Yokogawa Electric Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending March 2027

November 4, 2026

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 2027
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[Date]	November 4, 2026
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[Time]	17:30 – 18:39 (Total: 69 minutes, Presentation: 27 minutes, Q&A: 42 minutes)
[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: I am Nakajima, Head of Accounting & Treasury Headquarters. First, I will give a summary of our financial results for the first half of FY2026.

Key Points

■ **FY26 1H results:**

- **Summary:**
  - Orders increased for both the Control and Measuring Instruments businesses, with growth particularly strong in the Measuring Instruments business.
  - Sales increased, mainly driven by growth in the Measuring Instruments business and the impact of changes in foreign exchange rates.
  - Operating income decreased.

- **Segments:**

Control: Sales increased mainly due to the impact of changes in foreign exchange rates.
Operating income decreased due to lower gross margins and higher SG&A expenses.

Measuring Instruments: Sales and operating income increased.

■ **FY26 earnings forecasts: <Revised>**

- **Control:** Orders ±0, sales +¥10.0 billion, operating income ±0
- **Measuring Instruments:** Orders +¥20.0 billion, sales +¥4.0 billion, operating income +¥3.0 billion

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Page 4 shows the key points of the financial results. Details are explained on the following pages.

Summary of FY26 1H Results (YoY comparison)

- **Orders increased**, driven by the steady acquisition of base orders in Japan and overseas for the Control business and growing AI data center-related demand for the Measuring Instruments business (excluding exchange rate impact: +¥38.7 billion, +12.9%).
- **Sales increased**, mainly due to growth of the Measuring Instruments business and the impact of changes in foreign exchange rates (excluding exchange rate impact: -¥4.6 billion, -1.6%).
- **Operating income decreased**, reflecting lower gross profit margins and higher SG&A expenses for the Control business (excluding exchange rate impact: -¥8.4 billion, -21.6%).

(JPY billion)

	FY25 1H	FY26 1H	Difference	Growth rate	Exchange rate impact
Orders	300.4	**365.6**	+65.2	+21.7%	+26.5
Sales	282.0	**298.2**	+16.2	+5.8%	+20.8
Operating income	39.0	**35.7**	(3.2)	(8.4%)	+5.2
ROS(%)	13.8	**12.0**	(1.8pt)	—	—
Ordinary income	39.7	**36.3**	(3.4)	(8.6%)	+5.9
Profit attributable to owners of parent	29.4	**23.1**	(6.3)	(21.5%)	+5.4
Exchange rate US$1=	¥146.26	**¥159.90**	+13.64	—	—

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Page 5 shows a financial results summary.

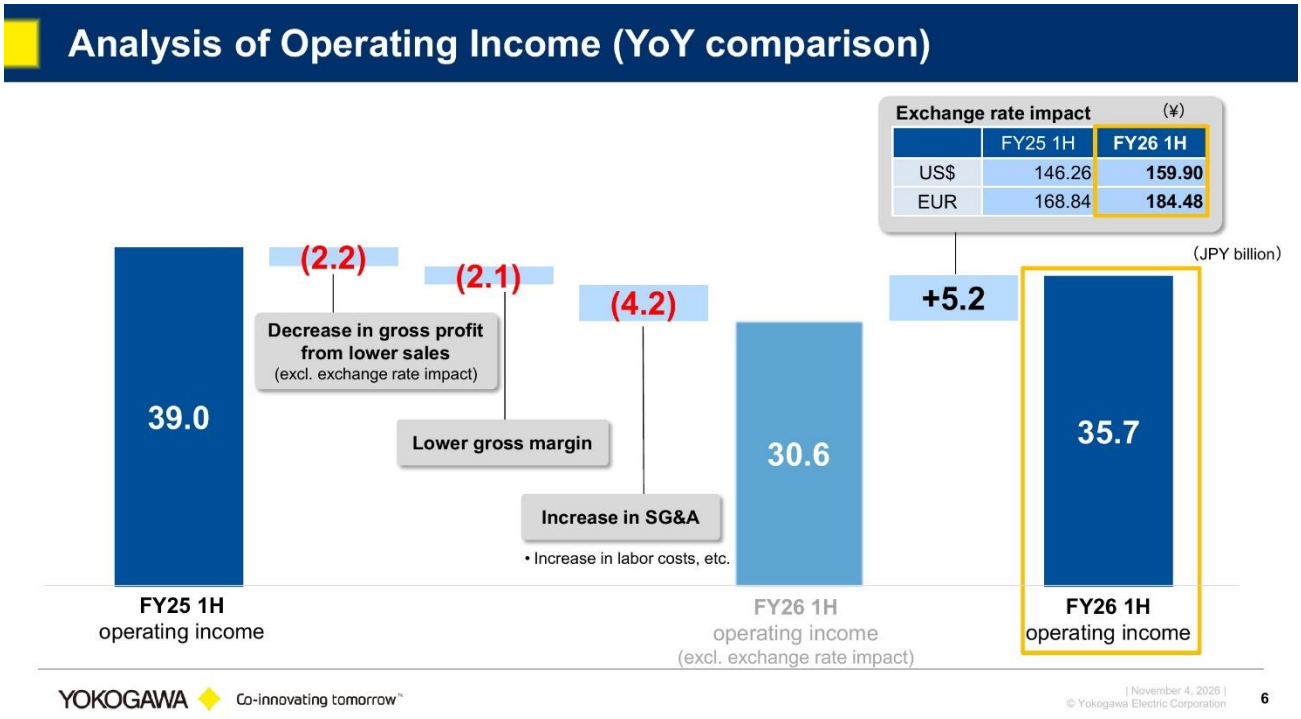
Orders totaled JPY365.6 billion, representing strong growth of JPY38.7 billion, or 12.9%, even when excluding exchange rate impact.

Sales totaled JPY298.2 billion. Excluding exchange rate impact, sales decreased by JPY4.6 billion, a 1.6% decline.

During the term, orders significantly outpaced sales.

Operating income was JPY35.7 billion, representing a YoY decrease of JPY3.2 billion. Excluding exchange rate impact, it is a decrease of JPY8.4 billion.

Net income decreased by JPY6.3 billion. However, this was partly due to a rebound effect from a temporary reduction in corporate tax adjustments during the same period of the previous fiscal year.



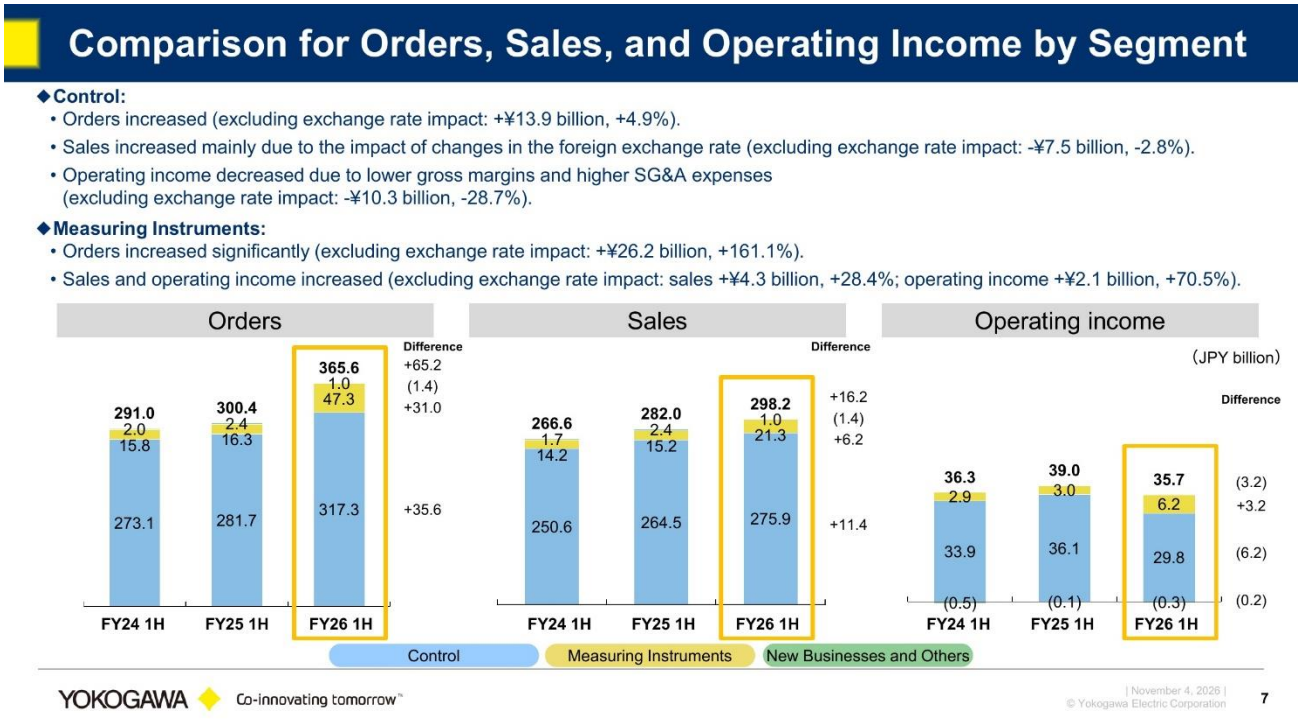
Page 6 shows an analysis of operating income.

Excluding exchange rate impact, operating income decreased by JPY8.4 billion compared with JPY39 billion recorded in the same period of the previous fiscal year.

Breaking down the changes, the decline in sales had a negative impact of JPY2.2 billion, while the lower gross margin had a negative impact of JPY2.1 billion this fiscal term.

In addition to the ongoing impact of falling product prices in China, this period was particularly affected by investment-related costs, specifically provisions for contract losses on strategically acquired projects.

Furthermore, the increase in SG&A expenses amounted to a negative JPY4.2 billion. This increase in SG&A expenses includes not only base costs such as higher personnel expenses, but also an increase in upfront investment-related expenses, such as the amortization of goodwill and other acquisition-related expenses associated with companies acquired in the previous fiscal year.



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

Regarding the Control segment, shown in blue, orders increased by JPY35.6 billion YoY, representing 4.9% growth even when excluding exchange rate impact.

Sales increased by JPY11.4 billion, but excluding exchange rate impact, they decreased by 2.8%.

Operating income decreased by JPY6.2 billion, and by JPY10.3 billion excluding exchange rate impact. As explained earlier, factors such as a decline in the gross margin—which includes strategic factors—and an increase in SG&A expenses had a particularly significant impact on this segment.

Regarding the Measuring Instruments segment, shown in yellow, orders increased by JPY31 billion YoY. Even excluding exchange rate impact, they were approximately 2.6 times higher than the same period last year, representing extremely strong growth. We believe that, in addition to increased investment by customers in the AI data center sector, the impact of advance orders due to longer delivery times is also driving these figures upward. Compared to Q1, the figures have leveled off slightly in Q2 but remain at a high level.

Sales increased by JPY6.2 billion YoY, representing strong growth of 28.4 even excluding exchange rate impact. We are steadily expanding our production capacity, and the effects of this are gradually becoming apparent.

Operating income increased by JPY3.2 billion, and JPY2.1 billion excluding exchange rate impact.

Finally, regarding the New Businesses and Others segment, shown in green, there were no significant changes.

Orders and Sales by Region in Control Segment

◆ While orders for the Middle East and Africa region were down year on due to the receipt last year of large orders in the Middle East, orders were up overall, driven mainly by growth in Asia, North America, and Japan.

(JPY billion)

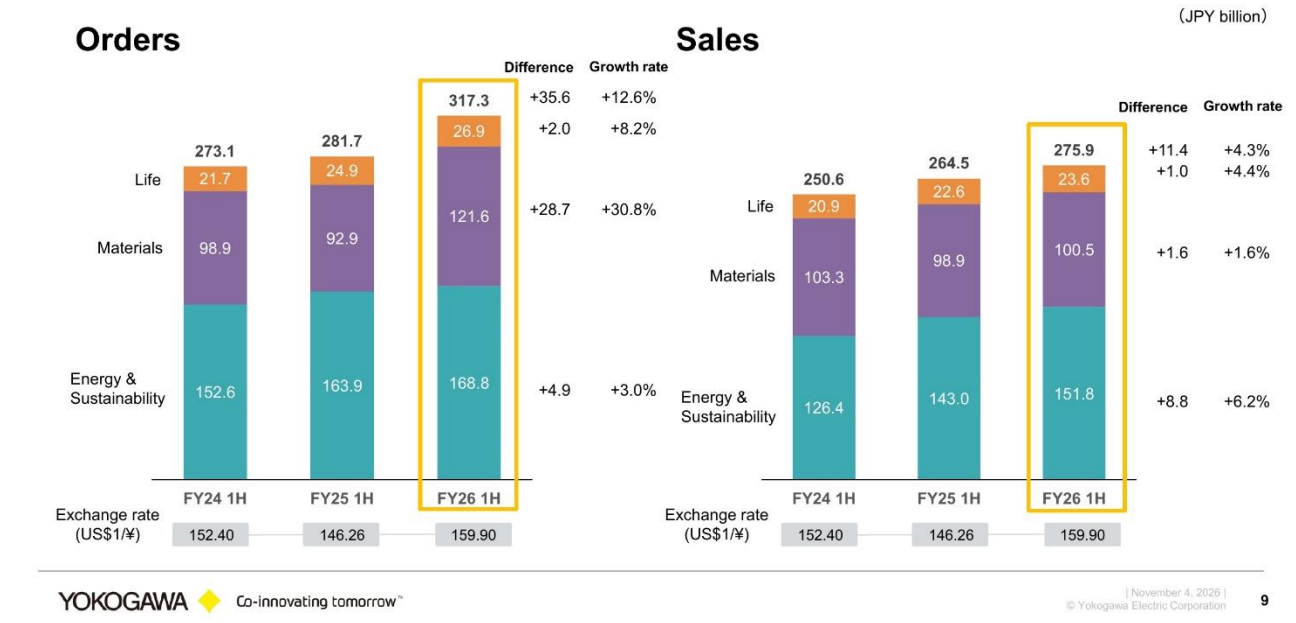
Orders	FY25 1H (A)	FY26 1H (B)	Difference (B-A)
Japan	**72.0**	**79.3**	**+7.3**
Asia	86.4	108.1	+21.6
(Southeast Asia, Far East)	44.3	49.8	+5.5
(China)	29.5	41.6	+12.2
(India)	12.7	16.6	+4.0
Europe and CIS	27.4	29.0	+1.6
Middle East and Africa	65.3	61.2	(4.1)
North America	20.9	28.8	+7.9
Central and South America	9.7	11.0	+1.2
Outside Japan	**209.8**	**238.0**	**+28.2**
Consolidated	**281.7**	**317.3**	**+35.6**
Exchange rate USD1$ =	¥146.26	¥159.90	+13.64

Sales	FY25 1H (A)	FY26 1H (B)	Difference (B-A)
Japan	**69.7**	**65.8**	**(3.9)**
Asia	79.2	87.3	+8.1
(Southeast Asia, Far East)	38.2	43.1	+4.9
(China)	29.3	31.4	+2.1
(India)	11.7	12.8	+1.1
Europe and CIS	30.5	30.3	(0.2)
Middle East and Africa	52.0	57.4	+5.4
North America	24.7	26.4	+1.8
Central and South America	8.3	8.6	+0.3
Outside Japan	**194.8**	**210.1**	**+15.3**
Consolidated	**264.5**	**275.9**	**+11.4**
Exchange rate USD1$ =	¥146.26	¥159.90	+13.64

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Page 8 shows orders and sales by region for the Control segment.

As for orders, as noted at the top of the slide, there was a decline in the Middle East due to the receipt last year of large projects, but that was offset by growth in Asia, North America, and Japan. Consequently, the Control segment as a whole achieved 4.9% growth even excluding exchange rate impact.

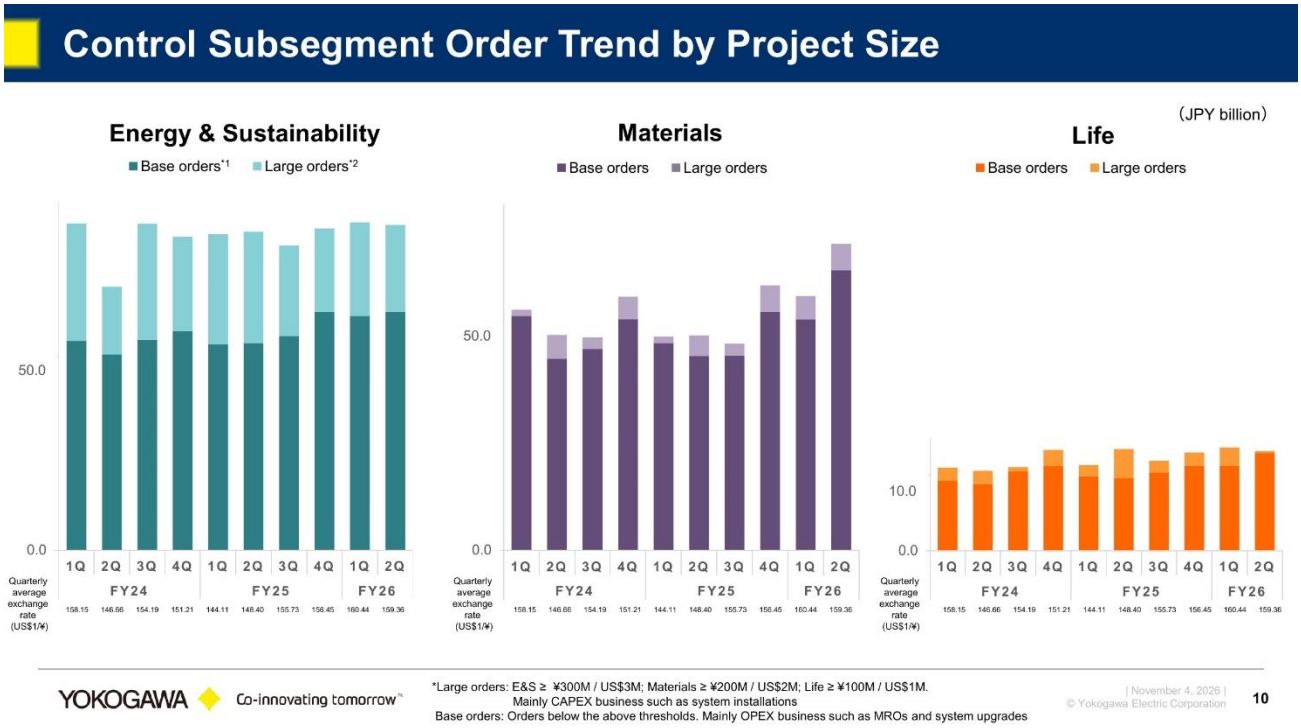


Page 9 shows orders and sales by industry in the Control business. I'll explain using the graph on the left, which shows orders.

Energy & sustainability, shown at the bottom here, was up JPY4.9 billion YoY. However, excluding exchange rate impact, it was down JPY6.4 billion, a 3.9% decrease. While overall orders declined due to the significant reactionary impact of large orders received in the Middle East and Europe in the previous fiscal year, we view underlying demand as remaining robust, supported by solid performance in Japan and growth in the U.S. and India. Base orders also continued to expand steadily.

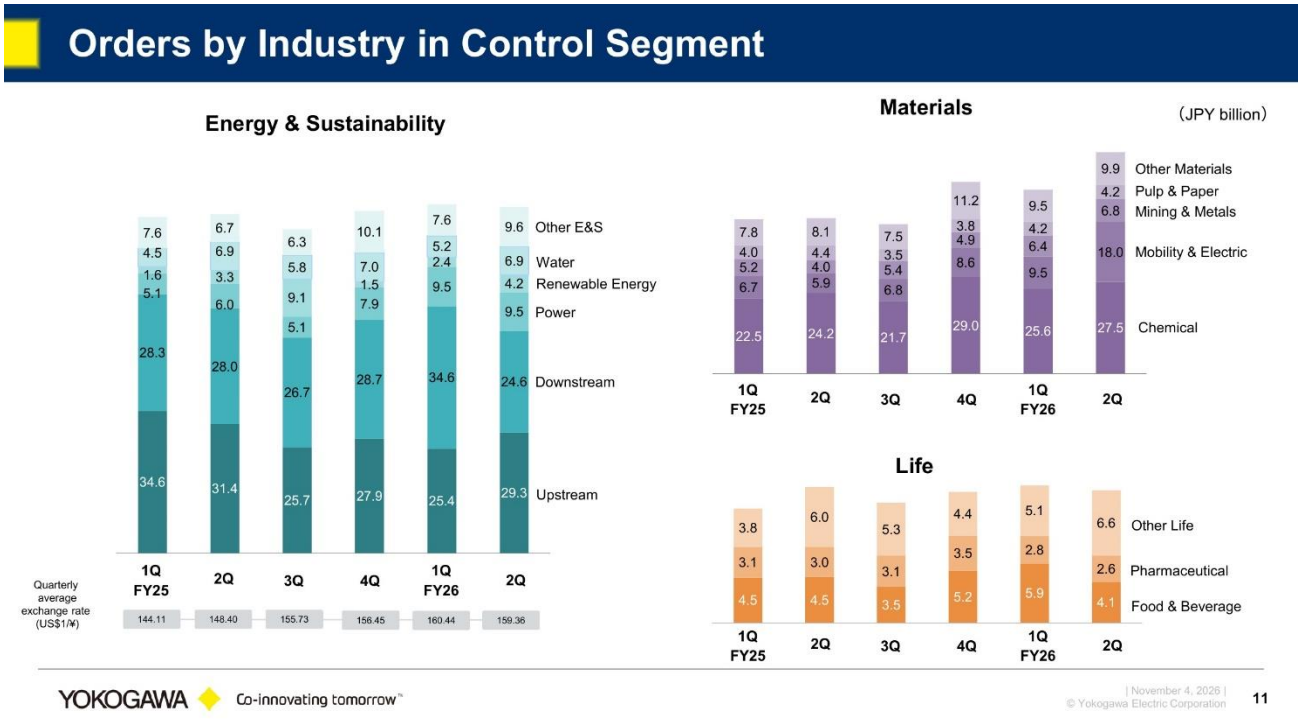
Materials, shown in purple was up JPY28.7 billion YoY. Even excluding exchange rate impact, it showed strong growth of JPY19.7 billion, or 21.2%. Of this growth, approximately 40% is attributable to the sharp rise in PLC (Programmable Logic Controller) sales driven by increased investment from semiconductor-related customers. Even excluding exchange rate impact, Orders increased significantly overall, supported by strong growth in both large and small orders for the chemicals industry in Japan, together with the receipt of large orders from mining customers in South America and chemical customers in North America.

Life, shown in orange, was up JPY2 billion YoY. Excluding exchange rate impact, it was up JPY0.6 billion, a 2.5% increase. Although the growth rate is lower this time, this reflects the reactionary impact of a large order received in the Middle East in Q2 of the previous fiscal year. Excluding that, we maintained strong growth of just over 12%. In addition to continued strong performance in the food and pharmaceutical industry within process solutions, the life sciences business is experiencing high growth in North America, Europe, and other regions.



Page 10 shows the quarterly order trends by industry segment, broken down into large and base orders.

I believe you can confirm here the points I explained earlier, such as the solid performance of base orders in the Energy & Sustainability.



Page 11 shows order trends broken down further by industry within the three industry segments.

I will skip the explanation for this slide.

FY26 Forecast (change from May 7, 2026)

◆ Full-year forecast revised based on 1H results and outlook

(JPY billion)

	FY25 (A)	FY26 forecast 5/7 (B)	FY26 forecast 11/4 (C)	Forecast difference (C-B)	Difference (C-A)	Growth rate (C/A-1)
Orders	617.8	645.0	**665.0**	+20.0	+47.2	+7.6%
Sales	604.8	615.0	**629.0**	+14.0	+24.2	+4.0%
Operating income	82.6	85.0	**88.0**	+3.0	+5.4	+6.6%
ROS(%)	13.6	13.8	**14.0**	+0.2pt	+0.3pt	-
Ordinary income	84.3	85.0	**88.0**	+3.0	+3.7	+4.4%
Profit before income taxes	78.9	85.0	**88.0**	+3.0	+9.1	+11.5%
Tax, etc.	20.9	26.5	**27.5**	+1.0	+6.7	+32.1%
Profit attributable to owners of parent	58.1	58.5	**60.5**	+2.0	+2.4	+4.1%
EPS(￥)	227.72	229.75	**241.80**	+12.05	+14.08	–
Exchange rate US$1=	¥151.17	¥150.00	**¥150.00**	–	(1.17)	–

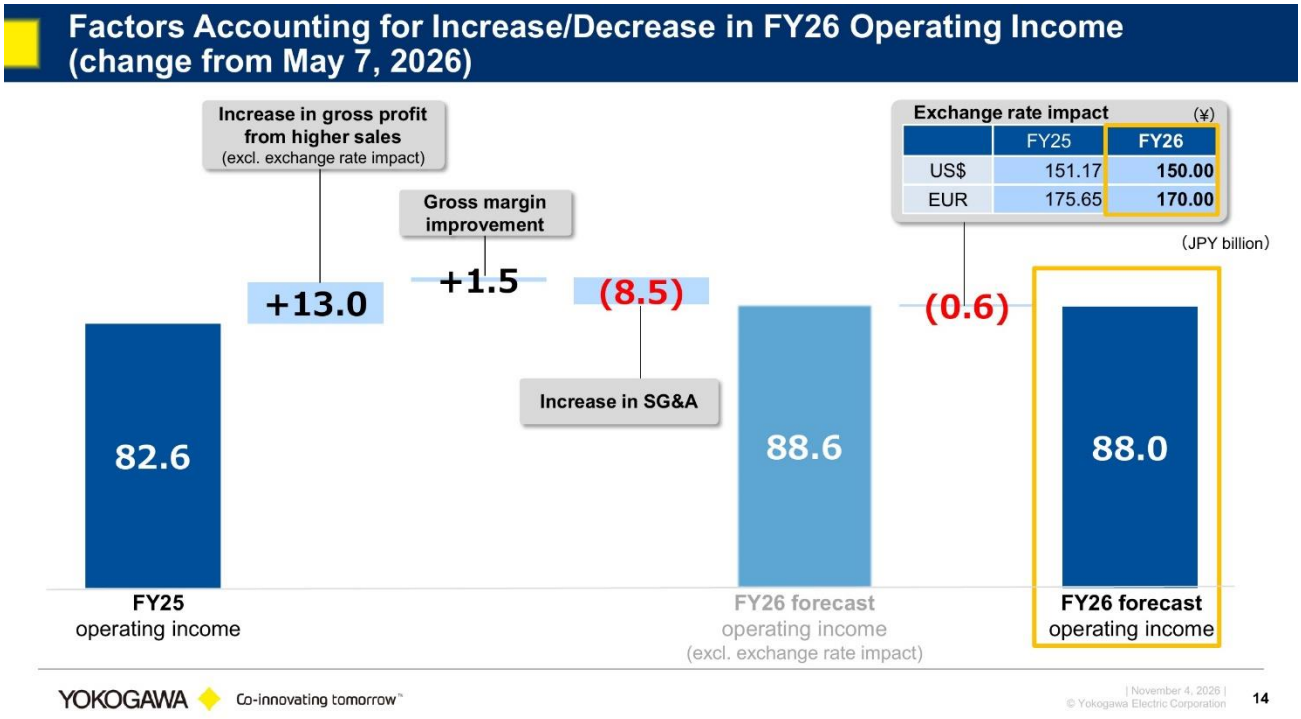
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Page 13 and thereafter continues with the annual forecast.

We have revised our forecasts upward by JPY20 billion in orders, JPY14 billion in sales, JPY3 billion in operating income, and JPY2 billion for net income.

As for exchange rates, we have maintained our original assumption of an annual average exchange rate of JPY150 per U.S. dollar. Therefore, the revisions presented here represent the actual changes in our forecasts, without any impact from exchange rate assumptions.



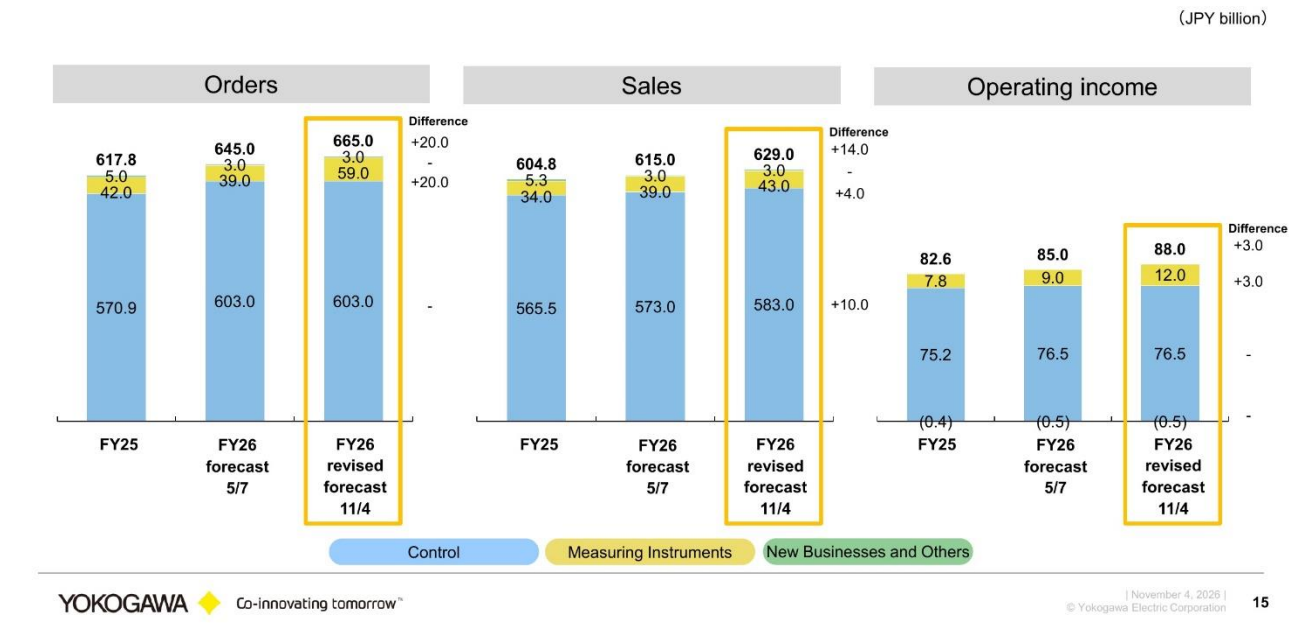
Page 14 shows an analysis of the changes in operating income following the revision.

Compared to the JPY82.6 billion recorded in FY2025, the increase in gross profit resulting from higher sales amounts to JPY13 billion, representing a JPY6.5 billion increase compared with the previous forecast.

The improvement in gross margin contributed approximately JPY1.5 billion. Compared with the previous forecast, however, we have incorporated an additional negative impact of JPY3.5 billion, reflecting increased investment-related costs, including provisions for contract losses associated with strategic project orders, as I mentioned earlier.

The impact of increased SG&A expenses is a negative JPY8.5 billion. This figure remains unchanged from the previous forecast.

As a result of these changes, we have revised our forecast upward by JPY3 billion from the previous forecast, to an annual forecast of JPY88 billion.



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

I will briefly explain the revisions from our previous forecast and the key points behind them.

First, for the Control business, shown in light blue, we have left our orders forecast unchanged, while raising our sales forecast by JPY10 billion. There is no change to our operating income forecast. We have incorporated the impact of an increase in strategic project orders as well as lower product prices in China, and we expect the gross margin for the full year to decline from our original assumption. However, by steadily increasing sales, we expect to maintain the operating income level projected in our previous forecast.

Next, for the Measuring Instruments business, shown in yellow, we have revised our forecast upward by JPY20 billion in orders, JPY4 billion in sales, and JPY3 billion in operating income. With regard to sales, we are in the process of gradually expanding production capacity, and the current revision reflects the progress achieved to date.

There is no change to the forecast for the New Businesses and Others segment.

FY26 Forecast for Control Orders and Sales by Region (change from May 7, 2026)

(JPY billion)

Orders	FY25 (A)	FY26 (B)	Difference (B-A)
Japan	**154.0**	**154.0**	**+0.0**
Asia	166.1	184.0	+17.8
(Southeast Asia, Far East)	81.0	85.0	+4.1
(China)	55.5	63.0	+7.5
(India)	29.7	36.0	+6.3
Europe and CIS	60.8	58.5	(2.4)
Middle East and Africa	117.7	115.0	(2.6)
North America	51.7	67.0	+15.3
Central and South America	20.5	24.5	+4.0
Outside Japan	**416.9**	**449.0**	**+32.1**
Consolidated	**570.9**	**603.0**	**+32.1**
Exchange rate US$1 =	¥151.17	¥150.00	(1.17)

Sales	FY25 (A)	FY26 (B)	Difference (B-A)
Japan	**151.5**	**151.5**	**(0.0)**
Asia	164.2	178.5	+14.2
(Southeast Asia, Far East)	79.8	82.0	+2.1
(China)	56.7	63.0	+6.3
(India)	27.7	33.5	+5.8
Europe and CIS	63.6	61.0	(2.6)
Middle East and Africa	115.3	110.0	(5.3)
North America	51.6	61.0	+9.5
Central and South America	19.3	21.0	+1.7
Outside Japan	**414.0**	**431.5**	**+17.4**
Consolidated	**565.5**	**583.0**	**+17.5**
Exchange rate US$1 =	¥151.17	¥150.00	(1.17)

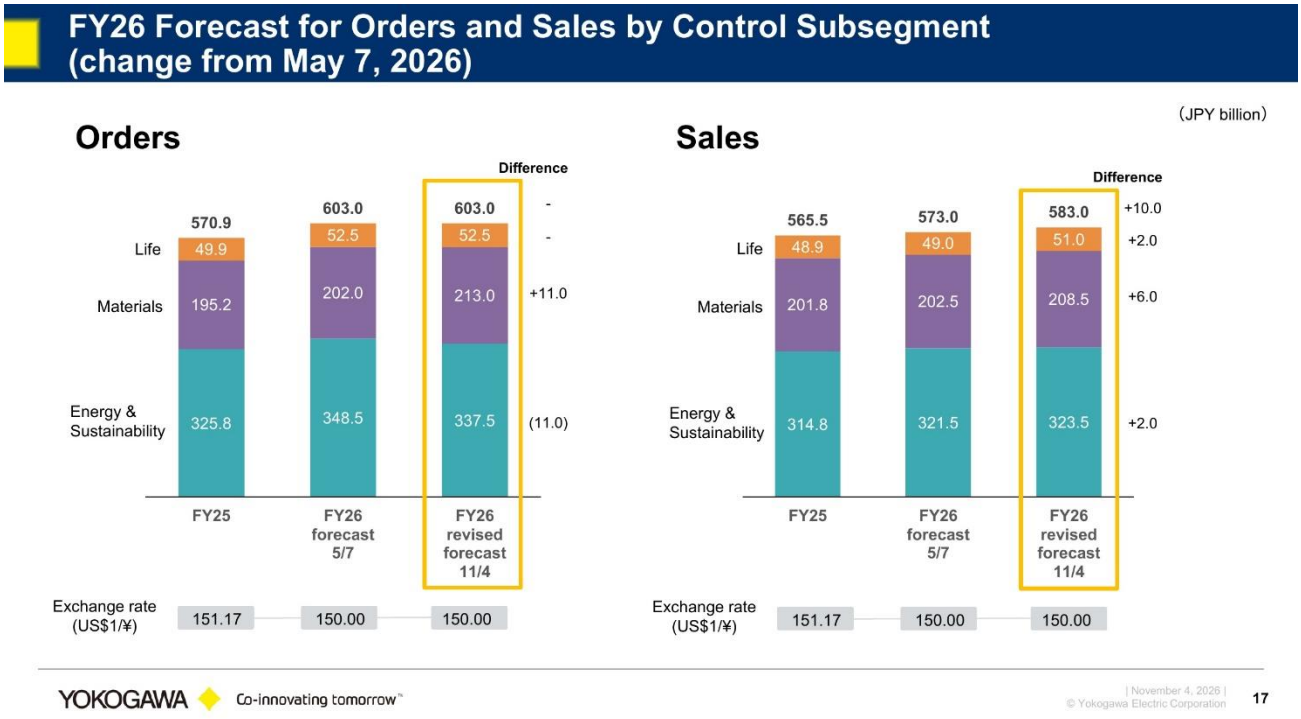
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Page 16 shows the full-year forecast for orders and sales by region within the Control segment.

We have revised our forecast based on the first-half results and our assessment of business conditions in each region. While we have lowered our forecast for the Middle East and Europe, we have revised them upward for regions that continue to perform strongly, including Japan, China, and North America.

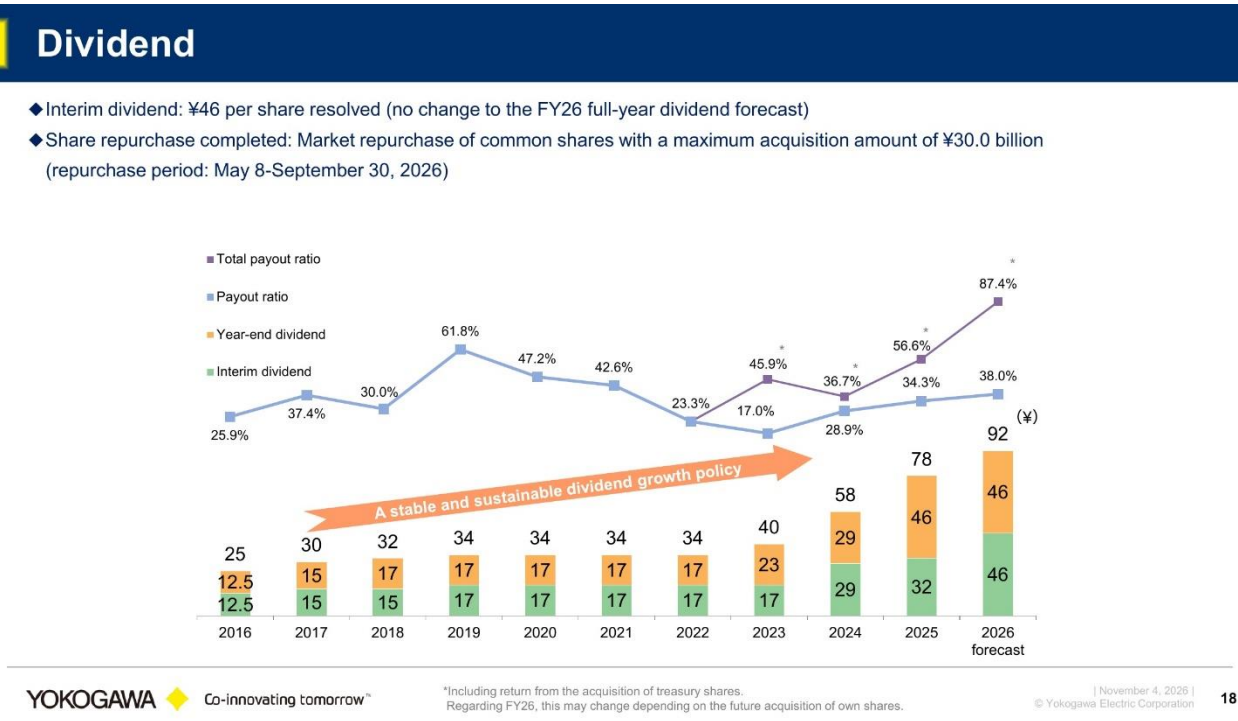
As for the situation in the Middle East, normalization is expected to take longer than initially anticipated. Accordingly, our forecast assumes that the current conditions will continue for the time being.

I will refrain from going through the individual figures in detail.



Page 17 shows the full-year forecast by industry within the Control segment.

The revision amounts are as shown on this slide. We have updated our assumptions to reflect factors such as the impact on the Energy & Sustainability business from the prolonged geopolitical situation in the Middle East, as well as the strong performance of the Materials business.



Page 18 shows shareholder returns.

As previously forecast, the Board of Directors resolved at today's meeting to pay an interim dividend of JPY46 per share.

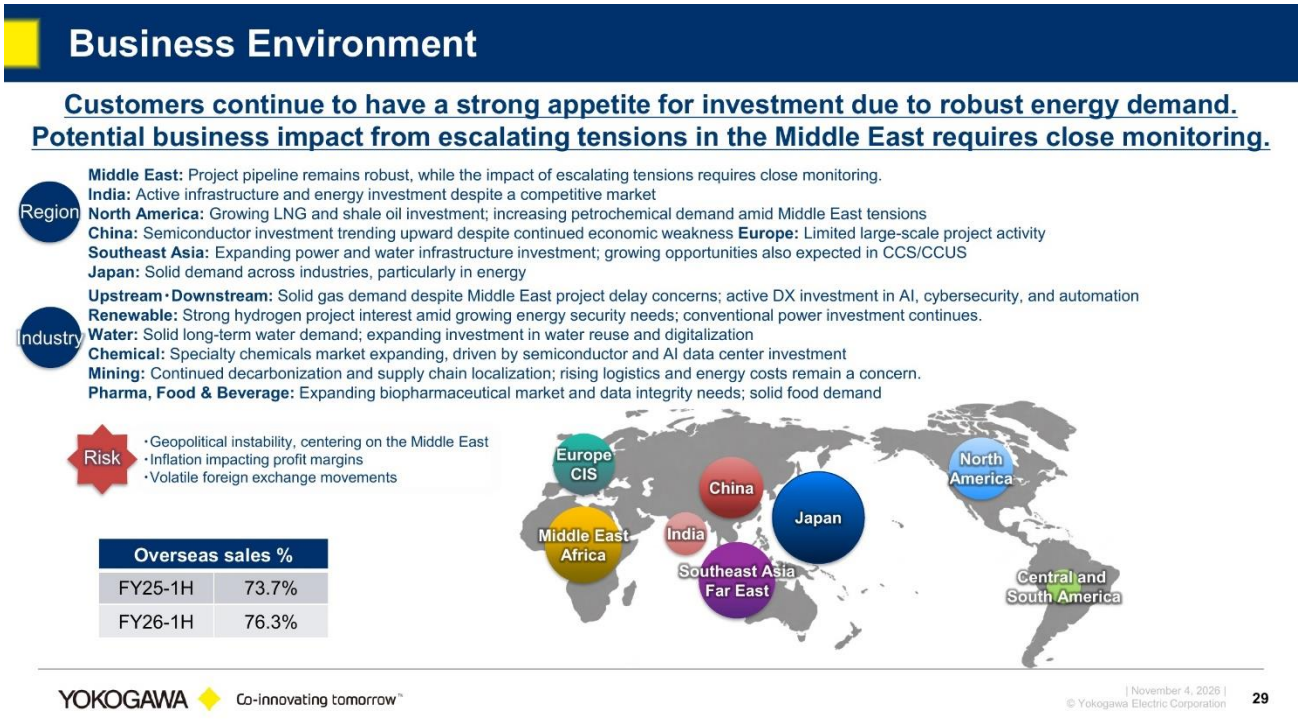
There is no change to our full-year dividend forecast.

That concludes my presentation.



Shigeno: Good evening, everyone. I am Shigeno, the President.

I would like to explain the status of our initiatives under the medium-term management plan, Growth for Sustainability 2028, or GS2028.



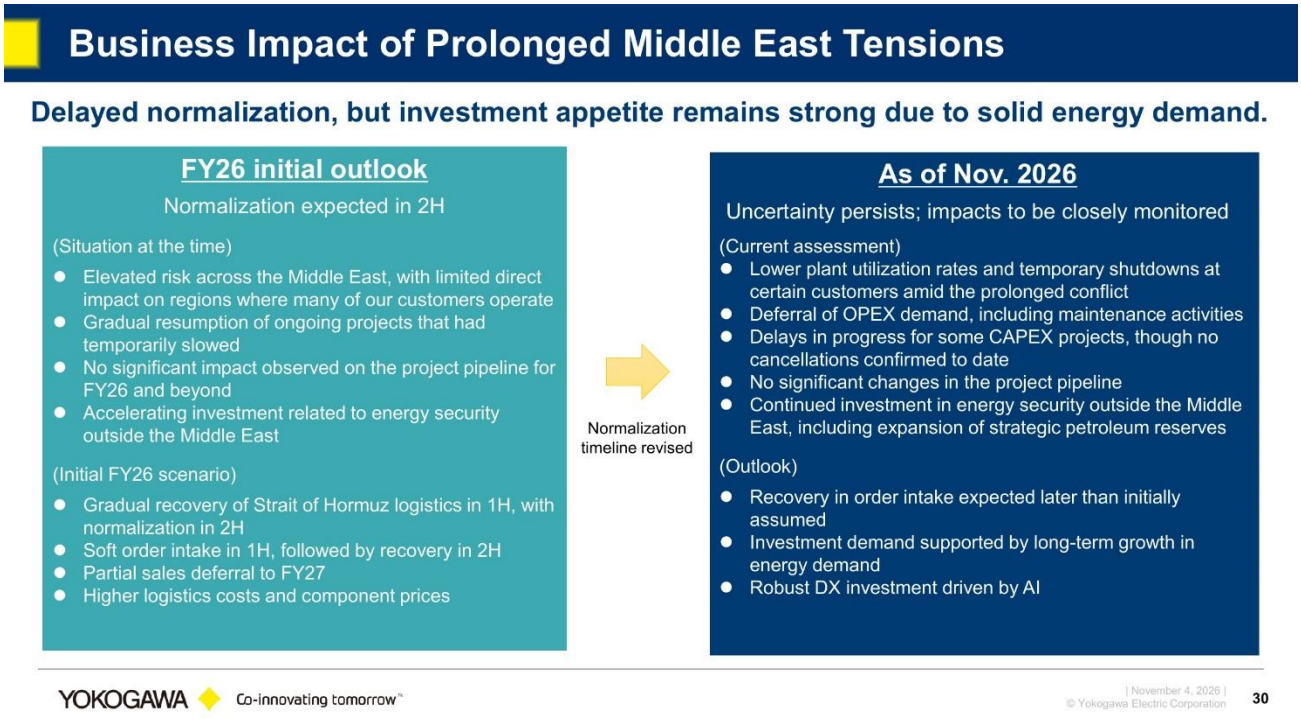
I continue to feel that, against the backdrop of energy demand, our customers' willingness to invest remains strong. However, the situation in the Middle East has changed from the scenario we projected at the beginning of the fiscal year. I will explain this in more detail in the next section.

In India and Southeast Asia, infrastructure investment remains robust. Although the economic slowdown in China continues, there are now signs that the economy has bottomed out. Investment in the semiconductor sector, in particular, is booming.

From the perspective of energy security, energy-related investment is picking up in regions other than the Middle East. In North America, in particular, LNG and shale gas are booming.

In Japan, too, a wide range of industries—centered on energy—are performing well.

For further details, please refer to the materials.



I would now like to briefly explain the changes in the situation in the Middle East.

First, I would like to express my deepest sympathies to all those affected by this conflict. I sincerely hope that peace will return as soon as possible.

Unfortunately, tensions in the Middle East have persisted longer than anticipated. This is beginning to affect business, and the situation requires close monitoring. Following the Strait of Hormuz, the conflict with the Houthis is also escalating on the Red Sea side. Some plants have halted production because they are unable to ship their products. Fortunately, we have not yet seen a significant impact on our pipeline of prospective projects, but profit margins are deteriorating.

We are seeing the effects of intensifying competition and the resulting decline in sales prices. While we had anticipated rising costs from the outset, high costs persist due to factors such as the impact on the supply chain—including logistics costs—and the soaring prices of semiconductor components. In addition, due to lower plant utilization rates, we are seeing delays in OPEX investments—such as scheduled maintenance, which would normally yield high profit margins—as well as consulting services aimed at improving productivity.

However, our current project pipeline is progressing as expected. In particular, DX investments centered on AI remain robust. Order intake for FY2026 remains solid. From a medium-term perspective, we do not see energy demand waning and expect investment to continue.

Our strategy of securing an installed base and generating revenue throughout the lifecycle remains unchanged. We will purposefully select high-quality projects and securely obtain them.

In June, once travel restrictions eased, I immediately visited our customers. Although many of our customers typically have very high expectations, we received many expressions of gratitude for Yokogawa's efforts to minimize operational disruptions and work together with customers to overcome challenges amid the conflict. I believe this is the result of our long-standing commitment to localization.

We will continue to deepen our relationships of trust with our customers by faithfully and steadily carrying out the tasks we can complete at the given moment. And once this unfortunate state of tension is resolved, we will leverage that trust to fully capitalize on the significant rebound in demand, such as recovery needs and the need to strengthen plant resilience.



As Ms. Nakajima explained, the deterioration of our gross margin is a major challenge this fiscal year. As I explained earlier in the section on the Middle East, we are seeing the effects of intensifying competition and the resulting decline in sales prices.

However, even in an intensely competitive environment, our commitment to expanding the installed base remains unchanged. Our core strategy is to leverage that installed base to broaden our OPEX-related business, including solutions and lifecycle services. We carefully assess each opportunity, particularly those with significant lifecycle potential and related follow-on orders, and we will continue to secure the projects that are strategically important to us.

Meanwhile, we will offset the impact of the decline in gross margin by expanding sales. Fortunately, our project pipeline is relatively robust. We will focus even more on securing projects—such as products—that are expected to generate sales in the current fiscal year. In addition, we will steadily convert the currently robust demand for semiconductor-related products, measuring instruments, and PLCs into sales.

Through these measures, we are revising our sales forecast upward by JPY10 billion, and the increase in gross profit resulting from sales growth will offset the impact of the decline in the gross margin.

We will maintain our operating income forecast of JPY76.5 billion for the Control business.

Expanding Business in the Hydrogen Energy Sector

Signing of MoU with two Slovenian infrastructure companies to advance Slovenia's hydrogen ecosystem



- Establishing a framework with ELES and Plinovodi to strengthen the resilience of Slovenia's energy infrastructure
- Promoting cross-industry collaboration for electricity, gas, and hydrogen infrastructure to enhance energy security and system stability
- Leveraging Yokogawa's digitalization and automation expertise to contribute to energy security and decarbonization in Europe

Received control systems orders from Kawasaki Heavy Industries for the world's largest liquefied hydrogen carrier and for two hydrogen-fueled vessels

- Part of NEDO Green Innovation Fund projects for liquefied hydrogen supply chains and next-generation ships
- Leveraging LNG carrier control technologies to support maritime decarbonization and safe operations



(Image courtesy of Kawasaki Heavy Industries, Ltd.)

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Amid changes in the Middle East, the global community is once again grappling with the major challenge of how to balance a stable energy supply with decarbonization. In addition to global investments in clean energy sources such as renewable energy and hydrogen, efforts to utilize existing fossil fuels more efficiently and cleanly are gaining momentum.

In this context, I would like to introduce several of Yokogawa's initiatives.

First is hydrogen energy.

We have signed a memorandum of understanding with two state-owned infrastructure operators in Slovenia to build a hydrogen ecosystem. This initiative aims to stabilize the energy supply by promoting cross-industry collaboration not only in hydrogen but also across different energy infrastructure sectors—electricity, gas, and hydrogen. We will leverage Yokogawa's automation and digital technologies in this initiative.

In Japan, we received an order from Kawasaki Heavy Industries for control systems for liquefied hydrogen carriers and hydrogen-fueled ships. We will apply the control and safety technologies we have cultivated through our systems for LNG carriers to the hydrogen sector as well, contributing to decarbonization and safe operations in the maritime industry. We aim to expand business opportunities where we can leverage Yokogawa's strengths across the entire hydrogen supply chain—from production and transportation to consumption.

Selection as Main Automation Contractor for LNG Canada Phase 2

Building on the experience gained in Phase 1 to support the major Phase 2 expansion, doubling production capacity



LNG Canada export facility in Kitimat, British Columbia, Canada
(Courtesy of LNG Canada and JGC Fluor BC LNG II Joint Venture)

- Selected as the main automation contractor (MAC) for the LNG Canada Phase 2 project
- The Phase 2 expansion will double LNG production capacity from **14 to 28 million tons per annum.**
- Yokogawa will provide a broad range of solutions, including control and safety instrumented systems, operator training simulators, and cybersecurity infrastructure.
- Reusing the automation platform established in Phase 1 will support a smooth Phase 2 expansion and reduce execution and integration risks.

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Next, LNG.

Overall energy demand is expected to continue growing in response to global population growth and new demand from sources such as data centers. Renewable energy alone cannot fully meet this growing demand. Therefore, demand for LNG is expected to continue growing over the medium to long term.

The North American market is particularly active. In 2026, several large-scale LNG projects reached the FID stage. Following the announcement in July regarding Commonwealth LNG in Louisiana, Yokogawa has been selected as the Main Automation Contractor (MAC) for LNG Canada's Phase II expansion project.

As the MAC, Yokogawa will not only be responsible for the smooth execution of the entire project but will also provide a wide range of solutions, including control systems, safety instrumented systems, operator training simulators, cybersecurity, and infrastructure.

Not only in North America but also at LNG plants other than the Middle East, momentum is building to drive FIDs forward. Moving forward, Yokogawa will leverage its strengths to steadily capture the robust demand for LNG and drive business expansion.

Capitalizing on Market Growth in India to Expand CAPEX Business

Major order for five 800 MW thermal power units from India's state-owned power company



Photo of an NTPC thermal power plant

- Received an order for new ultra-supercritical coal-fired power plants to be built by National Thermal Power Corporation (NTPC) in Nabinagar and Gadarwara
- Signed a contract with India-based Larsen & Toubro, the EPC contractor for the project
- Yokogawa will provide control and safety instrumented systems
- Contributing to the development of India's energy infrastructure amid growing demand driven by population and industrial growth

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This is an example from India.

We have been selected to install control and safety instrumented systems for five ultra-large 800-megawatt thermal power plants.

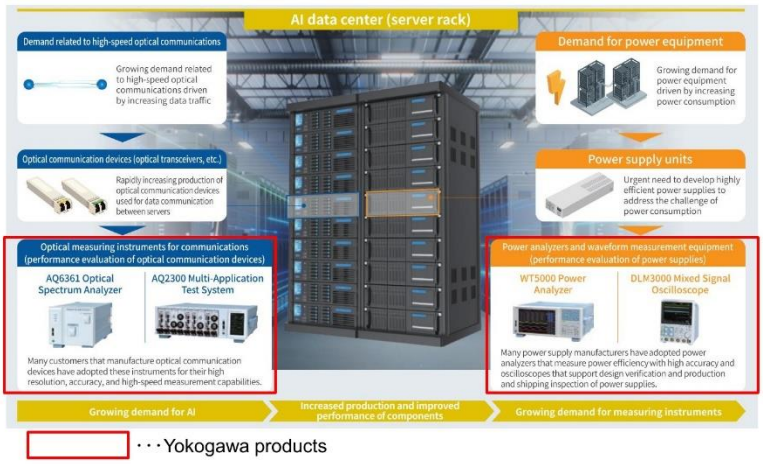
As you all know, against the backdrop of population growth, India is actively investing in infrastructure such as electricity, water, and gas pipelines. Investment is also booming in industries such as oil & gas, chemicals, and steel, as well as in pharmaceuticals—including active pharmaceutical ingredients, or APIs—and renewable energy.

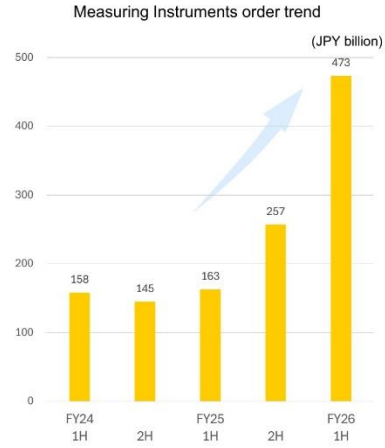
However, India's energy supply has not yet kept pace with the rapid growth of its population and industries. This project is of critical importance as it will support the rapidly growing energy infrastructure in India. 800 megawatts are equivalent to the output of a single nuclear reactor currently in operation in Japan, and in terms of small modular reactors (SMRs)—which have garnered significant attention in recent years—it is equivalent to several such reactors.

Furthermore, starting with these five plants, investment is expected to continue in the future. Although competition in this market is fierce, it offers immense growth potential. We will identify high-quality projects, proactively acquire installed base projects, and maximize our business throughout the lifecycle.

Continued Strong Orders for Measuring Instruments Driven by AI Data Center Investment

- Increasing large orders for optical communication measuring instruments, particularly optical spectrum analyzers
- Growing demand for power and waveform measuring instruments used in power supply performance evaluation





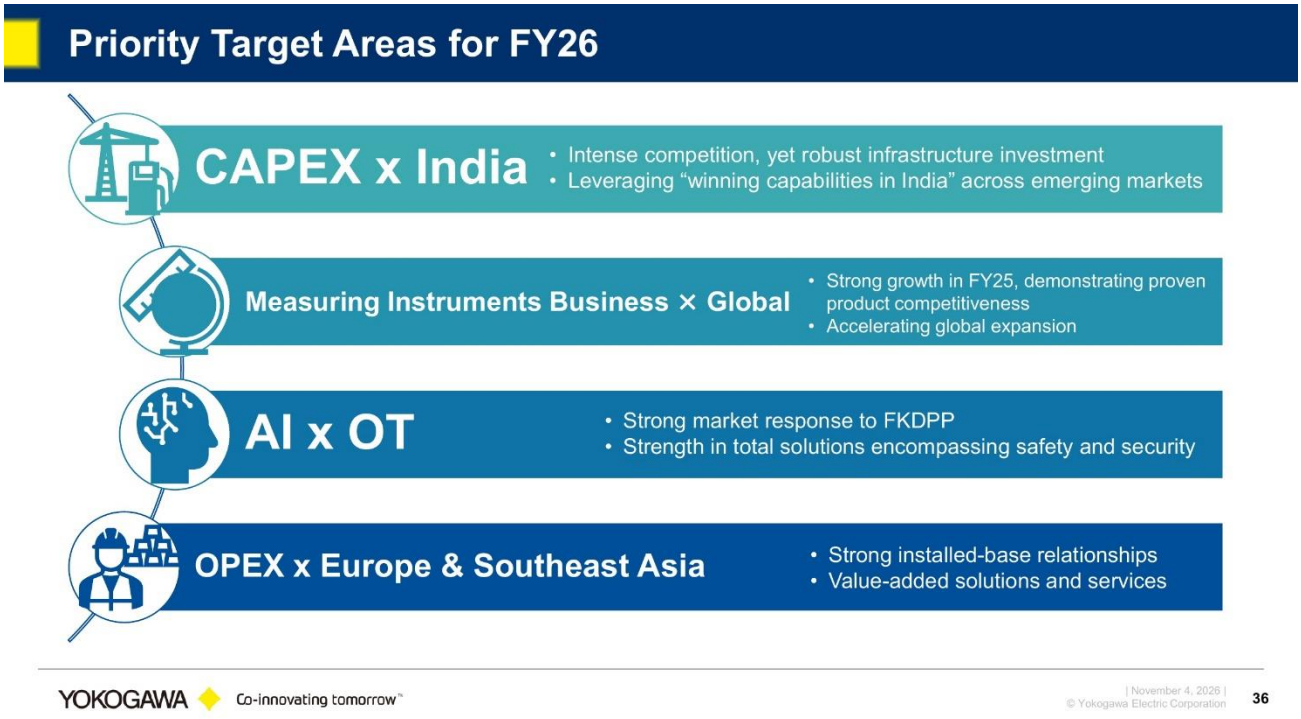
YOKOGAWA Co-innovating tomorrow™

| November 4, 2026 |
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Here is an update on our optical spectrum analyzer (OSA), a blockbuster product from Yokogawa Test & Measurement Corporation.

Thanks to your support, this is performing exceptionally well this fiscal year as well. We have significantly revised our annual order forecast upward to JPY59 billion, an increase of JPY20 billion compared to the initial forecast. We are continuing to expand production volume by enhancing our production facilities.

The measuring instruments market is not one that traditionally features large orders or major customers. Looking at H1 of FY2025, there were no major customers with orders exceeding JPY1 billion in a single half-year period. However, this number grew to one company in H2 of FY2025 and expanded to nine companies in H1 of FY2026. In addition to OSA, we are also seeing growing demand for power-related measurements. To ensure this growth is not merely a temporary phenomenon, we will continue to strengthen our product portfolio, expand globally, and advance into the service and solutions business.



At the financial results briefing this past May, we identified these four areas as our key target areas for FY2026 and provided an explanation.

As demonstrated in the case studies presented today—such as those regarding India and the Measuring Instruments business—we are steadily achieving results. We will continue to accelerate our growth by focusing on these key target areas.

Unfortunately, geopolitical issues persist around the world. However, Yokogawa's stance remains unchanged. For the sake of the Earth's future, we will join hands with our customers and fulfill our responsibilities. We ask for your continued support and encouragement.

This concludes my presentation.

Thank you for your attention.

Question & Answer

[Q]: How do you assess the first-half FY2026 results, particularly Q2 orders, sales, and operating income, versus your internal plan? In addition, how do you view the impact of the situation in the Middle East on orders, sales, and operating income?

Nakajima [A]: From the perspective of progress against the assumptions underlying our earnings forecast, orders in the Measuring Instruments business have been tracking above our initial expectations. In contrast, the Control business has progressed largely in line with our assumptions, and at this point we do not believe there is a need to revise our earnings forecast.

Regarding sales, the Measuring Instruments business has generally performed in line with our expectations. In the Control business, sales from certain projects have been delayed somewhat. However, given the strong backlog position, we expect these sales to be realized going forward.

As for gross profit margin, provisions for contract losses associated with strategic project orders were not assumed on a quarterly basis at the beginning of the fiscal year. However, the level we had anticipated for the full year materialized earlier than expected during the first half. In addition, we have visibility on future project opportunities. The impact of product pricing was broadly in line with our expectations during the first half. For the second half, as we prioritize volume growth to support sales expansion, we have incorporated the impact of pricing into the revised forecast.

SG&A expenses have generally tracked in line with our assumptions.

Regarding the impact of the situation in the Middle East, we believe it is difficult at this stage to isolate and quantify its impact separately.

[Q]: My understanding is that, at the previous 1Q earnings presentation, you explained that sales were running approximately JPY 2-3 billion below your original expectations. Could you remind us how sales came in for the second quarter on a standalone basis? Also, should I understand that the slow progress in project-related sales is linked to the situation in the Middle East? Could you please explain the background as well?

Nakajima [A]: There was some variation between the Control and Measuring Instruments businesses. In the Q1, the Measuring Instruments business experienced some delays in sales, primarily due to difficulties in procuring certain components. However, these delays were largely recovered in the Q2, and as a result, first-half sales were broadly in line with our expectations.

In the Control business, as we mentioned in Q1, sales from certain projects have been delayed somewhat, and that situation continued into Q2. However, we do not see any direct impact from the situation in the Middle East. For example, we have not experienced project delays resulting from an inability to deliver products due to the situation in the region.

[Q]: Regarding the revised full-year forecast, I would like to ask specifically about the assumptions and outlook for the Control business. As summarized on page 31, based on the first-half results, sales appear to have come in below your initial expectations, yet you have raised your full-year forecast. Given the back-end-

loaded nature of the plan, how confident are you in achieving the revised forecast? Could you also comment on the expected recovery in the second half and the key risks to achieving the plan?

Shigeno [A]: It is true that our full-year forecast is weighted toward the second half. That said, our order backlog has been steadily accumulating. In addition, we believe it is possible to recover sales in both the systems and products businesses by thoroughly executing sales conversion, including projects that are expected to be booked as sales within the second half after being received during the same period.

[Q]: As you explained, the demand environment remains very strong. Could you share your view on the sustainability of this demand environment?

In addition, while strategic project orders have had a short-term impact on gross margins, you have explained that these projects are expected to contribute to business growth over the medium to long term. Given that the Company has continued to secure such projects, when do you expect to begin seeing the benefits in terms of business growth and cash flow?

Shigeno [A]: Regarding the current business environment, from a broad perspective, one risk factor that we believe requires continued close monitoring is the potential impact of escalating tensions in the Middle East on our business.

On the other hand, on the positive side, customers' investment appetite remains strong, supported by robust energy demand. Looking at specific industries, the upstream continues to perform very strongly. While there are concerns related to the situation in the Middle East, demand for gas remains solid. We also continue to see strong interest in renewable energy projects, particularly in Europe.

In the chemicals industry, although the market is affected by conditions in China, specialty & fine chemicals continue to perform well, supported by demand related to semiconductors and AI data centers. Mining also remains strong.

In the life sciences business, orders reached a record high last fiscal year, and strong momentum has continued into this fiscal year.

As for the sustainability of the demand environment, we expect the current favorable conditions to continue for the foreseeable future. In the energy sector in particular, some countries are planning to expand LNG production capacity through 2030. As a result, we believe demand will remain solid for at least the next two to three years.

Turning to your question on the payback phase, our core strategy is to secure strategic CAPEX projects and expand our installed base, which in turn leads to OPEX-related opportunities such as solutions and services. This fundamental strategy remains unchanged.

In recent years, projects have become larger in scale, and it typically takes three to four years from order receipt to the service phase. The service phase is generally more profitable than the project phase, and as the installed base expands, service-related orders increase accordingly. In fact, orders in our Solutions Services business are currently growing by more than 10%.

While the growing proportion of large CAPEX projects is affecting gross margins in the near term, we expect the projects we are securing today to begin generating returns and profit recovery in approximately three to four years, and in some cases around five years.

Going forward, we will continue to carefully evaluate each project from various perspectives and steadily build up orders that will contribute to long-term profit growth.

[Q]: Could you break down the factors behind the deterioration in gross margin this fiscal year, including the impact of strategic projects and strategic pricing? In particular, could you explain the impact in the first and second halves, respectively?

In addition, gross margins were significantly affected by strategic project orders and strategic pricing in the second half of last fiscal year, and we are seeing a similar impact this fiscal year. How do you view the balance between order growth and profitability? Also, could you comment on the outlook for improvement from next fiscal year onward?

Nakajima [A]: While it is difficult to precisely isolate each factor behind the deterioration in the Control business gross margin, contract losses are expected to have a downward impact of approximately JPY4.0 billion for the full year compared with our original assumptions.

In the first half, contract losses resulted in a year-on-year deterioration of approximately JPY3.0 billion. This was largely because there were only a few strategic project orders in the same period of the previous fiscal year. In the second half, however, we expect year-on-year improvement, reflecting the concentration of strategic project orders in the second half of last fiscal year, as well as profitability deterioration in certain projects during that period.

The impact of selling prices is expected to be approximately JPY2.0 billion for the full year. In the first half, the year-on-year negative impact was just under JPY1.5 billion.

In addition, there are various improvement factors, and taking these into account, we have arrived at our current forecast.

[Q]: Is it correct to understand that, compared with the original forecast, construction losses had an impact of approximately JPY4.0 billion and strategic pricing had an impact of JPY2.0 billion? Also, was the impact concentrated mainly in the first half, with the second half remaining largely unchanged from the original assumptions?

Nakajima [A]: As mentioned earlier, the impact of contract losses was relatively concentrated in the first half. However, the impact of contract losses amounts to approximately JPY4.0 billion for the full year and is not limited to the first half alone.

[Q]: Looking ahead to next fiscal year and beyond, is it reasonable to expect that the impact of strategic project orders on profit margins will gradually diminish?

Also, given that the transition to the service phase is still some time away, should we understand that the improvement in the Control business operating margin in the second half will be driven primarily by scale expansion? Could you also comment on the confidence level behind achieving the current profitability assumptions?

Shigeno [A]: Looking ahead to next fiscal year and beyond, we continue to see a solid project pipeline. At this point, we have not seen any project cancellations. However, the timing of projects could be affected by the situation in the Middle East.

Even under such circumstances, our policy remains unchanged. We will continue to rigorously evaluate each project on a case-by-case basis while steadily securing strategically important orders.

For example, Saudi Aramco has announced a plan to expand its sales gas production capacity by approximately 80% by 2030 compared with 2021 levels. As such, we intend to actively pursue major projects in these growth areas, while carefully evaluating them from multiple perspectives.

Nakajima [A]: As for first-half orders, the overall level was in line with our expectations. However, the mix was somewhat different from what we had originally assumed. We secured a relatively large number of orders that can be converted into sales within a shorter period, as well as product-related orders with higher profitability. We expect these orders to contribute to second-half sales. In addition to the approximately JPY10 billion increase in sales expected for the Control business as a whole, we anticipate contributions from higher-margin projects in the second half.

While not everything has been finalized at this stage, targets have been assigned across the organization and initiatives are underway to achieve them. Based on what we see today, we believe the current earnings forecast is achievable.

[Q]: Regarding the Measuring Instruments business, orders declined from approximately JPY29 billion in the Q1 to approximately JPY18 billion in the Q2, and orders are forecast to decline further to approximately JPY12 billion in the second half. Could you explain the background behind this forecast? Should we interpret this as an indication that demand is beginning to peak out?

In addition, with order backlog standing at JPY 37.5 billion, how do you view sales and profit margin levels for the second half?

Nakajima [A]: With respect to orders in the Measuring Instruments business, we took a cautious approach in determining how much demand to incorporate into our forecast.

Demand has remained strong, including through October. However, there have recently been various views emerging regarding AI-related investment, and therefore we have adopted cautious assumptions at this stage. We will continue to monitor developments and reflect them in our forecast as appropriate.

At the same time, while we continue to expand our production capacity, order backlog remains at a high level. As a result, we need to carefully assess how far into the future customers are prepared to place orders and, on our side, how much demand we can realistically accommodate. This cautious assessment is reflected in our orders forecast. As for sales, our forecast incorporates the benefits of the production capacity expansion achieved to date, and we expect continued growth in the second half.

[Q]: The full-year exchange rate assumption remains unchanged at JPY150 to the U.S. dollar. Based on the first-half actual result, is it correct to understand that the assumption for the second half effectively works out to approximately JPY140 to the U.S. dollar?

Nakajima [A]: Mathematically, that would be the case. However, in revising our earnings forecast this time, we did not change our exchange rate assumptions. The exchange rate environment remains difficult to predict, including uncertainties surrounding developments such as the U.S. midterm elections. Given this uncertainty, we decided not to revise our exchange rate assumptions on this occasion. We would appreciate your understanding of the forecast in that context.

[Q]: Regarding the Measuring Instruments business, there have been reports that some AI data center investment projects are being delayed due to factors such as power constraints. Have you seen any impact on orders at this point?

Nakajima [A]: As mentioned earlier, based on the results we have seen through October, there has been no significant change in demand trends, and market conditions remain solid.

On the other hand, various views have emerged regarding AI-related investment. As such, we would like to continue monitoring developments and carefully assess their potential impact going forward.

[Q]: Orders declined from the Q1 to the Q2 and are projected to decline further in the second half. Is it correct to understand that this mainly reflects the concentration of advance orders in the Q1, and that there has been no meaningful change in the underlying demand trend at this point?

Nakajima [A]: Regarding orders, the Q1 benefited from a concentration of advance orders placed in response to extended lead times. That trend moderated to some extent in the Q2. As for the second half, based on what we have seen through October, we have not observed any signs of a decline in orders. However, we have adopted somewhat cautious assumptions in our forecast. The forecast does not incorporate any clearly identifiable signs of a slowdown in demand at this stage.

[Q]: I understand that you have significantly expanded production capacity, particularly for optical spectrum analyzers used in AI data center applications. Could you give us an indication of how much production capacity has increased compared with a year ago?

Shigeno [A]: Compared with the beginning of FY2025, our production capacity has increased by approximately 6- to 7-fold.

[Q]: Sales growth has not increased to the same extent as production capacity. Is it correct to understand that this is partly because these products represent only a portion of the overall business, and also because component procurement cannot be expanded at the same pace as production capacity, such as six- or seven-fold?

Nakajima [A]: We have incorporated the impact of production capacity expansion into this fiscal year's earnings forecast to a certain extent. In addition, we continue to closely monitor the procurement of components, and our earnings forecast reflects those considerations as well.

[Q]: Regarding the Control business, is it correct to understand that the current procurement environment is not having a significant impact on production?

Nakajima [A]: At this point, there has been no material impact on earnings. However, supply conditions remain tight for certain components, and in some cases this has slightly constrained our ability to expand production.

[Q]: Regarding the intensifying competitive environment, should we understand that this mainly relates to competition for large-scale CAPEX projects? Or are you also seeing changes in the competitive landscape in other areas of the Control business?

Shigeno [A]: The competition is primarily related to large-scale CAPEX projects. On the other hand, once a project moves into the service phase, we are generally the primary service provider. However, competition may emerge in certain new solution areas.

[Q]: Would areas such as cybersecurity be an example of this?

Shigeno [A]: Not necessarily cybersecurity. Rather, I am referring to new solution areas such as robotics-related solutions, for example.

[Q]: Looking at the Control business forecast, order assumptions have been lowered across a number of regions. However, the tone of your comments regarding the demand environment does not appear to have changed significantly. Should we interpret these revisions as reflecting a change in the demand environment?

Nakajima [A]: The reductions in our orders forecast amount to JPY2.0 billion for Southeast Asia & Far East, JPY3.0 billion for Europe, JPY5.0 billion for the Middle East & Africa, and JPY2.0 billion for Latin America.

For Southeast Asia & Far East, the revision primarily reflects the first-half order performance and does not incorporate any significant change in the business environment. The revision for Europe likewise reflects first-half order trends.

For the Middle East & Africa, we adopted somewhat cautious assumptions in light of the situation in the Middle East. As for Latin America, we are seeing a more cautious approach toward investment decisions.

[Q]: Which region account for the largest number of strategic project opportunities? Is it fair to say that such projects are also contributing to order growth?

Shigeno [A]: At present, the most active markets for CAPEX investment are the Middle East and India. While activity levels vary from year to year, these two regions are currently the strongest markets.

[Q]: Regarding the Middle East, should we interpret your comments today as applying to the region as a whole, or mainly to Saudi Arabia? In addition, some companies have recently mentioned reconstruction-related demand in the Middle East. Are you seeing anything similar?

Shigeno [A]: Our key markets in the Middle East are Saudi Arabia, followed by the UAE and Oman. Broadly speaking, the situation in Saudi Arabia and the UAE is as described today.

With regard to so-called reconstruction-related demand, it is currently difficult to reasonably forecast the scale and timing of customers' demand for our services and maintenance offerings.

[Q]: Orders in the Mobility & Electric segment were strong in the Q2. Was this driven by temporary factors, or does it reflect a change in the demand environment?

Nakajima [A]: Supported by strong semiconductor-related investment, PLC orders have been growing and have contributed to the increase in orders for the Mobility & Electric segment. This growth also includes advance orders associated with long lead-time contracts.

[END]

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