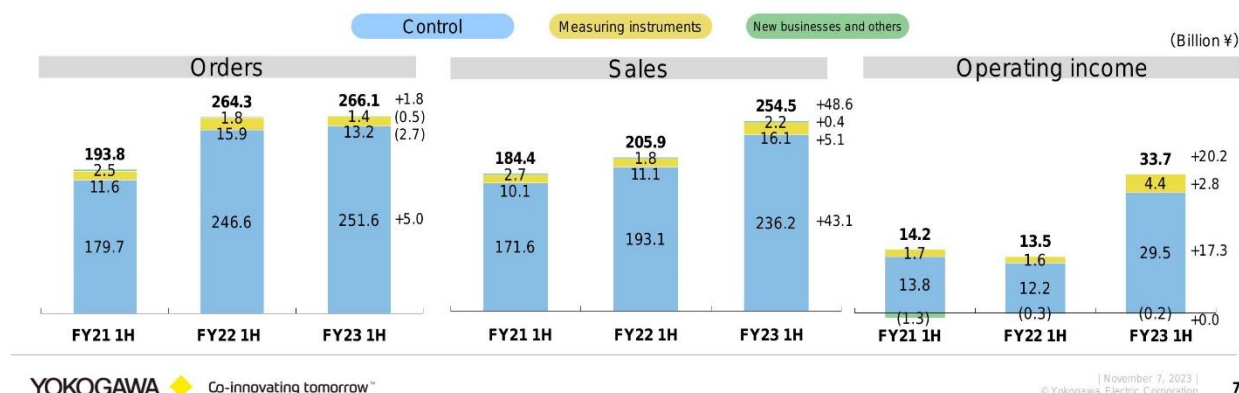
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Comparison for Orders, Sales, and Operating Income by Segment

- ◆ **Control:** Orders were almost the same level as the previous fiscal year. Sales were up mainly due to an improved procurement environment for production parts and project-procured products, the effect of price hike measures, recording sales of large-scale projects ordered after COVID-19, and the impact of foreign exchange fluctuations (excluding the impact of exchange rates, orders decreased ¥1.4 billion, 0.6% decline, and sales increased ¥37.1 billion, 19.2% increase). Operating income was up mainly due to the increase in sales and the accompanying rise in the gross profit margin (excluding the impact of exchange rates: +¥15.4 billion).
- ◆ **Measuring instruments:** Orders decreased. Sales were up mainly due to an improved procurement environment for production parts. Operating income was up mainly due to the increase in sales and the accompanying rise in the gross profit margin.
- ◆ **New businesses and others:** Sales and operating were almost the same level as the previous fiscal year.



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

The first is the control segment in blue color. Orders received increased by JPY5 billion, a slight decrease of 0.6%, excluding the impact of foreign exchange rates. Sales increased JPY43.1 billion, or 19.2%, excluding exchange rate effects. Operating income increased by JPY17.3 billion. The reasons for the increase in sales and operating income overlap with those of the entire company, which I explained earlier, so I will omit them.

Next is the measuring instrument segment in yellow color. Orders received decreased by JPY2.7 billion, a decrease of 19.6%, excluding the impact of foreign exchange rates. This was partly due to a reaction to the extremely high level of orders received in H1 of the foreign year. In addition, since H2 of the previous year. Some industries have entered a phase of adjustment, such as through a round of investment, which has had an impact.

The last is the new business and others segment in green color. There is no significant change from the previous year.

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Orders and Sales by Region in Control Segment

- ◆ Orders were strong in India, North America, and the Middle East and Africa.
- ◆ Orders: -¥1.4 billion, -0.6% (excluding the impact of exchange rates); sales: +¥37.1 billion, +19.2% (excluding the impact of exchange rates).

(Billion ¥)

Orders	FY22 1H (A)	FY23 1H (B)	Difference (B-A)	Sales	FY22 1H (A)	FY23 1H (B)	Difference (B-A)
Japan	65.2	61.1	(4.0)	Japan	51.8	57.9	+6.1
Asia	90.6	91.4	+0.8	Asia	70.3	83.3	+13.1
(Southeast Asia, Far East)	37.2	40.2	+3.0	(Southeast Asia, Far East)	30.5	34.6	+4.1
(China)	42.0	35.5	(6.6)	(China)	31.8	37.2	+5.4
(India)	11.4	15.8	+4.3	(India)	8.0	11.5	+3.6
Europe and CIS	22.5	21.3	(1.2)	Europe and CIS	21.3	24.2	+2.9
Middle East and Africa	38.7	43.5	+4.8	Middle East and Africa	25.2	36.2	+11.0
North America	19.0	23.6	+4.6	North America	18.4	24.7	+6.3
Central and South America	10.6	10.6	+0.0	Central and South America	6.1	9.9	+3.8
Outside Japan	181.4	190.4	+9.0	Outside Japan	141.3	178.3	+37.0
Consolidated	246.6	251.6	+5.0	Consolidated	193.1	236.2	+43.1
Exchange rate USD1\$ =	¥135.30	¥142.61	+7.31	Exchange rate USD1\$ =	¥135.30	¥142.61	+7.31

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

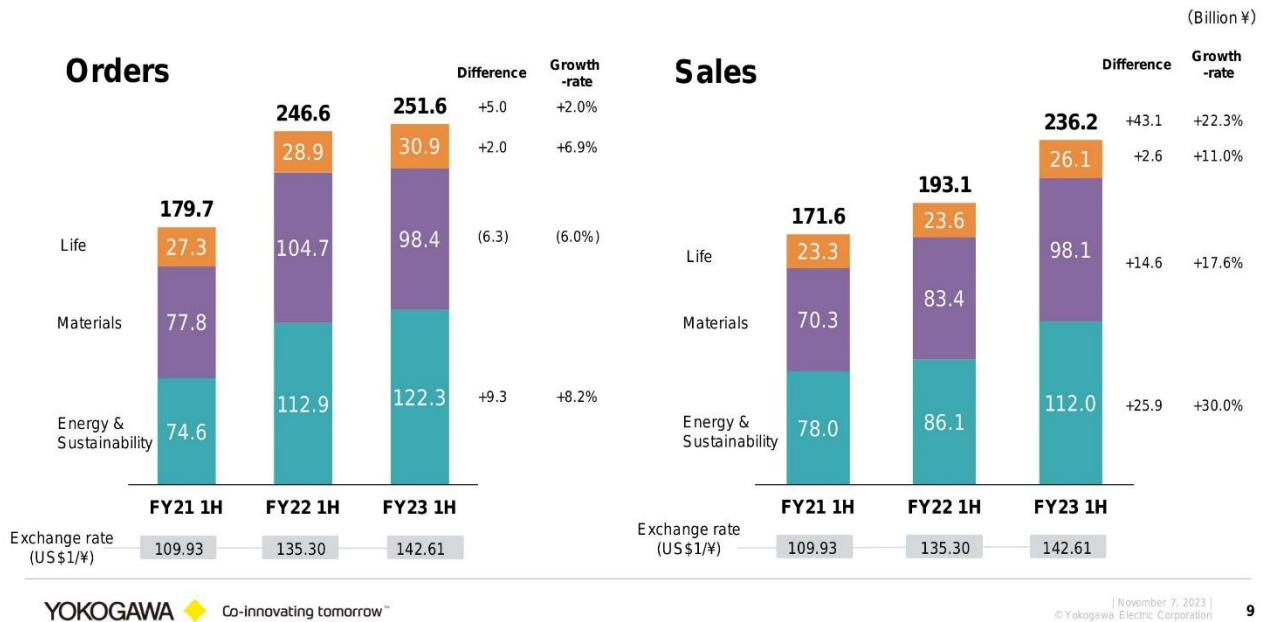
As noted at the beginning, India, North America, and the Middle East and Africa are performing well. In India, the growth rate was higher than 30%, excluding the impact of foreign exchange rates, supported by the expansion of basic demand. In the US, the growth rate was about 18%, excluding the impact of foreign exchange rates, mainly due to the strong performance of upstream.

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Orders and Sales by Control Subsegment



Page 9 shows orders and sales by control sub-segment and industry.

The graph shows three industry segments from the bottom, energy and sustainability, materials, and life. Regarding the graph of orders on the left side, energy and sustainability, the bottom line, increased by JPY9.3 billion from the previous year, an increase of 5%, excluding the impact of foreign exchange rates. Materials in purple decreased by JPY6.3 billion, a decrease of 8%, excluding the impact of foreign exchange rates. Life in orange increased by JPY2 billion, an increase of 4.5%, excluding the impact of foreign exchange rates.

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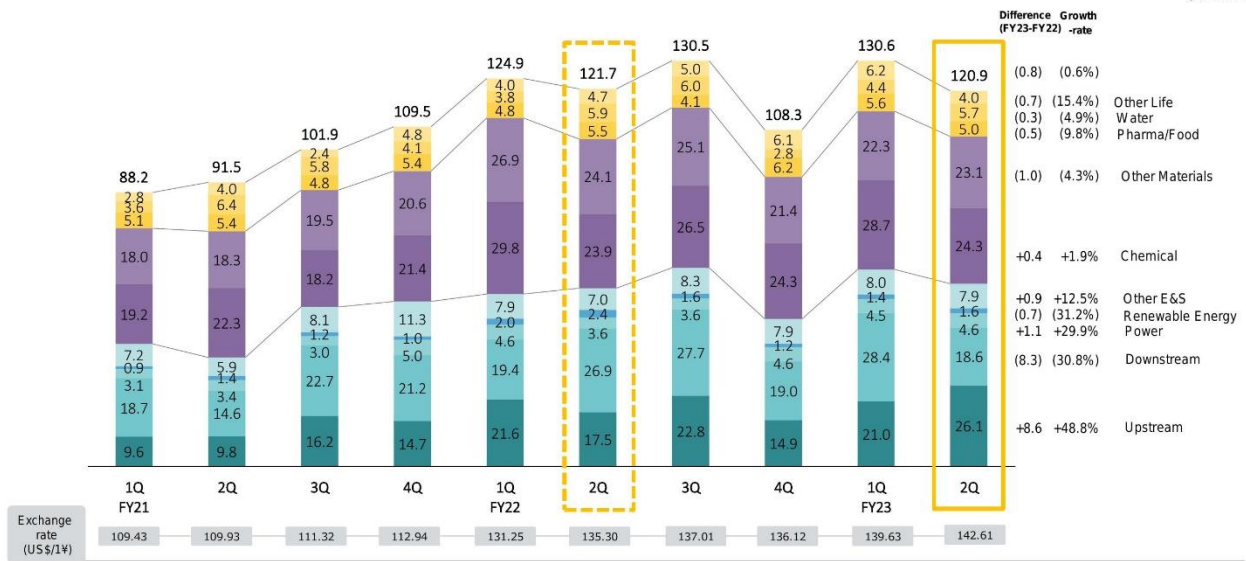
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Orders by Industry in Control Segment

(Billion ¥)



Page 10 shows the quarterly trend of these three industry segments, broken down by industry segment.

Energy and sustainability, the bottom part in blue, has decreased from Q1 to Q2, but this is due to the timing of the recording of large projects. Orders received on a base level were slightly higher than in Q1 and remained steady in Q2. The upstream was particularly strong due to stable high oil and gas prices. On the other hand, the downstream, where the same energy price hikes result in higher material costs, was experiencing a slight slowdown.

Next is materials in purple in the middle. I explained earlier that an 8% decrease in the H1. The factor was the impact of the extremely high level in Q1 of the previous year. In addition, since last year, there has been an adjustment in demand for electronic components and a resulting investment restraint in the materials industry. Still, there has not been a significant slowdown in the current situation.

The last is life in yellow. If we look only at the three months of Q2, we see a decrease from the previous year. However, this is due to the timing to record large orders, and we recognize that the markets for food, pharmaceuticals, and water are strong.

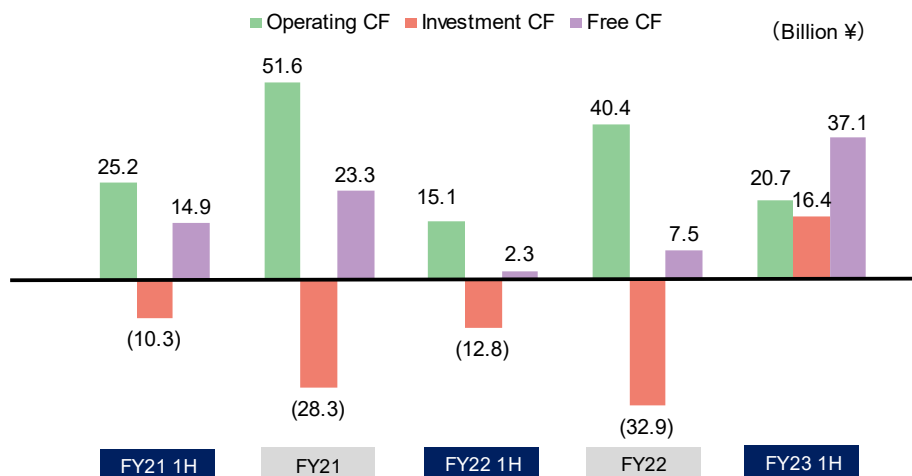
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Trend of Cash Flow



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FY23 Forecast (change from May 9, 2023)

- ◆ Revision to exchange rate (US\$1: ¥130 → ¥140)
- ◆ Upward revision, taking into account the improved procurement environment for production parts and project-procured products.

	FY22 (A)	FY23 forecast 5/9 (B)	FY23 forecast 11/7 (C)	Forecast difference (C-B)	Year on year difference (C-A)	Growth rate (C/A-1)	(Billion ¥)
Orders	518.4	490.0	517.0	+27.0	(1.4)	(0.3%)	
Sales	456.5	470.0	512.0	+42.0	+55.5	+12.2%	
Operating income	44.4	48.0	63.0	+15.0	+18.6	+41.9%	
ROS(%)	9.7	10.2	12.3	+2.1pt	+2.6pt	—	
Ordinary income	48.6	49.0	64.0	+15.0	+15.4	+31.7%	
Profit before income taxes	49.8	65.5	74.5	+9.0	+24.7	+49.6%	
Tax, etc.	10.9	21.5	26.5	+5.0	+15.6	+143.6%	
Profit attributable to owners of parent	38.9	44.0	48.0	+4.0	+9.1	+23.3%	
EPS(¥)	145.81	164.84	182.41	+17.57	+36.60	—	
Exchange rate US\$1=	¥136.12	¥130.00	¥140.00	+10.00	+3.88	—	

■ **Variation factors against forecast**

- Inflation worsens costs and discourages investment
- Recession in the Chinese economy
- Worsening of the situation in the Middle East

Page 12 is the slide regarding the FY23 forecast.

The upward revision is based on the fact that the procurement environment for production parts and other items is improving ahead of our initial expectations and that we are making steady progress in increasing production in response to this improved procurement environment. In addition, the assumed exchange rate has been changed from JPY130 to the dollar to JPY140 to the dollar.

In the middle of this table, the portion shown in comparison to the previous forecast is the total revision to the current forecast, including both the real revision and the foreign exchange change. In terms of the actual revision, excluding the impact of foreign exchange rates, orders received increased by JPY5 billion, and sales increased by JPY20 billion, mainly due to the improvement in the procurement environment ahead of the initial forecast.

In the current fiscal year, the recovery of order backlogs temporarily will boost sales. As a result of this increase in sales, operating income increased by JPY9 billion in actual terms, and net income remained unchanged in actual terms, taking into account the impairment loss of PXiSE recorded in Q2 and the increase in tax expense associated with the increase in profit.

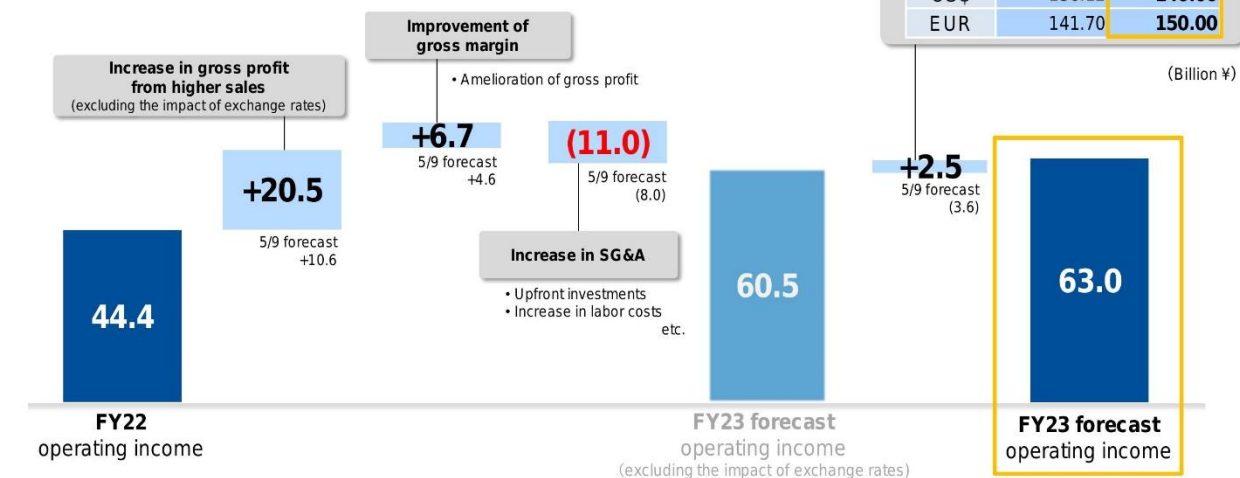
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Factors Accounting for Increase / Decrease in FY23 Operating Income (change from May 9, 2023)

- ◆ Revision to exchange rate (US\$1: ¥130 → ¥140)
- ◆ Upward revision, taking into account the improved procurement environment for production parts and project-procured products.



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*The impact of mergers and acquisitions that have not yet been concluded is not included in the forecast.

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Page 13 shows the YoY increase or decrease in operating income reflecting this revision.

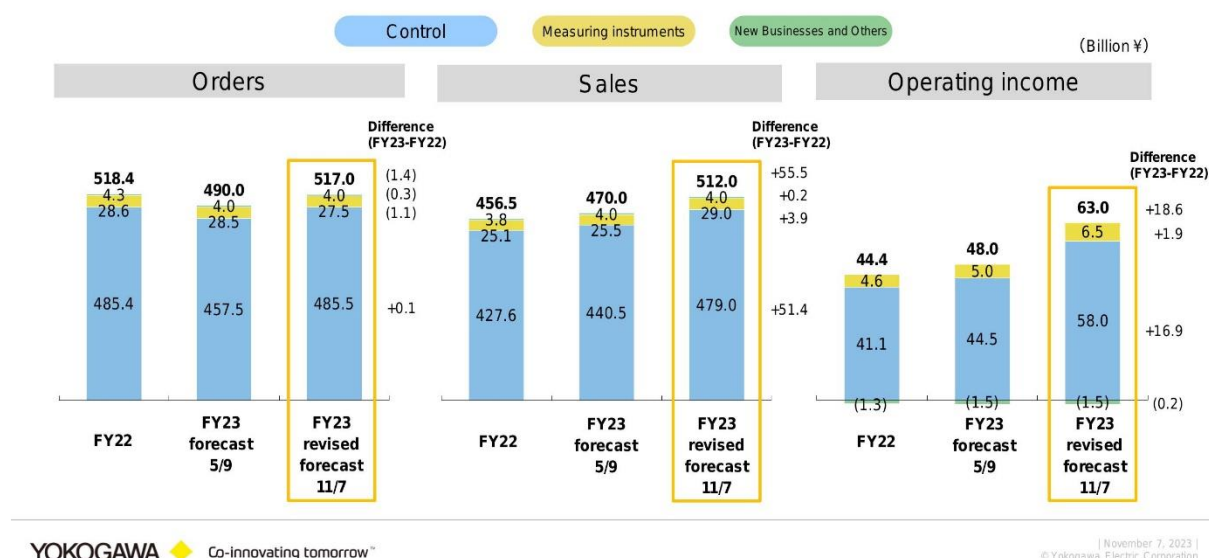
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FY23 Forecast for Orders, Sales and Operating Income by Segment (change from May 9, 2023)



Page 14 shows the forecast by segment reflecting this revision.

I will only briefly explain the actual revised amount. Orders received increased by JPY7.5 billion for the control and decreased by JPY2.5 billion for the measuring instruments. Sales increased by JPY18 billion for the control and increased by JPY2 billion for the measuring instruments. Reflecting this increase in sales, operating income increased by JPY8 billion for the control and JPY1 billion for the measuring instruments.

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FY23 Forecast for Control Orders and Sales by Region (change from May 9, 2023)

(Billion ¥)

Orders	FY22 (A)	FY23 (B)	Difference (B-A)	Sales	FY22 (A)	FY23 (B)	Difference (B-A)
Japan	134.0	125.0	(9.0)	Japan	116.0	124.5	+8.5
Asia	168.0	168.5	+0.5	Asia	153.8	167.0	+13.2
(Southeast Asia, Far East)	71.0	73.0	+2.0	(Southeast Asia, Far East)	68.5	71.0	+2.5
(China)	76.1	73.5	(2.6)	(China)	66.8	74.0	+7.2
(India)	20.9	22.0	+1.1	(India)	18.5	22.0	+3.5
Europe and CIS	46.4	46.0	(0.4)	Europe and CIS	42.4	46.5	+4.1
Middle East and Africa	71.4	76.0	+4.6	Middle East and Africa	59.9	73.0	+13.1
North America	47.3	52.0	+4.7	North America	40.7	49.5	+8.8
Central and South America	18.3	18.0	(0.3)	Central and South America	14.8	18.5	+3.7
Outside Japan	351.4	360.5	+9.1	Outside Japan	311.6	354.5	+42.9
Consolidated	485.4	485.5	+0.1	Consolidated	427.6	479.0	+51.4
Exchange rate US\$1 =	¥136.12	¥140.00	+3.88	Exchange rate US\$1 =	¥136.12	¥140.00	+3.88

Pages 15 and 16 are by regions in the control segment, respectively, which have been revised to reflect the results of H1 and outlook. I will omit the explanation.

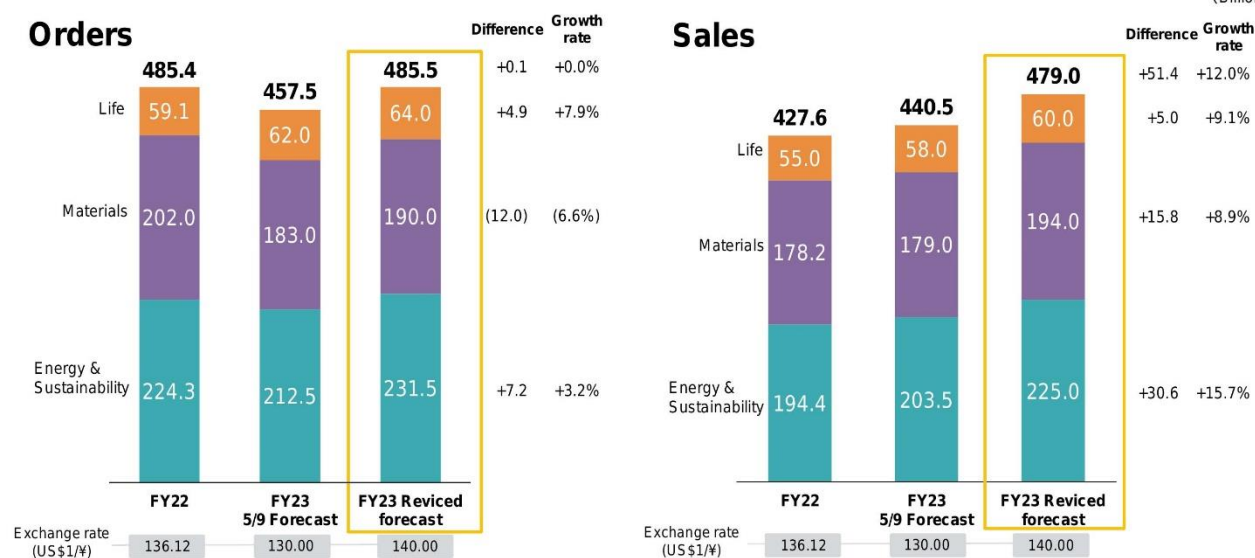
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FY23 Forecast for Orders and Sales by Control Subsegment (change from May 9, 2023)

(Billion ¥)



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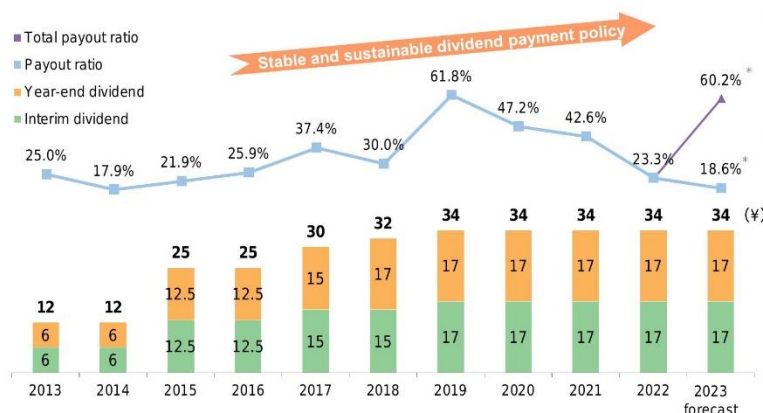
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Dividend

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

[Dividend]



[Status of acquisition of own shares]

Total number of acquired shares: 5,439,300 shares
Total price of acquired shares : ¥14.3 billion
(Maximum: ¥20.0 billion, progress rate: 71.7%)

As of September 30, 2023

*The total payout ratio and payout ratio figures in the graph do not take into account the impact of any treasury stock that may be acquired in the second half. Therefore, it may change depending on the status of future acquisition of own shares.

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Page 17 shows shareholder returns.

As for the interim dividend, the Board of Directors today resolved to pay JPY17 per share as initially forecasted. The annual dividend forecast remains unchanged. As indicated on the right side of the graph, the Company had repurchased JPY14.3 billion of its own shares by the end of September as part of the activity to buy back up to a maximum of JPY20 billion.

This is all from me.

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Understanding Our Business Environment

Customers' appetite for investment expected to remain strong in the medium to long term
Demand in China continues to be weak / Energy-related demand remains firm

Regions	Middle East: Investment continues, but increasingly tense regional situation requires close attention	India: Refining sector active, but competition is fierce
	North America: Concerns about impact of inflation	China: Demand continues to decline and readjust. No signs of recovery yet
Industries	Japan: Stagnation and slow, patchy recovery	
	Upstream: Stable oil and gas prices are driving investment	Renewable: Many hydrogen and ammonia projects
	Downstream: A lull in large projects. Many DX projects to improve productivity	
	Chemical: No recovery in demand yet for materials related to electronic components and EVs	
	Pharma, food, water: Strong investment to upgrade processes and improve productivity, safety, and quality	



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Nara: I would now like to talk about our recognition of the current situation and our outlook for the future. Let me start with our view of the overall environment for our business.

Overall, we see that customers' willingness to invest for medium- and long-term sustainable growth is firm and active. At the same time, however, China, especially the small orders, has continued to weaken from the first quarter into this second quarter, and there are no signs of a turnaround. Energy-related demand remains strong, but future trends need to be closely monitored, as high oil prices and prolonged inflation could lead to a deterioration in customer's profitability.

In addition, although the escalation of tensions in the Middle East is not having a direct impact on our business at this time, we will continue to be vigilant in managing the various risks in the business environment, paying attention to the growing impact of the deteriorating situation.

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Accelerate Growth 2023: 4 Basic Strategies



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Next, I will present a review of our medium-term business plan, Accelerate Growth 2023.

To achieve the goals set forth in our medium-term business plan, Accelerate Growth 2023, we have formulated four basic strategies, as shown.

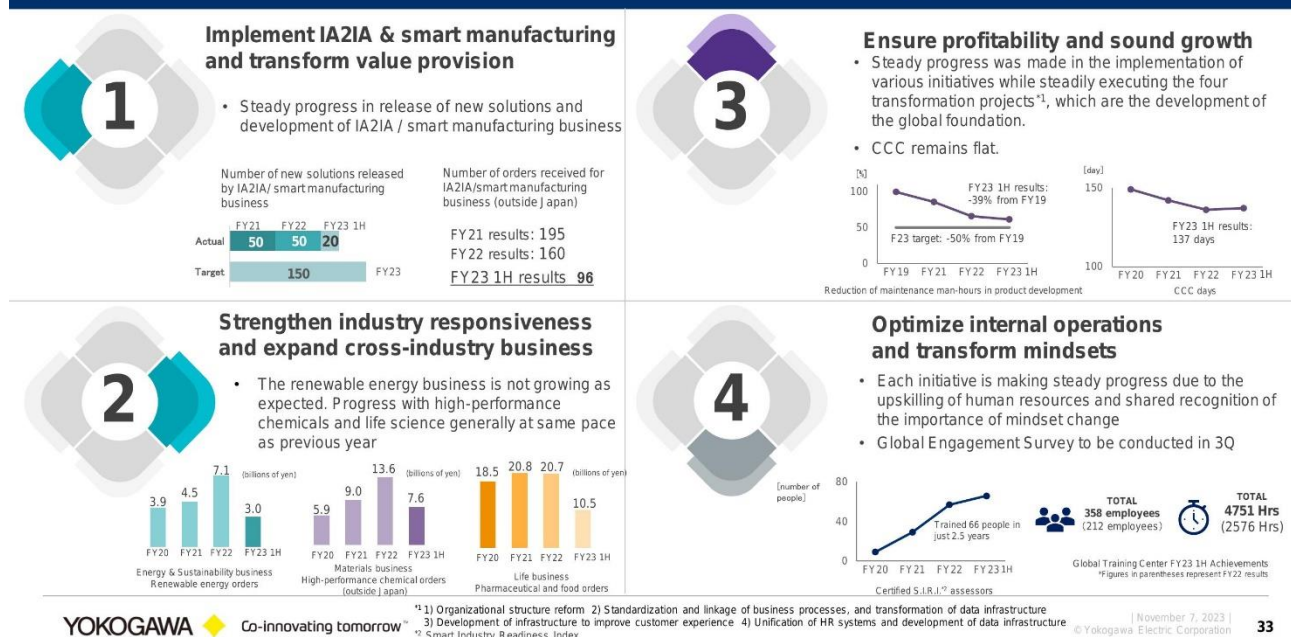
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Accelerate Growth 2023: 4 Basic Strategies Progress Highlights



Here is a summary of our initiatives and progress on each of the four strategies; please see the details on this slide, but I will focus on two key points.

On the bottom left of the slide, strategy 2, is the status of orders in our focus industries; orders for renewable energy have grown less than expected. I will explain this on the next page.

In addition, progress in the high-performance chemical industry, the focus industry of the Materials business, and in the pharmaceutical and food industry, the focus industry of the Life business, is generally in line with the previous year. Still, we are persevering in the challenging market environment of our main regions, Japan, and China.

Strategy 4, on the bottom right of the slide, shows that the results of the Global Training Center (GTC) are growing. In the GTC, we develop human resources who can identify customer challenges and needs and create value through our unique programs. The top management and leaders of each region or business also participate in this training and recognizing the importance of this training, they further accelerate the development of their members. It is a virtuous cycle. In this way, the importance of changing mindsets is shared throughout the organization, and the initiative continues progressing.

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Business Progress for Renewable Energy

Renewable energy orders have grown less than expected, but we are addressing the challenges and aiming for robust growth

External environment	<ul style="list-style-type: none"> Overall, investment in the energy industry is active (energy security, energy transition demand) The renewable energy market is growing, but the rate of growth is slowing in some areas
Challenges Measures	<ul style="list-style-type: none"> Delay in realizing synergies with acquired companies Solution Portfolio Strengthening <ul style="list-style-type: none"> Set sales strategy, accelerate standardization of products/solutions Strengthen sales structure (hire and train personnel, develop subject matter experts) Expand portfolio through alliances and acquisitions
Outcomes	<ul style="list-style-type: none"> Some examples of synergy with acquired companies have emerged <ul style="list-style-type: none"> Linkage to Collaborative Information Server ➤PXiSE Won energy management system order to supply energy management system for Yuri, Green Hydrogen Project in Australia^{*1} ➤Dublix Completed FuzEvent^{*2} and CI Server collaboration project^{*3} (waste-to-energy plant in Krakow, Poland)



Conceptual drawing showing the Yuri project facilities at the completion of phase 0. The existing Yara Pilbara Fertiliser Pty Ltd ammonia plant is in the foreground and the solar plant is in the background (Source: ENGIE S.A.)

^{*1} Order in Nov. 2022 Yokogawa to Provide Integrated Control System for Australian Green Hydrogen Project / Order in Sep. 2023 Yokogawa to Supply Energy Management System for Yuri Green Hydrogen Project in Australia
^{*2} FuzEvent: high-performance advanced combustion-control software solution that uses proprietary predictive control technology and leverages Dublix's process know-how.
^{*3} Oct. 2023 Yokogawa Completes Installation of High-Performance Combustion Control Solution at Poland's Largest Waste-to-Energy Plant

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As mentioned on the previous page, the renewable energy business is growing less than expected.

In terms of the external environment, the renewable energy market is growing, but some of them are growing slow than expected, which is one reason for the current slow growth of our renewable energy business. However, as we work on this business, our challenges are becoming clearer, and we will aim for strong growth in the future by addressing these challenges.

There are two main challenges: the delay in realizing synergies with the acquired companies and strengthening the solution portfolio in the renewable energy business.

To accelerate the realization of synergies, we intend to take various measures to expand the scale of the acquired businesses through Yokogawa's sales channels. The impairment of PXiSE, as Ms. Nakajima explained earlier, is also a decision to address these challenges and seek future growth. At the same time, we will continue to work on strengthening our portfolio.

Meanwhile, examples of synergies with acquired companies are also emerging. The two case studies presented here are examples of integrating PXiSE and Dublix solutions with Yokogawa's Collaborative Information Server (CI Server). By combining our existing strengths in plant control with the advanced and specialized solutions of the acquired companies, we can provide customers with high value-added solutions, which will become a new strength of Yokogawa in the future.

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Initiatives to Enhance Value Provision

Pursuing sustainable resource utilization and energy conservation through advanced cross-industry collaboration and total optimization driven by the System of Systems concept.

Initiation of feasibility study with Rotterdam Port Authority to decarbonize the industrial complex at Europe's largest port

- Aiming to reduce costs and CO₂ emissions by optimizing the supply and demand of energy (electricity, steam, heat), water, and industrial gases (hydrogen, CO₂, etc.) and ensuring their effective use by manufacturing companies in the port industrial complex
- Through the use of simulation technology to optimize production planning and the provision of regional energy management solutions, Yokogawa can enable advanced collaboration while ensuring the confidentiality of information shared between enterprises.



Industrial complex in the Port of Rotterdam



Feasibility study on carbon neutrality through industrial collaboration in Goi District, Ichihara City and Soga District, Chiba City, Chiba Prefecture, Japan

- Involves Yokogawa and 11 companies from different industries located in the Goi and Soga districts of Chiba Prefecture (two new companies joined this year)
- Investigating the introduction of energy management systems, collaboration for the recovery and effective utilization of CO₂, and the effective utilization of byproduct gases such as hydrogen from existing processes through inter-industry collaboration.
- Studying measures necessary for making this industrial complex carbon neutral by 2050
- Study featured in METI carbon recycling roadmap document [20230623_01.pdf \(meti.go.jp\)](#) (Japanese)

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This is an introduction to our initiatives to expand the value we deliver over the medium to long term.

To further drive decarbonization and resource efficiency in industry, there is a limit to what individual plants and companies can do on their own. It is essential to work together across industries to effectively use and optimize energy, CO₂, and resources.

The first example shown here is the Port of Rotterdam, the largest port in Europe, located in the Netherlands, where we are working with the Port of Rotterdam Authority to reduce costs and CO₂ emissions by optimizing supply and demand and effectively using resources and energy in the port complex. To manage this advanced inter-industry collaboration, we first initiated a feasibility study. Preliminary studies have shown that cost reductions of 5% or more can be achieved by optimizing the supply and demand of electricity and other resources between companies.

The second case study is a challenge to promote inter-industry collaboration at industrial complexes in the Goi Ward of Ichihara City and the Soga Ward of Chiba City, Chiba Prefecture. Eleven companies from various industries in the area are working with the Yokogawa Group to study the commercialization of an inter-industry energy management system that minimizes CO₂ emissions by around 2030.

We are working to create value for society as a whole by optimizing the entire process through cooperation between companies and communities. We are still working to resolve many complex issues to establish this as a business. Still, we believe that this activity is exactly our role and opportunity that optimize the entire system while ensuring the confidentiality of our customer's individual information and optimizing individual independent systems.

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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

As described above, we are moving forward with our medium-term business plan, AG2023, and will continue to make every effort to achieve our goals.

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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.

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Last but not least, under Yokogawa's purpose, which is "utilizing our ability to measure and connect, we fulfill our responsibilities for the future of our planet." we will work as one.

We welcome your continued support.

This is my explanation.

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Question & Answer

[Q]: Please tell us about the details and sustainability of the profit margin improvement in the control business. The operating margin for the control business in Q2 exceeded 14%, partly due to the weak yen. How effective are the price hike measures, cost reductions, and reductions in the SG&A? In addition, what about sustainability in H2 and beyond? Calculating backwards, the profit margin for the control business in H2 will be a little less than 12%, which is a little worse than the Q2 or H1 results. Are there any aggravating factors in this area?

[A]: Major factors behind the improvement in the profit margin of the control business are an improved procurement environment for production parts and project-procured products. In addition, we believe that the cost reduction effect that we have been implementing and the effect of price hike measures in products have also contributed. Overall, the profit margin has increased due to an increase in sales. On the other hand, for H2, we see the profit margin is 12%, which is acknowledged that there is no significant deterioration.

[Q]: Is it correct to understand that the reduction in the SG&A has not been effective since the timing to reap the rewards has not come yet?

[A]: We believe that the SG&A ratio is definitely improving. This is partly because of the growth in orders and sales. Still, we understand that the SG&A ratio is improving as a result of eliminating inefficiencies by improving internal productivity, including the four transformation projects aimed at enhancing the business foundation.

[Q]: Could you please tell us as much as you can comment on the outlook for orders, sales, and operating income for the next fiscal year?

Orders in the control business in Q2 were high but slightly down from the previous year. Also, calculating backwards, orders planned for H2 will be 2% lower than the previous year. Therefore, should we expect to see a downward trend for a while? Please tell us FY24 outlook based on the pipeline situation of the control business in the next fiscal year and beyond.

Also, in terms of sales and operating income, if the Company has achieved so much this fiscal year, should we expect a slight reactionary decline in the next fiscal year, or given that the Company still has an order backlog of approximately 400 billion and that profit margin are improving, can we expect a high level like this year's?

[A]: At present, it is difficult to clearly state what we are looking at in orders and sales for the next fiscal year. As you pointed out, Q2 was slightly down from the same level of the previous year. In the control business, especially in the chemical industry, which has a large share of the business, the recovery in Japan and China has been slow, so we are not optimistic in H2 and beyond. Also, in the measuring instruments business, there was a favorable situation in the previous year, but the results for H1 show a decline. The measuring instruments is affected by market changes much earlier than the control business. In this sense, we are also cautious about H2 and beyond.

With this sense of slowdown in the overall economy and geopolitical risks, it is a matter of looking and planning a little more carefully. However, in some areas, we can already see the pipeline of orders for the next fiscal year, so we would like to make plans for the next fiscal year while considering all these factors.

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[Q]: How much did H1 results exceed your company's original forecast for orders, sales, and operating income?

[A]: We understand that orders are within our expectations. We recognize that our forecast based on the deteriorating impact of the chemical industry in Japan, China, and other countries is reflected in this performance. On the other hand, Sales have been slightly higher than we expected because we were resolving the order backlog that had been piling up and the impact of product price increases.

[Q]: You explained that the full-year sales plan, excluding the impact of the exchange rate, was actually increased by JPY20 billion. How much did the H1 result exceed the target?

[A]: More than 15 billion yen was higher than the forecast for H1.

[Q]: Looking at the usual Company's trends, sales concentrated in Q4, but the forecast is to increase slightly from H1 in H2, so I feel that there is room for sales to rise more than the revised forecast. What do you think?

[A]: We are exposed to the risk of sales delays in some projects. However, the risks associated with the availability of parts and procurement products are decreasing compared to the previous year. Therefore, I believe we can achieve our current forecasts.

Also, the reason for the concentration of sales in Q4 is that water-related projects for domestic public offices tend to be concentrated at the end of Q4. This is firmly planned and reflected in the figures.

[Q]: Based on the assumption that an improved procurement environment for production parts and project-procured products and orders for the next fiscal year will remain the same from this fiscal year, can we expect sales for the next fiscal year to be higher than this fiscal year?

[A]: The orders situation from H2 will be a significant factor regarding sales in the next fiscal year and beyond. Therefore, we will increase the order backlog for the next fiscal year and beyond by firmly taking orders in Q3 and beyond. The procurement environment for production parts and project-procured products is better than the previous environment. However, there are many variable factors, such as the economic environment or how long the high oil price will continue. We are dedicated to accumulating orders for any situation.

[Q]: Since the company had such a large order backlog, I knew you would see more sales later. The sales in this H1 were realized quite earlier than I expected. Is there any factor that would accelerate the realization of sales?

[A]: When we announced our earnings forecast in May, it was confirmed that the supply-demand balance for semiconductors in general had eased considerably, but there was still a shortage of the kind of industrial semiconductors we use. We assumed that we would be able to normalize lead times by H2 of this fiscal year, as we could not produce without having all the various components. However, the supply and demand in this area eased faster than expected. Also, our efforts are contributing to the processing of the order backlog such

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as even if the cost is a little high, we have been promoting to buy what we can afford from the market and to inspect and produce the products.

[Q]: Do you mean that the lead time for sales has been normalized?

[A]: Yes. Although there are still some models for which we must set slightly longer lead times, most of them have been normalized. The production division is also operating at full capacity, and we have been processing the backlog of orders. Still, we expect it to return to normal in the middle of H2 of the fiscal year.

[Q]: Regarding the outlook for orders next year, you mentioned before that there are few energy-related projects this fiscal year, and the number of projects will increase after the next fiscal year. Is there any change in the situation?

[A]: Yes, that view has yet to change.

[Q]: How does the Israeli-Palestinian situation impact on customer sentiment?

[A]: We are carefully watching the situation in the Middle East because we have a large business presence there. So far, there is no indication that our customers are directly affected by this dispute. In that sense, the current situation has not had a particularly large impact on our business. We will continue to observe this kind of situation carefully and would like to ensure thorough risk management.

[Q]: Sales in China, the Middle East and Africa, and Southeast Asia are at a level exceeding JPY70 billion, and I feel that the scale of the business is becoming quite large. Is there any difference in profitability among the regions? I think each of these three is a little different in terms of project content, product structure, and so on. Could you please give us some pointers based on that?

[A]: We have a large business volume in China, the Middle East and Africa, and Southeast Asia. For China, products are relatively stronger. For Southeast Asia, we believe there is a good balance of systems, solutions, and products. For the Middle East, there is a large volume of CAPEX, so systems are relatively stronger.

In terms of profitability, it depends on the content of business, so it is difficult to say which region's earnings are good or bad in general. For example, in the Middle East, profitability is very high when there are projects based on our installations base or when there is pre-selection for new CAPEX. However, these days, we are not always awarded for businesses with pre-selection, and the competition is quite fierce.

Looking at the business characteristics in each region, we are working to improve profitability by winning additional orders for projects and acquiring volume for product business.

[Q]: I think one factor that affects profitability is also a competitive advantage. Could you tell us if the market share situation in the Middle East and Africa, Southeast Asia, and China, which are a large share of your business, has changed in the past year or two?

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[A]: It is difficult to answer about the market share in digital because we don't have the data in a short period of time, and the market share can be viewed in various ways. In the Middle East, for example, we see a steady increase in market share. Also, the competition around India is very tough, so prices are tough, but we are working on a target. The content of business for Southeast Asia is relatively close to Japan, and the market share is high. In China, we have recently been competing more and more with local vendors. In terms of products, we have a very high market share, but in terms of systems, the competition has been very severe. That is how we view the market share.

[Q]: Your company's business is based on OPEX, but I think the proportion of CAPEX is also a certain size, the size of CAPEX seems to cause a deviation in the performance forecast. In the previous year, although you revised the forecast, there were some cases of deviation. Could you tell us what President Mr. Nara thinks about that?

[A]: We have recognized the point you mentioned. We are carefully examining the pipeline and building the budget accordingly. But we need to improve our forecasting accuracy, especially for overseas projects, which account for 70% of our global business. We have also received severe reviews from outside directors, so we will take the necessary measures.

[Q]: Regarding the revised forecast of the operating income analysis on page 16 of the handout, how much impact does the effect of the product price increase measure have?

[A]: The effects of the product price increase measures are included in "increase in gross profit" and "improvement of gross margin." Our initial forecast was for an annual effect of 5 billion yen, but in conjunction with this upward revision of sales by 20 billion yen, the effect of the price increase measures is also included in an annual effect of 7 billion yen, an improvement of 2 billion yen.

[Q]: The year-on-year gross margin improvement is positive JPY6.5 billion in H1 and JPY6.7 billion for the full year. The impact of product price increases and productivity improvements are concentrated in H1, and in H2, will be smaller the year-on-year gap in these areas?

[A]: Looking at the year-on-year impact, the gross margin in Q1 of last year was quite severe, partly because of the low sales volume. The situation gradually improved towards H2. Conversely, the improvement in the current fiscal year will be smaller toward H2.

About the effect of product price increases, there was some contribution to sales in H2 of last year, with slightly less improvement in H2.

[Q]: Project gross profit deteriorated by JPY1.0 billion in H1. How much impact are you factoring in for the full year?

[A]: Regarding H2, we predict a slight improvement compared to H2 last year. The contents concentrated in these H1 sales are percent-of-completion basis projects, which are large lot items with low gross margins. There was a concentration of cost inputs, which also resulted in a concentration of sales. As for H2, we do not expect any further deterioration compared to last year.

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[Q]: The original view was that the strategic order type was not so different from the previous period. Is it correct to say that the budget setting for this will also remain the same in H2?

[A]: Yes. The annual budget remains the same. However, as I have always said, we have to decide on an additional budget if there is one to be won. Some projects cannot be won even if we try, so there will be some fuzziness in the results.

[Q]: Regarding the improvement of gross margin, the positive impact of the productivity improvement measures that were seen in Q1 seems to be fading in Q2. Is it true? How are you looking at H2?

[A]: Regarding the effects of the productivity improvement measures, there was a slight blurring between Q1 and Q2. However, we believe that this is a timing issue and not something that has changed, as a matter of fact. The effects of the productivity improvement measures will become more apparent as volume improves, and it may be a year-on-year decline in the Q2 of the fiscal year.

[Q]: The procurement side of the business has improved. Do you expect the situation to continue from H2, or do you expect further improvement? If it was the latter, I was wondering if there is a little more room for upside.

[A]: The procurement environment was primarily resolved at the end of the previous fiscal year, and the manufacturing lead time has returned to almost normal levels for this fiscal year. Therefore, the procurement environment is not expected to change significantly in H1 and

H2. As for the variable factor in the earnings forecast, in the first half of this fiscal year, we increased the capacity utilization rate to meet the backlog of orders that had accumulated but considering that the utilization rate will gradually return to normal times in the future, I think it would be better not to comment too much on the upturn potential.

[END]

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