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Yokogawa Electric Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending March 2026

November 4, 2025

Event Summary

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[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2026
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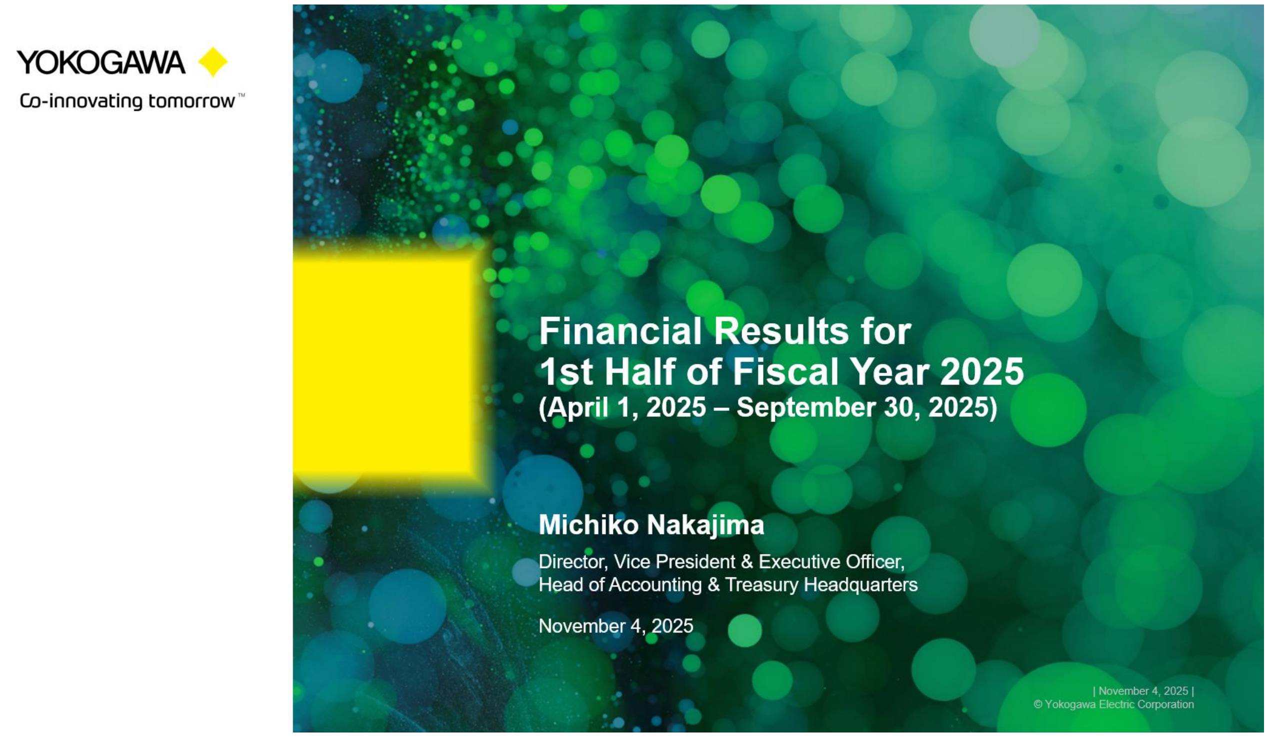
[Venue]	Webcast
[Number of Speakers]	2

Kunimasa Shigeno	Director, President & CEO, Representative Executive Officer
Michiko Nakajima	Director, Vice President & Executive Officer, Head of Accounting & Treasury Headquarters

Presentation



Nakajima: Thank you very much for your time today. I'm Nakajima, Director, Vice President & Executive Officer, Head of Accounting & Treasury Headquarters. Thank you for joining us today.

I will now provide an overview of our financial results for the first half of FY2025.

Key Points

- **FY25 1H results: Sales and profit increased**

- Summary:

• Orders, Sales and operating income increased, despite the negative impact of the appreciation of the yen.

- Segments:

Control: Sales and operating income increased year on year.

Measuring instruments: Sales increased, and operating income remained steady year-on-year performance.

New businesses and others: Steady year-on-year performance

- **FY25 earnings forecasts: <Change>**

• Revision to exchange rate （US$1: ¥140 → ¥145）

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Please refer to page 4 of the presentation materials, where we have summarized the key points. I will explain the details on the following pages.

Summary of FY25 1H Results (YoY Comparison)

- Orders increased, due to the acquisition of large-scale projects. (excluding the impact of exchange rates: +¥17.0 billion, +5.8%)
- Sales increased, supported by a strong backlog of orders. (excluding the impact of exchange rates: +¥22.3 billion, +8.4%)
- Operating income increased mainly as a result of higher gross profit driven by sales growth. (excluding the impact of exchange rates: +¥5.7 billion, +15.7%)

(Billion ¥)

		FY24 1H	FY25 1H	Difference	Growth rate	Impact of exchange rate
Orders		291.0	**300.4**	+9.5	+3.3%	(7.5)
Sales		266.6	**282.0**	+15.4	+5.8%	(6.9)
Operating income		36.3	**39.0**	+2.7	+7.4%	(3.0)
ROS(%)		13.6	**13.8**	+0.2pt	–	–
Ordinary income		35.9	**39.7**	+3.8	+10.6%	(3.2)
Profit attributable to owners of parent		24.6	**29.4**	+4.8	+19.5%	(2.8)
Exchange rate	US$1=	¥152.40	**¥146.26**	(6.14)	–	–

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Page 5 shows financial summary.

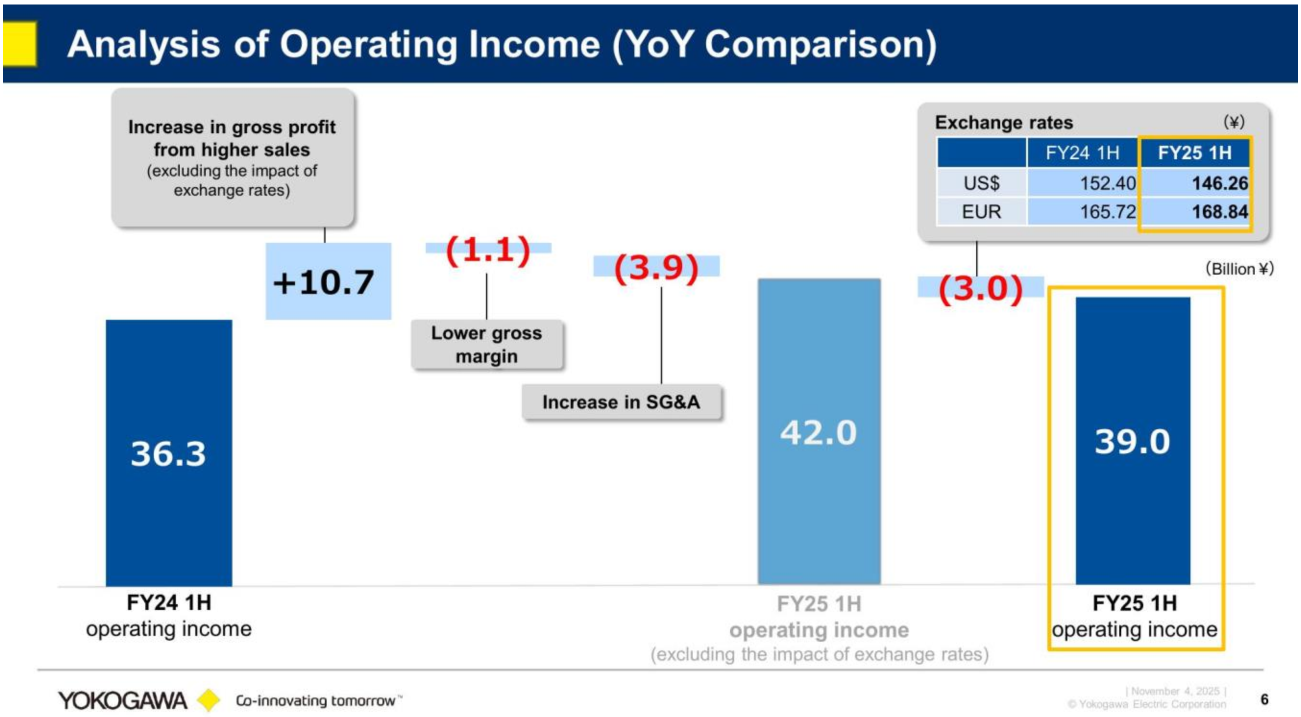
Orders totaled JPY300.4 billion. Excluding FX, this represents a year-on-year increase of JPY17.0 billion, or 5.8%.

Revenue was JPY282.0 billion, and excluding FX, it increased by JPY22.3 billion, or 8.4%, showing strong growth.

Operating income was JPY39.0 billion, up JPY2.7 billion year-on-year. Excluding FX, the increase was JPY5.7 billion, or 15.7%.

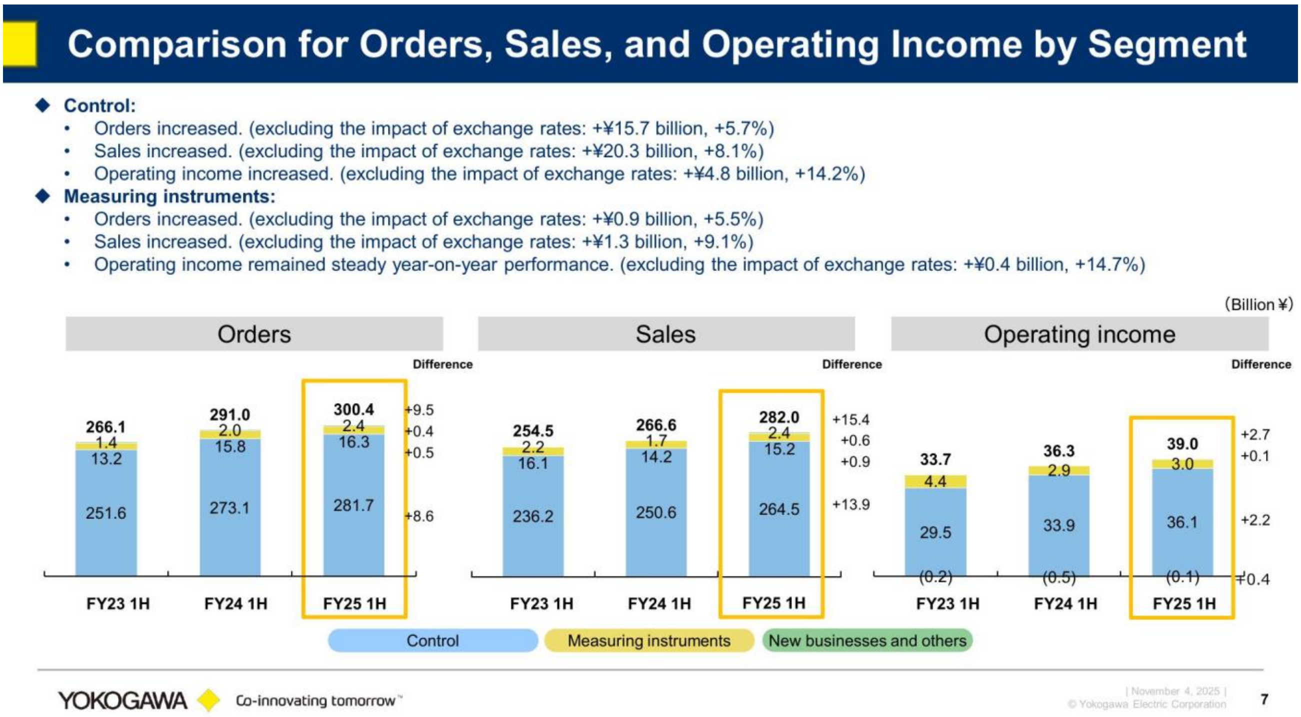
The USD exchange rate shifted approximately JPY6 stronger against the yen, from JPY152.40 in the same period last year. As shown on the right side of the table, this had a negative impact year-on-year. However, thanks to the steady conversion of our robust order backlog into sales and continued strong order intake, we were able to absorb the foreign exchange impact and achieve significant growth in both sales and profit.

Below operating income, although there was a reactionary decline due to the gain on sale of fixed assets recorded last year, improvements in foreign exchange gains/losses and a reduction in corporate tax adjustments contributed to a JPY4.8 billion increase in net profit year-on-year.



Next, on page 6, I will explain the analysis of changes in operating income.

Operating income increased by JPY5.7 billion from JPY36.3 billion in the same period last year, excluding FX. Revenue growth contributed JPY22.3 billion, resulting in a gross profit increase of JPY10.7 billion. Gross profit margin declined by JPY1.1 billion, mainly due to changes in business mix as anticipated at the beginning of the year. Selling, general and administrative expenses increased by JPY3.9 billion. This includes base cost increases such as personnel expenses due to inflation, as well as amortization of goodwill and upfront investment costs related to companies acquired last year and this year.



Let us now move on to the segment-wise breakdown of orders, sales, and operating income.

Let me begin with the Control Business segment, shown in blue. Starting with orders on the left side: orders increased by JPY8.6 billion year-on-year, representing a 5.7% growth when excluding FX. Revenue rose by JPY13.9 billion year-on-year, or 8.1% excluding FX. Operating income increased by JPY2.2 billion, and by JPY4.8 billion when excluding FX.

Next is the Measuring Instruments Business, shown in yellow. Orders increased by JPY0.5 billion year-on-year, or 5.5% excluding FX. Revenue rose by JPY0.9 billion, or 9.1% excluding FX. Operating income remained flat compared to the previous year, but excluding FX, it increased by JPY0.4 billion. Products such as optical spectrum analyzers for high-speed optical communication transceivers continued to perform well.

Lastly, the New Businesses and Others segment, shown in green, saw no significant changes from the previous year.

Orders and Sales by Region in Control Segment

◆ Orders increased, driven by a rise in the number of large-scale projects, primarily in Europe, Japan, and Southeast Asia. In the Middle East, despite a reactionary decline following significant orders in the same period last year, performance remains on par year-over-year when excluding currency effects.

(Billion ¥)

Orders	FY24 1H (A)	FY25 1H (B)	Difference (B-A)
Japan	66.2	72.0	+5.8
Asia	87.2	86.4	(0.8)
(Southeast Asia, Far East)	39.6	44.3	+4.7
(China)	31.2	29.5	(1.7)
(India)	16.5	12.7	(3.8)
Europe and CIS	21.4	27.4	+6.0
Middle East and Africa	69.2	65.3	(3.8)
North America	19.9	20.9	+0.9
Central and South America	9.2	9.7	+0.5
Outside Japan	207.0	209.8	+2.8
Consolidated	273.1	281.7	+8.6
Exchange rate USD1$ =	¥152.40	¥146.26	(6.14)

Sales	FY24 1H (A)	FY25 1H (B)	Difference (B-A)
Japan	62.1	69.7	+7.6
Asia	88.0	79.2	(8.7)
(Southeast Asia, Far East)	39.3	38.2	(1.1)
(China)	36.1	29.3	(6.8)
(India)	12.6	11.7	(0.8)
Europe and CIS	25.0	30.5	+5.6
Middle East and Africa	40.7	52.0	+11.3
North America	25.2	24.7	(0.5)
Central and South America	9.8	8.3	(1.4)
Outside Japan	188.5	194.8	+6.2
Consolidated	250.6	264.5	+13.9
Exchange rate USD1$ =	¥152.40	¥146.26	(6.14)

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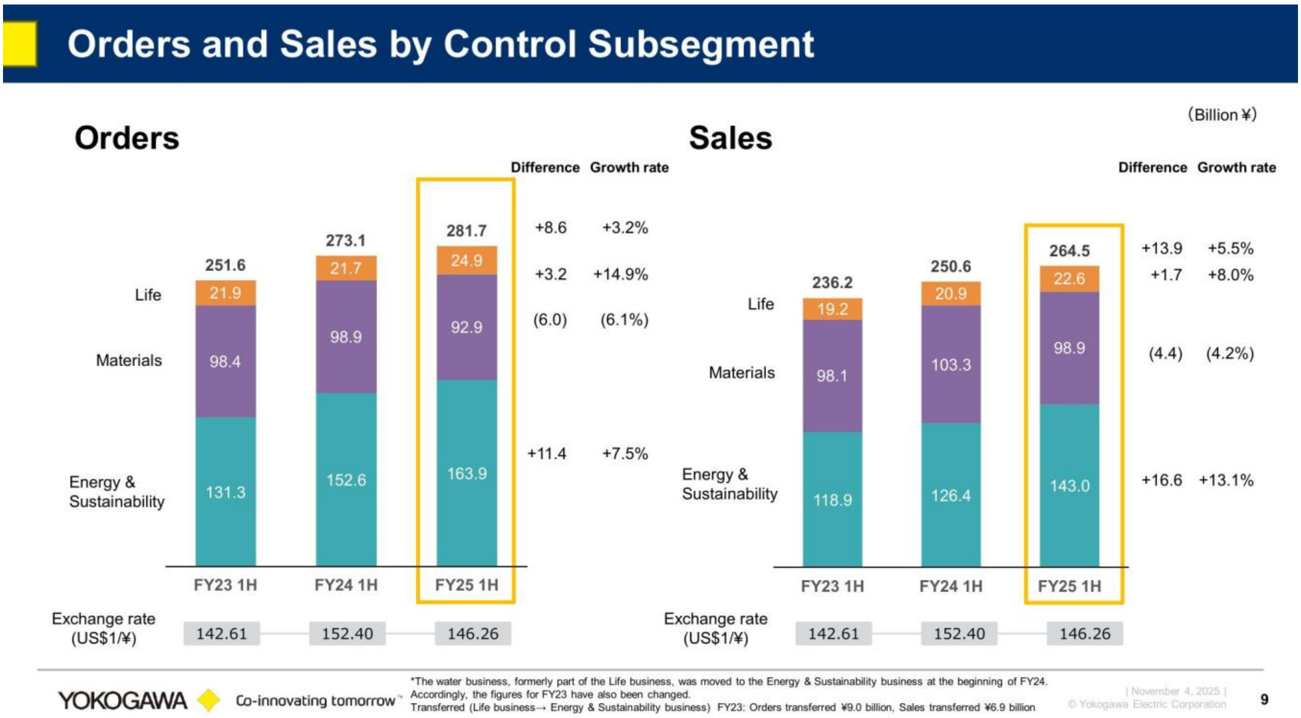
On page 8, I will explain the regional breakdown of orders and sales within the Control segment. The figures in the table include the negative impact of foreign exchange fluctuations.

As noted earlier, large-scale projects in Europe, Japan, and Southeast Asia contributed to the overall growth of the Control segment. In the Middle East, although there was a reactionary decline due to the concentration of large projects in Saudi Arabia last year, we successfully offset this by increasing base orders and securing multiple large-scale orders in the UAE.

Excluding FX, we maintained a level roughly equivalent to the previous year.

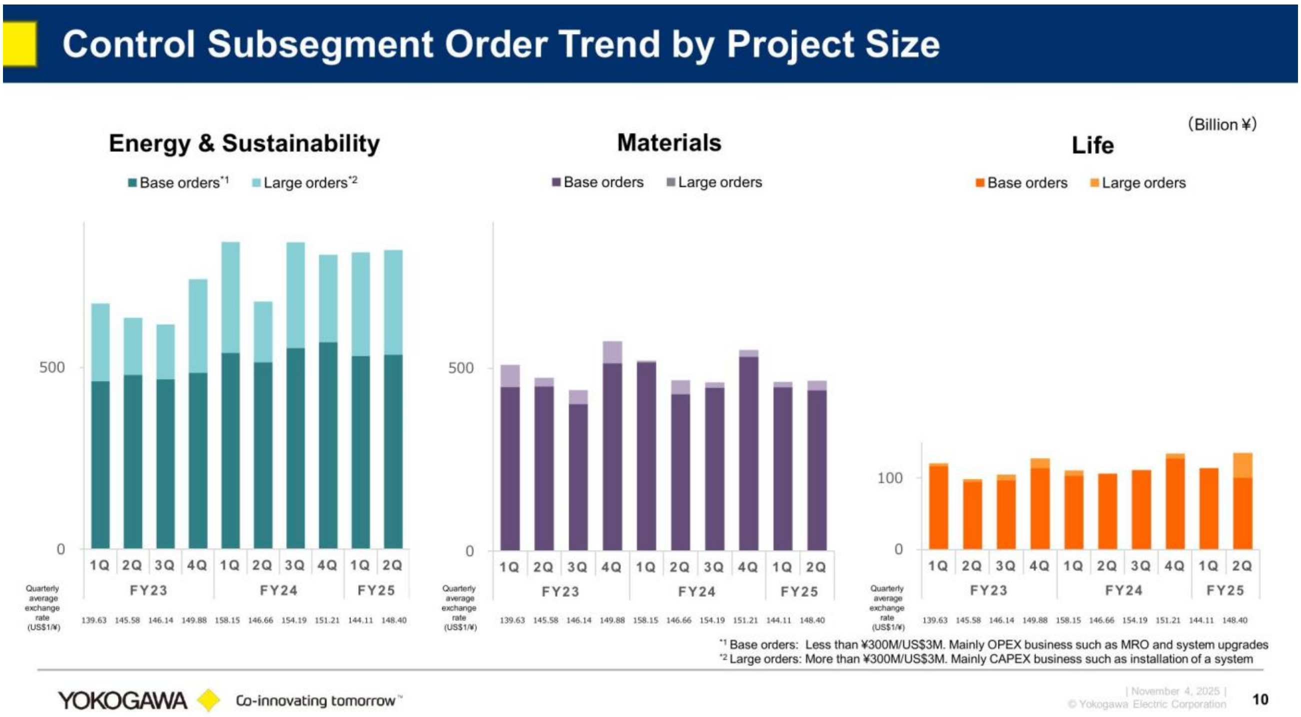


Let us now look at the industry-specific breakdown of orders and sales within the Control segment, starting with orders on the left side of the chart.

First, at the bottom, we have Energy & Sustainability. Orders increased by JPY11.4 billion year-on-year, and by JPY16.0 billion when excluding FX, representing a growth of 10.5%. As mentioned earlier, although there was a reactionary decline in Saudi Arabia, we were able to offset this with multiple large-scale projects in other parts of the Middle East, such as the UAE, as well as strong order growth across Europe, ASEAN, and Japan. Base orders also remained solid.

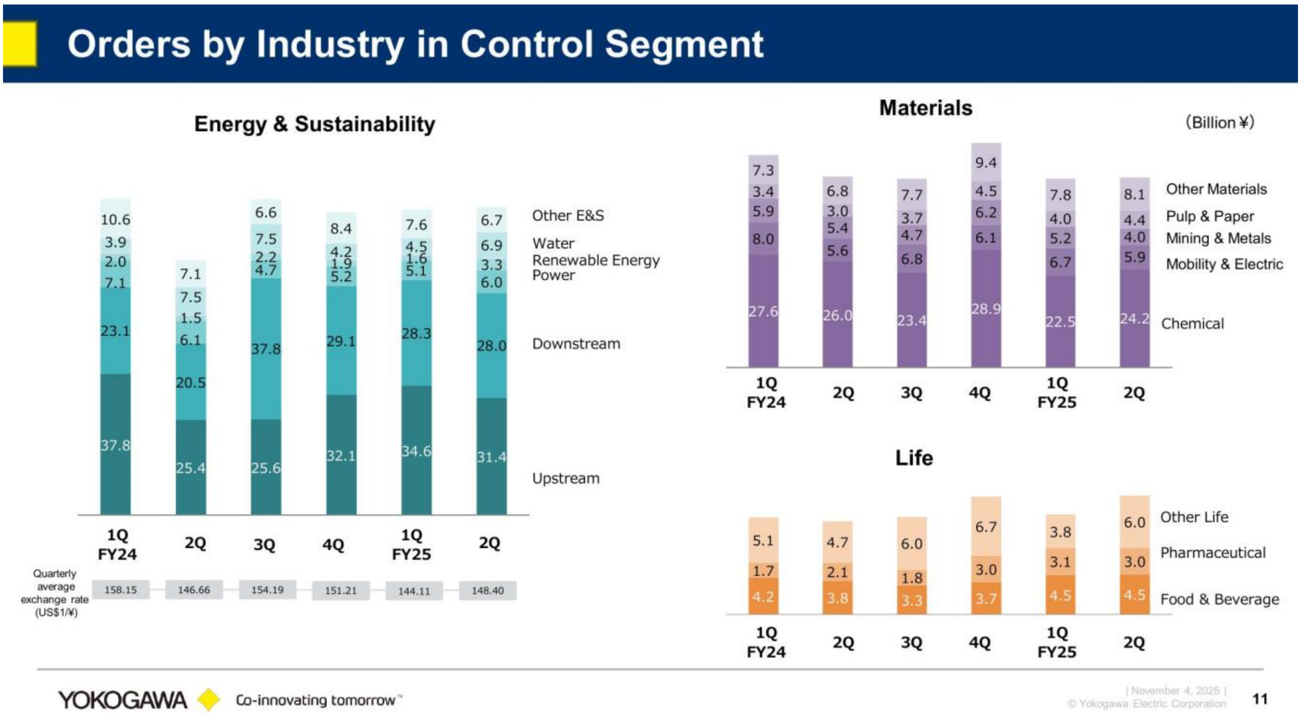
Next, in purple, is the Materials segment. Orders declined by JPY6.0 billion year-on-year, or JPY3.9 billion excluding FX, representing a 4% decrease. Roughly half of this decline came from China, where the Materials business has a relatively high exposure. While investment appetite—particularly in specialty and fine chemicals—remains firm, the prolonged economic slowdown in China and its indirect ripple effects led to a year-on-year decline in this segment for the current period.

Lastly, in orange, is the Life segment. Orders increased by JPY3.2 billion year-on-year, and by JPY3.6 billion excluding FX, representing strong growth of 16.4%. This was driven by steady demand in domestic food and pharmaceutical sectors, as well as a large-scale urban greening project in the Middle East. Life science-related products also continued to perform well.

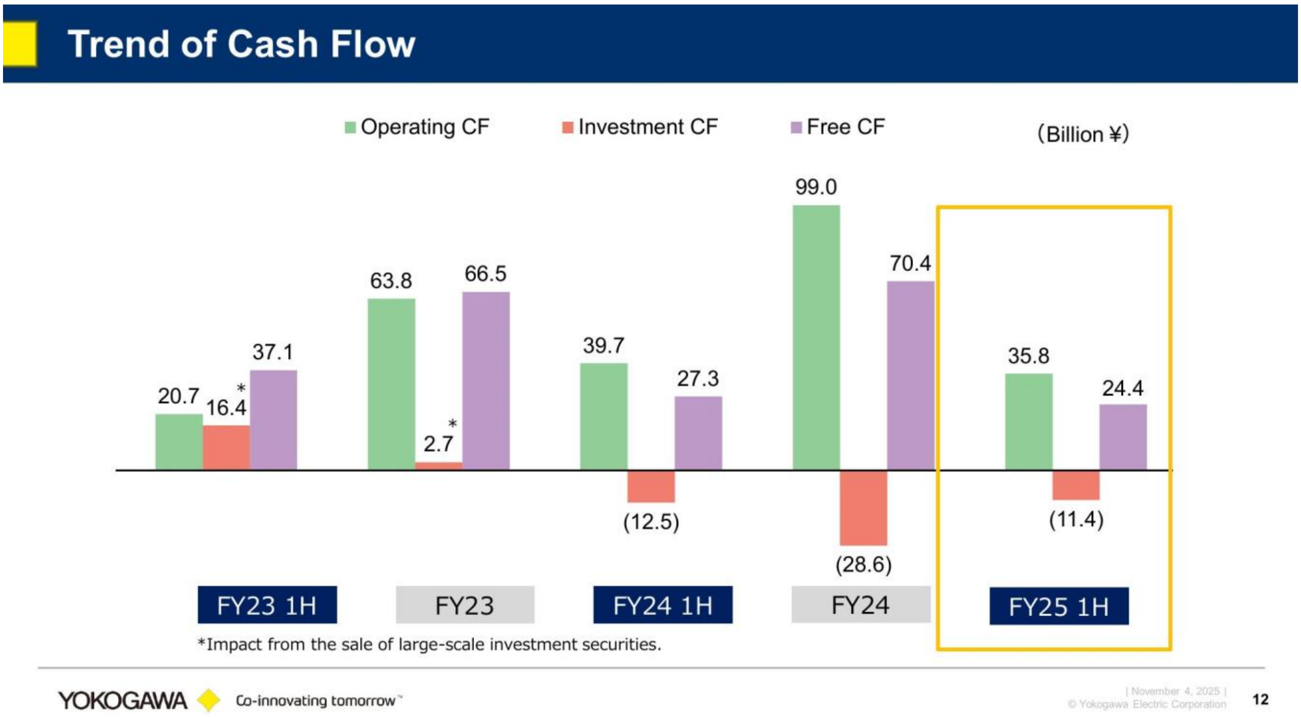


This chart illustrates the quarterly trends in orders by industry segment within the Control business, broken down into large orders and base orders. In each graph, the upper portion in light color represents large orders of over USD 3 million or JPY 300 million, while the lower portion in dark color represents base orders below that threshold.

For Energy & Sustainability, you can see that large orders were temporarily at a low level in Q2 of last year. As mentioned earlier, the growth rate in Energy & Sustainability this period includes a rebound effect from that temporary dip, which I would like to highlight here as a supplementary point.



This slide presents a further breakdown of each industry segment into its respective sub-industries. We will not go into the details of each category here.



Here is the cash flow overview. I will skip the detailed explanation for now.

FY25 Forecast (change from May 7, 2025)

◆Revision to exchange rate（US$1: ¥140 → ¥145）

(Billion ¥)	FY24 (A)	FY25 forecast 5/7 (B)	FY25 forecast 11/4 (C)	Forecast difference (C-B)	Difference (C-A)	Growth rate (C/A-1)
Orders	598.6	580.0	**597.0**	+17.0	(1.6)	(0.3%)
Sales	562.4	560.0	**577.0**	+17.0	+14.6	+2.6%
Operating income	83.5	80.0	**83.0**	+3.0	(0.5)	(0.6%)
ROS(%)	14.9	14.3	**14.4**	+0.1pt	(0.5pt)	–
Ordinary income	85.4	80.0	**83.0**	+3.0	(2.4)	(2.8%)
Profit before income taxes	78.5	80.0	**81.0**	+1.0	+2.5	+3.1%
Tax, etc.	26.4	27.5	**26.5**	(1.0)	+0.1	+0.4%
Profit attributable to owners of parent	52.1	52.5	**54.5**	+2.0	+2.4	+4.6%
EPS(¥)	200.41	202.81	**213.56**	+10.75	+13.15	–
Exchange rate US$1=	¥152.55	¥140.00	**¥145.00**	+5.00	(7.55)	–

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"The Company has resolved to acquire its own shares (acquisition period: March 5, 2025 to December 31, 2025).
"EPS (yen)" in the FY25 forecast does not consider the impact of the acquisition of own shares after April 2025.
Therefore, it may change depending on the status of the future acquisition of own shares.
For information on the acquisition of own shares, please refer to page 18.

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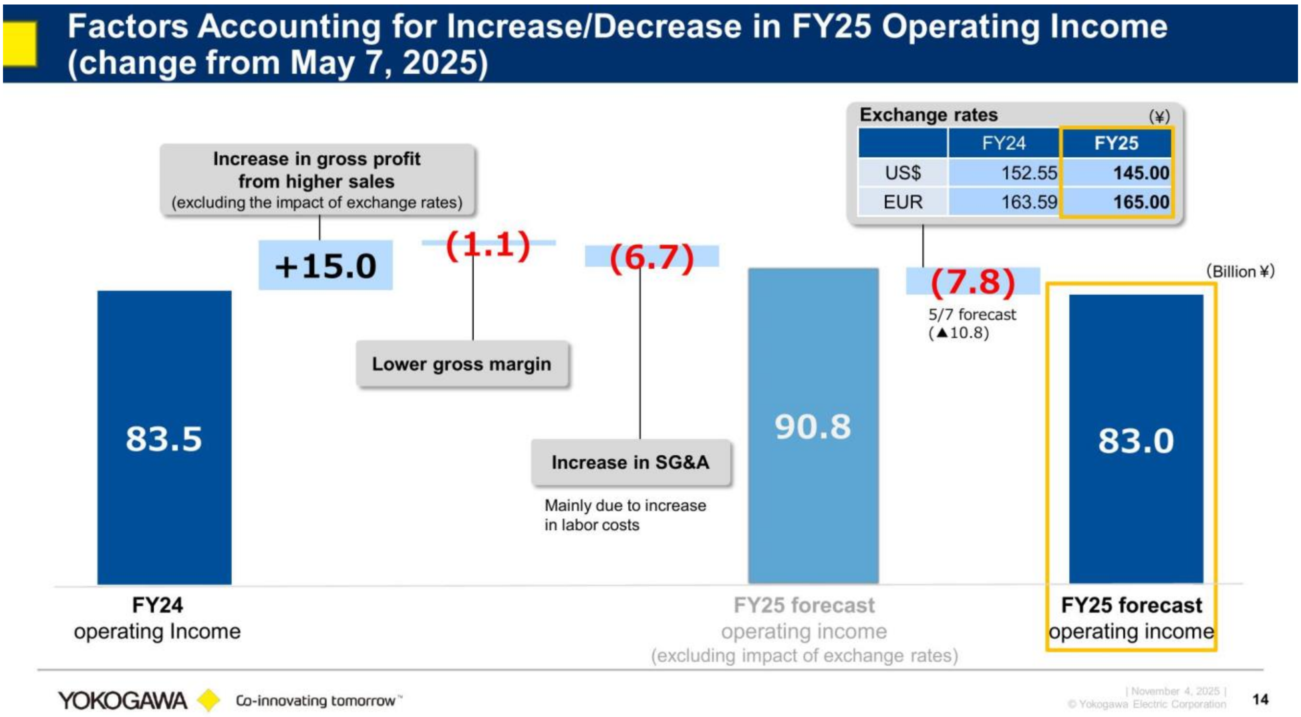
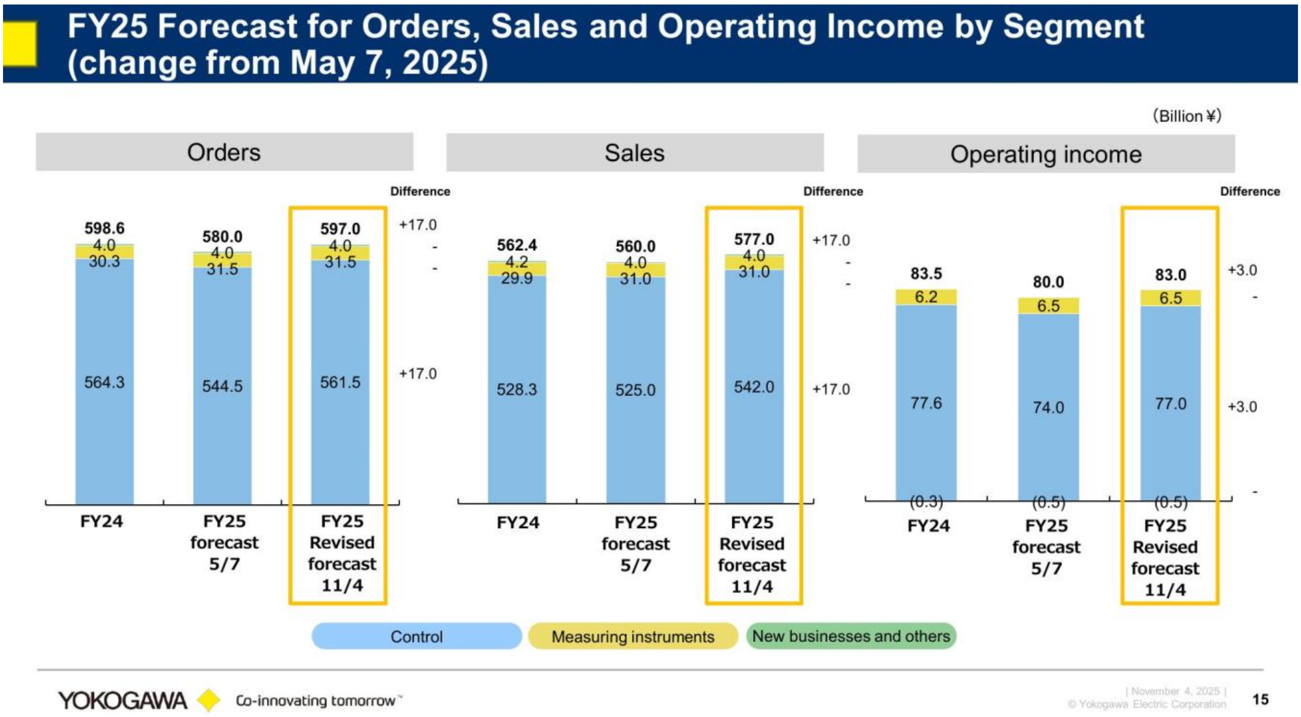
From this page onward, the slides focus on our full-year performance forecast.

We have revised the assumed foreign exchange rate for the forecast from an annual average of JPY 140 to JPY 145 per USD. This assumes that the exchange rate in the second half will remain roughly in line with the actual rate observed in the first half. For figures from orders to operating income, the revisions reflect only the change in the exchange rate assumption. For extraordinary gains/losses and corporate taxes, we have made slight adjustments based on both the exchange rate revision and the actual results from the first half.

The revised amounts are shown in the table under the column labeled “Forecast difference”.



Page 14 shows the year-on-year change in operating income. This revision reflects only the impact of changes in the foreign exchange rate.



Page 15 presents the full-year forecast for orders, sales, and operating income by segment.

Since the impact of foreign exchange rate changes on segments other than Control is minimal, all FX-related revisions have been applied solely to the Control segment.

FY25 Forecast for Control Orders and Sales by Region (change from May 7, 2025)

(Billion ¥)

Orders	FY24 (A)	FY25 (B)	Difference (B-A)
Japan	**138.8**	**147.0**	**+8.2**
Asia	165.7	164.0	(1.7)
(Southeast Asia, Far East)	79.2	78.0	(1.2)
(China)	57.1	56.5	(0.6)
(India)	29.4	29.5	+0.1
Europe and CIS	60.6	61.5	+0.9
Middle East and Africa	131.3	118.5	(12.8)
North America	49.7	52.0	+2.3
Central and South America	18.2	18.5	+0.3
Outside Japan	**425.5**	**414.5**	**(11.0)**
Consolidated	**564.3**	**561.5**	**(2.8)**
Exchange rate US$1 =	¥152.55	¥145.00	(7.55)

Sales	FY24 (A)	FY25 (B)	Difference (B-A)
Japan	**135.5**	**141.5**	**+6.0**
Asia	173.5	161.5	(12.0)
(Southeast Asia, Far East)	81.0	79.5	(1.5)
(China)	64.0	55.5	(8.5)
(India)	28.4	26.5	(1.9)
Europe and CIS	52.6	55.0	+2.4
Middle East and Africa	96.8	117.0	+20.2
North America	50.4	49.0	(1.4)
Central and South America	19.4	18.0	(1.4)
Outside Japan	**392.8**	**400.5**	**+7.7**
Consolidated	**528.3**	**542.0**	**+13.7**
Exchange rate US$1 =	¥152.55	¥145.00	(7.55)

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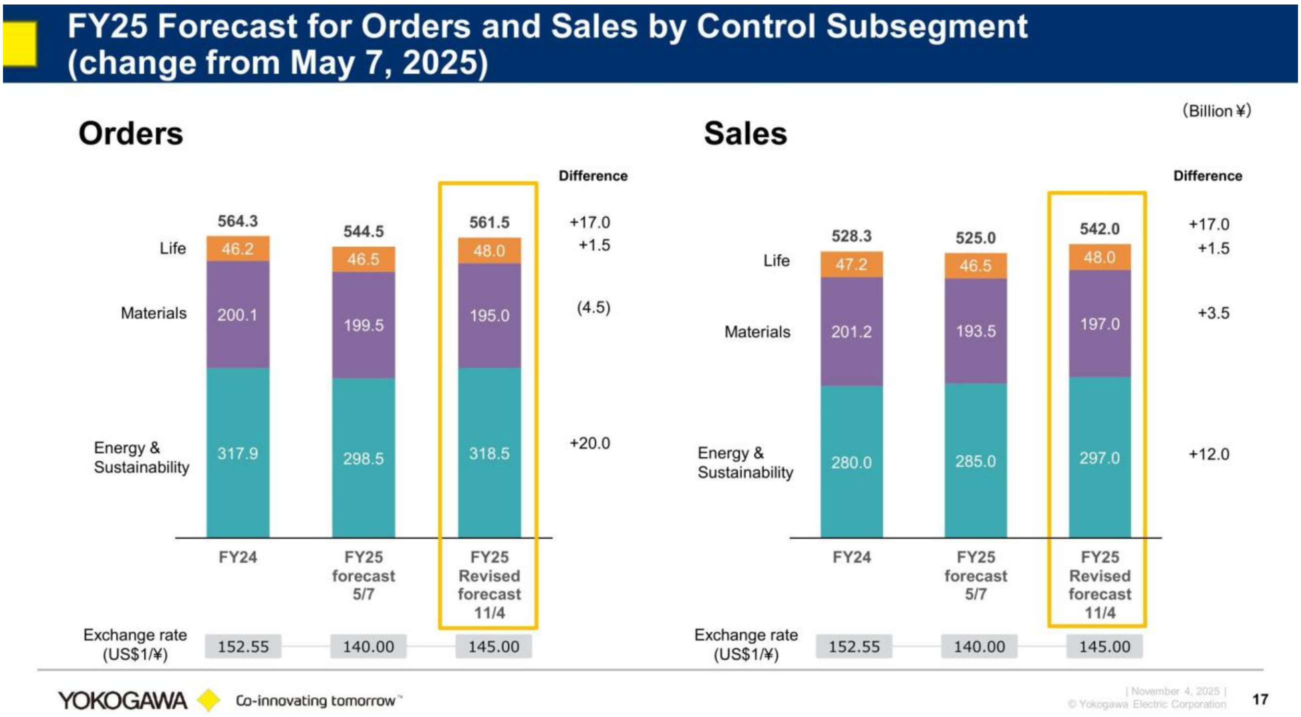
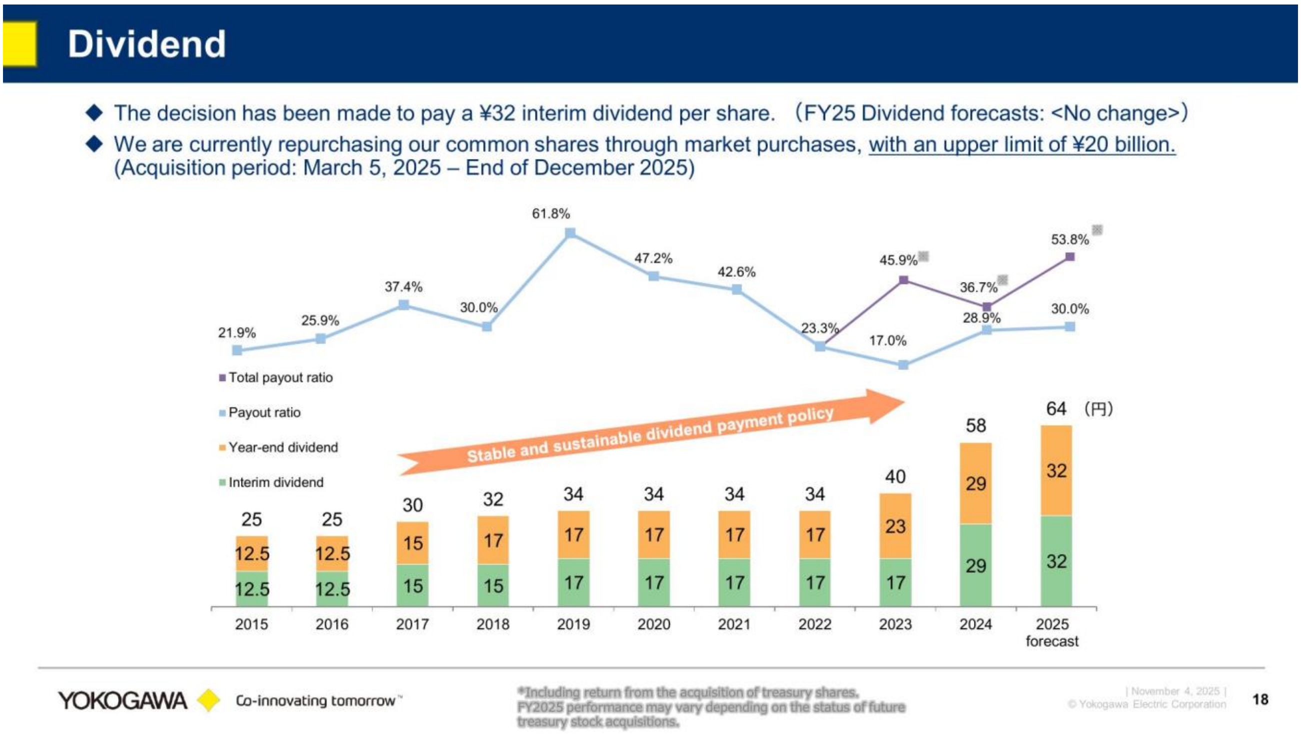
Page 16 presents the full-year forecast for orders and sales by region within the Control segment. In addition to the revised foreign exchange assumptions, we have made slight adjustments based on the actual results from the first half.



Page 17 presents the full-year forecast by industry within the Control segment. In this update, we made a substantive revision beyond the foreign exchange adjustment:

- For Energy & Sustainability, we revised the forecast upward by JPY10.0 billion in orders and JPY2.0 billion in sales.
- For Materials, we revised both orders and sales downward by the same amount.



Finally, page 18 covers shareholder returns.

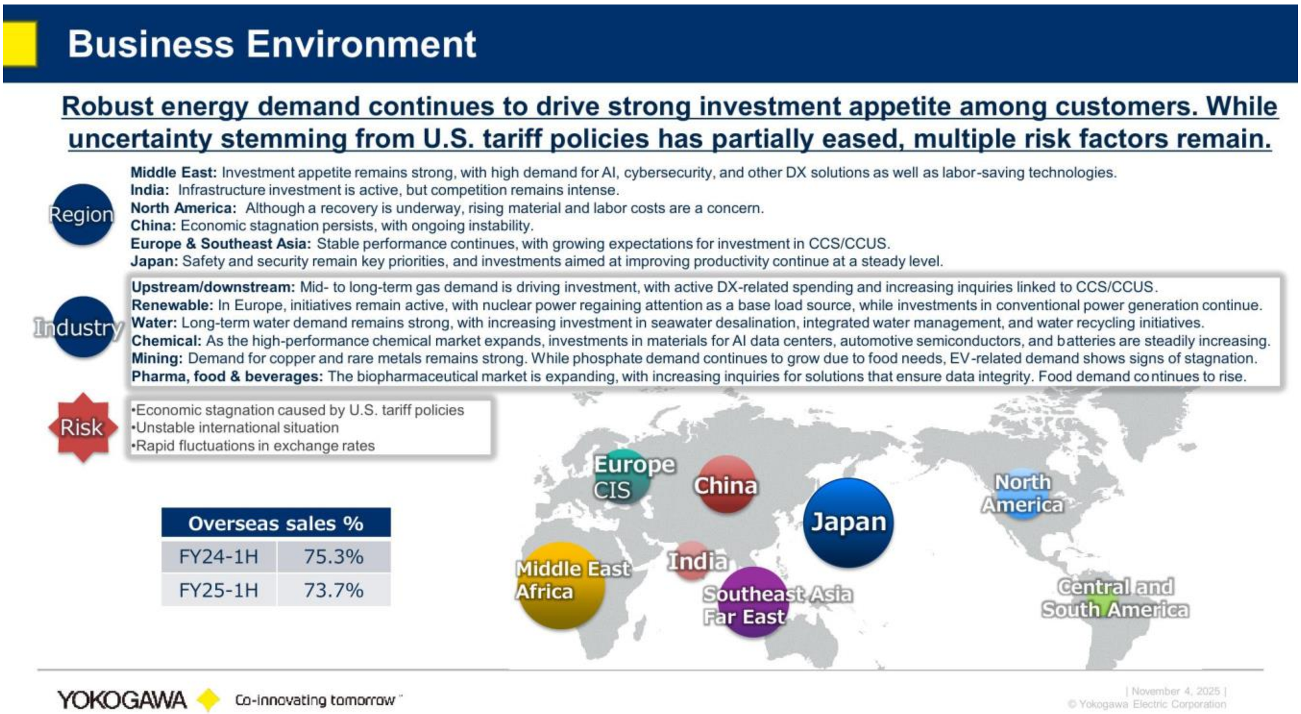
As previously forecasted, the Board of Directors today approved an interim dividend of JPY 32 per share. There is no change to the full-year dividend forecast from the previous announcement.

That concludes my presentation. Thank you very much.

Shigeno: Good evening, everyone. I am Shigeno, Director, President & CEO of YOKOGAWA.

Today, I will provide an update on our progress toward achieving the goals outlined in our medium-term business plan, Growth for Sustainability 2028 (GS2028).

Let me begin with our current business outlook.



On the demand side, customer investment appetite remains strong. Supported by robust global energy demand, we expect the overall market environment to remain favorable. Regionally, not only the Middle East but also Europe, Japan, and Southeast Asia continue to show solid performance. Investments are active not only in large-scale CAPEX projects but also in areas such as AI, digital transformation (DX), safety, and productivity enhancement. We are seeing a growing number of inquiries that include CCS/CCUS in both upstream and downstream sectors, and we are committed to addressing these opportunities.

On the risk side, while uncertainty stemming from U.S. tariff policies has somewhat subsided, multiple risk factors remain.

Although our current performance is strong, GS2028 sets ambitious growth targets. To achieve these goals, we will steadily implement measures to build a resilient business foundation that is not easily affected by external factors.

Let me now share the progress of our GS2028 initiatives.

First, I would like to introduce our involvement in the "Green Riyadh" initiative.

This is a capital greening project led by the Saudi Arabian government. YOKOGAWA has been selected to provide an integrated infrastructure management system for the capital. As part of Saudi Arabia's Vision 2030, the project aims to plant 7.5 million trees in Riyadh by 2030, transforming the city into one of the world's most livable urban centers.

YOKOGAWA's system will integrate diverse data sources—including environmental monitoring sensors, weather forecasts, and operational databases—to optimize the management of water resources, irrigation, and lighting systems.

This initiative aligns with our System of Systems (SoS) approach, which connects independently operated systems to generate synergies and new value. It also represents a significant contribution to sustainability and expands the scope of our value proposition.

We will continue to support similar global initiatives moving forward.

Next, I would like to highlight our recent M&A activities completed at the end of October. One of the core strategies of GS2028 is to enhance our industry responsiveness.

In June 2024, we acquired BaxEnergy (Italy), a provider of renewable energy monitoring solutions. This time, we acquired two additional Italian companies: Intellisync, which offers cybersecurity and DX solutions, and WiSNAM, which develops advanced grid control and energy management solutions. By combining Intellisync's 24/7 security operations with WiSNAM's grid-compliant Power Plant Controller, YOKOGAWA will be able to offer end-to-end solutions that bridge IT and OT.

These acquisitions are part of our strategy to strengthen our SaaS and recurring business portfolio and enhance our presence in the renewable energy sector. Both companies will be integrated into BaxEnergy for further development.

M&A is a key pillar of GS2028, and we will continue to pursue strategic acquisitions actively.

At the previous financial results briefing in May, we identified four key points to strengthen in order to achieve GS2028:

① Contributing to our customers' growth and profits, and earning their trust.

② Clarifying the roles of the head and regional offices, and implementing transnational operations.

③ Thoroughly strengthening product competitiveness and further enhancing the solutions portfolio.

④ Fostering a corporate culture that encourages people to take on challenges.

For point ①, we are actively recruiting Subject Matter Experts and Solution Architects, and strengthening our position as a Trusted Partner to our customers.

For point ②, we are establishing global Centers of Excellence (CoEs) in key markets–renewable energy and hydrogen in Europe, mining in Australia, and AI/Robotics/Cybersecurity in the Middle East–to lead global business and develop advanced case studies.

For point ③, we are seeing continued success with major upgrades to our flagship product CENTUM and new products from Yokogawa Test & Measurement Corporation.

Point ④ is more qualitative and will be omitted today, but we are focused on execution rather than just strategy formulation.

Point to be strengthened 1

Trusted Partner: Collaboration with SEG

Yokogawa and Sinopec Engineering Group sign Memorandum of Cooperation on global EPC projects

- SEG and Yokogawa China have already worked together on numerous refining and ethylene projects within China.
- The MoC provides a framework for both companies to focus on in-depth collaboration in contracting EPC projects internationally.
- Expected that both companies will greatly benefit from the enhanced cooperation under the MoC, particularly in terms of industrial automation advancements and geographical coverage.
- SEG is an engineering company of the Sinopec Group and designs and builds oil refineries and petrochemical plants both inside and outside the People's Republic of China.
- Yokogawa will provide its control and safety systems, as well as related services for projects in China and abroad.

SEG: Sinopec Engineering Group
EPC: Engineering, Procurement and Construction

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[November 4, 2025]

Let me elaborate on our efforts to become a Trusted Partner.

We recently signed a memorandum of understanding with Sinopec Engineering, a major Chinese EPC firm, to collaborate on global EPC projects. Although the domestic Chinese market remains challenging, Sinopec possesses abundant resources, talent, technical expertise, and international influence. They are actively expanding overseas, and we are committed to supporting them in this endeavor. This aligns with China's national "Belt and Road" initiative.

Being selected over local competitors is a significant milestone for YOKOGAWA.

Point to be strengthened 2 AI CoE: FKDPP deployment in Middle East

Aramco and Yokogawa achieve a major milestone with commissioning of multiple autonomous control AI agents at major gas facility

- Utilizes Yokogawa's reinforcement learning-based AI algorithm FKDPP*
- Groundbreaking deployment of multiple, coordinated FKDPP AI agents to successfully optimize a gas treatment unit at the Fadhili Gas Plant, reducing energy and chemical use
- Initial results demonstrate a 10% to 15% reduction in amine and steam usage, around 5% reduction in power usage, improved process stability, and a significant decrease in operator manual intervention. (Implementation is currently undergoing a detailed evaluation)

Fadhili Gas Plant (Courtesy of Aramco)

*FKDPP: Factorial Kernel Dynamic Policy Programming, an algorithm jointly developed by Yokogawa Electric Corporation and the Nara Institute of Science and Technology

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Next, I would like to highlight our AI CoE in the Middle East.

Saudi Arabia and the UAE are now leading nations in AI investment. To address customer challenges in these dynamic markets, YOKOGAWA has established an AI CoE in the Middle East.

Recently, we achieved a major breakthrough using AI at a Saudi Aramco plant. The plant faced challenges in reducing chemical usage in upstream gas processing due to high energy costs from steam usage. By deploying our autonomous control AI, FKDPP, and coordinating multiple FKDPPs, we successfully reduced chemical consumption. During the evaluation period, amine and steam usage decreased by 10–15%, electricity consumption dropped by approximately 5%, and manual operator intervention was significantly reduced. Evaluation is ongoing.

While many players exist in the AI space, our strength lies in mission-critical applications—controlling plants where safety and security are paramount. This is a domain where even minor errors can lead to major incidents. Our long-standing expertise in safe and reliable plant operations makes us a trusted provider of AI solutions in this field.

We will continue to expand our presence in this area.

Finally, let me discuss our efforts to strengthen product competitiveness.

Our flagship product, CENTUM, celebrates its 50th anniversary this year. We recently released a major upgrade—CENTUM VP R7. This version evolves CENTUM into a platform for the AI era, capable of learning and adapting to changes, and sustaining optimal and safe plant operations autonomously.

The concept of CENTUM VP R7 is “Unchanging Value and New Innovation.” We will further enhance our strengths in reliability, stability, continuity, robust security, and comprehensive engineering services. In addition, we will introduce innovations such as expanded control and monitoring coverage, predictive diagnostics based on process conditions, and plant operations that integrate experiential knowledge with AI technologies.

In our measuring business, Yokogawa Test & Measurement is experiencing strong demand driven by global AI data center construction. High-speed optical transceivers are critical components in these centers, and our optical spectrum analyzers—known for their superior optical performance and high-speed measurement—are widely adopted for production and inspection. We expect record-high annual production volumes and are ramping up capacity.

Furthermore, due to the surge in power consumption at AI data centers, high-precision power measurement is increasingly required. Our power analyzers, capable of high-accuracy and high-voltage measurement, are being widely adopted to meet this demand. Leveraging these strengths, we are contributing to the development and production of components used in data centers.

This is the final slide.

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

Seven months into my presidency, through conversations with stakeholders both in Japan and abroad, I have become increasingly confident that YOKOGAWA has the potential to make a meaningful contribution to the future of our planet—through our customers.

We will continue to move forward with strong determination, and I sincerely ask for your continued support and guidance.

Thank you for your attention.

Question & Answer

[Q]: Please explain the evaluation of 2Q results and the thinking behind the second half plan. How did orders, sales, and profit in 2Q compare to initial expectations? Also, the outlook for the control business in the second half shows a year-on-year decline in orders, sales, and operating income. Is this solely due to exchange rate effects, or are there other factors contributing to the decline compared to the previous year's second half?

Nakajima [A]: Compared to the expectations at the beginning of the fiscal year, orders were slightly behind, while sales and operating income were in line with expectations. Regarding the year-on-year decline in the control business, if we look at the quarterly sales trend, we can see that sales surged sharply from 4Q last year. In that sense, the difference from the previous year is skewed toward the first half. Excluding exchange rate effects, our current forecast assumes orders will be roughly flat year-on-year, while sales and operating income will increase.

[Q]: Regarding the slight lag in 2Q orders, the figures themselves are relatively high. Should we understand that you had expected even higher levels due to anticipated large-scale projects?

Nakajima [A]: The situation varies by business segment. As reflected in the revised forecasts for Energy & Sustainability and Materials, orders in Materials were particularly challenging compared to expectations. Materials also have a shorter lead time to sales than Energy & Sustainability, so the impact on current-period sales was qualitatively behind. While the overall first-half performance was strong, this was partly due to a significant drop in large orders in Energy & Sustainability in 2Q last year. From a planning perspective, we had hoped for slightly more growth.

[Q]: President Shigeno, it has been six months since your appointment. What are your impressions so far, and have there been any changes in your understanding of the business environment? Are there any challenges that have become clearer? Also, how has the pipeline outlook changed compared to six months ago?

Shigeno [A]: Looking back over the past six months, both the progress of initiatives and the numbers are reasonably satisfactory. As I explained in May, to fully execute GS2028, there are four areas Yokogawa must strengthen:

1. Strengthening the sales front function

2. Clarifying the roles of HQ and local offices for flexible transnational operations

3. Thorough enhancement of product competitiveness

4. Fostering a corporate culture where each employee can passionately take on challenges

I emphasize execution-focused operations, and I believe our enhancement initiatives are being steadily implemented. However, as president, I've come to realize the incredible speed and sophistication of technological innovation. To ensure Yokogawa's technology is recognized as outstanding, we must further reinforce our technology focus. This requires a deep understanding of customer needs and a proactive approach to delivering value. We aim to invest in core technologies and areas that will become industry standards. The pipeline remains relatively strong and stable.

[Q]: Regarding the revision of forecasts, how have orders, sales, and operating income changed from the previous forecast?

Nakajima [A]: The changes in company-wide figures for orders, sales, and operating income are solely due to revised exchange rate assumptions. These changes are reflected in the control segment. Specifically, excluding exchange rate effects, Energy & Sustainability saw a positive revision of +JPY10 billion in orders and +JPY2 billion in sales, while Materials was revised downward by the same amounts. Regionally, we made minor adjustments: upward revisions in the Middle East and Africa, downward in Asia (Far East and Southeast Asia, etc.), and small changes of JPY1–1.5 billion in other regions.

[Q]: How should we interpret the relationship between the lag in first-half orders and the forecast revisions for Materials (downward) and Energy & Sustainability (upward)?

Nakajima [A]: While orders are slightly behind the target level, fluctuations due to timing of large project wins are common. Despite some ups and downs, we believe the annual targets are still achievable.

[Q]: Regarding the AI (FKDPP) introduced at Saudi Aramco's gas plant, what kind of business expansion do you foresee? Will this have promotional effects and lead to adoption by other companies?

Shigeno [A]: It took considerable time to introduce AI at Saudi Aramco. AI cannot be immediately applied to plant operations—it's crucial to identify the right areas for implementation. We're not aiming to automate entire plants at once, but rather to solve specific control challenges using AI. Finding these areas and working closely with customers was a challenge. Many AI players exist today, but our strength lies in mission-critical operational domains—specifically, control systems. We have a proven track record in L2, DCS. These areas require not only control but also safety systems and cybersecurity. Based on our long-standing expertise, we were selected for this important domain. The project is still in the PoC phase, but evaluations are progressing. If successful, we expect expansion to other gas plants owned by Saudi Aramco and hope to leverage this milestone for global expansion.

[Q]: Please share details of the large orders received and the status of LNG-related orders and pipeline.

Nakajima [A]: In Energy & Sustainability, upstream orders were roughly flat year-on-year despite the recoil from last year's large orders in Saudi Arabia. Downstream saw significant growth across various regions, contributing to the increase of over JPY10 billion. Materials experienced a slight decline in large orders due to strong performance last year. Life segment saw growth from projects like Green Riyadh and food-related orders.

Shigeno [A]: LNG-related orders are increasing, especially in North America, UAE, Africa, and Southeast Asia. We also received a CCUS project in Southeast Asia during the first half.

[Q]: Regarding operating income, how is progress against the annual plan? Has there been any change in the breakdown of gross margin deterioration?

Nakajima [A]: We projected a JPY1.1 billion negative impact on gross margin for the full year, and this has already materialized in the first half. This is due to earlier-than-expected project sales ramp-up and changes in business composition. While U.S. tariffs have increased costs, we are gradually passing these on to customers. Since there is a slight lead time from order to sales, the impact of increased tariffs is currently being felt ahead of revenue. In the second half, we expect tariff pass-through to take effect. In addition, we also expect the impact of business composition to diminish because sales ramped up significantly from Q4 last year and the shift in business composition had already become apparent in the second half of the previous fiscal year as mentioned earlier. Improved sales will also enhance utilization rates, so we currently see no need to revise the full-year outlook.

[Q]: Can you break down the causes of gross margin deterioration in the first half?

Nakajima [A]: Tariff impact was slightly over JPY500 million, and business composition changes caused a roughly JPY1.5 billion negative impact. These were offset by fixed cost improvements, resulting in a total negative impact of JPY1.1 billion.

[Q]: After 1Q, the tariff impact was expected to be about half of the initial JPY1.5 billion. What is the latest outlook?

Nakajima [A]: We now expect around JPY1 billion in tariff impact and it is not expected to decline to half of the initial JPY1.5 billion assumption. The additional tariffs announced in August on steel and aluminum parts may have a minor effect, but not significant.

[Q]: Regarding the two acquired companies (Intellisync and WiSNAM), what is the impact on P/L? Also, how do these acquisitions support the shift to SaaS and recurring business? What is the future M&A strategy?

Nakajima [A]: The impact on this year's forecast is minor and already factored in, including orders, sales and SG&A (incl. goodwill amortization).

Shigeno [A]: We've placed the M&A team directly under the president to enhance top-down decision-making. We target companies with established business foundations and sales channels, not startups. We've revised our strategy, scale and pricing, and made guidelines. This time, we strengthened our renewable energy business. Intellisync provides cybersecurity and DX solutions with 24/7 monitoring. WiSNAM offers grid control and energy management solutions and will be integrated with BaxEnergy to enhance our presence in renewables. Renewable energy is one of our key focus areas, and through these acquisitions, we feel that we have now assembled many of the essential pieces needed to advance our renewable energy strategy. BaxEnergy provides cloud-based O&M services, accumulating valuable data, and we aim to expand into asset management. All of their businesses operate under a recurring model, and we aim to leverage their expertise and knowledge to further expand recurring business within our existing operations.

[Q]: Despite a reduced tariff impact, the latest forecast keeps unchanged excluding the exchange rate effects. Does this mean cost pass-through is not progressing as expected?

Nakajima [A]: While the tariff impact is expected to be smaller, the proportion of project business may increase as to business composition due to the weak performance of Materials in China. Therefore, we have not revised the overall forecast.

[Q]: Regarding the collaboration with Sinopec Engineering, given the sluggish domestic demand in China, what proportion of future Chinese business do you expect to come from overseas expansion?

Shigeno [A]: China's domestic economy is facing oversupply in consumer goods, and sectors like oil, petrochemicals, and bulk chemicals remain tough. However, with 5% GDP growth and a massive population, the potential is still high. Investments are focused on renewables and batteries. Life sciences and measuring instruments are growing, and we're seeing more inquiries from small and mid-sized customers which we have not been able to reach. EPCs and end-users are increasingly expanding overseas, and we intend to follow them. However, it's difficult to estimate the proportion of overseas projects at this stage.

[Q]: Regarding the Green Riyadh project in Saudi Arabia, is Yokogawa executing the entire project alone? Is there any collaboration with Hitachi in Saudi Arabia?

Shigeno [A]: We are not executing the entire project alone. Green Riyadh is a national initiative to plant 7.5 million trees and transform Riyadh from desert to green. We secured a portion of the project related to monitoring and control. This aligns with Yokogawa's purpose: "Utilizing our ability to measure and connect, we fulfill our responsibilities for the future of the planet." We also see growth in District Cooling Plant (DCP) projects in Saudi Arabia and UAE. As for collaboration with Hitachi, our fields differ, so there is little cooperation, including on Green Riyadh. Our role is mainly in integrated monitoring and control systems in this project.

[Q]: The AI implementation at Saudi Aramco seems to reflect a shift from product sales to solutions and recurring business. Compared to last year's DX briefing, how much progress has been made? Also, how does Yokogawa's plant automation compare to global competitors?

Shigeno [A]: Regarding the recurring business, we must first develop the business scheme for this AI solution. We haven't yet proposed this to customers. Meanwhile, our service business is growing rapidly, and we're reviewing the definition of "recurring" as services can also be considered a part of it. Regarding competitors, to our knowledge, no other company is currently applying AI to control systems. We expect competitors to emerge, but for now, we believe we have a competitive edge and added value.

[END]

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