Yokogawa Electric Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2027

August 4, 2026

Event Summary

[Company Name]	Yokogawa Electric Corporation
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[Event Language]	JPN
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[Event Name]	Q1 Financial Results Briefing for the Fiscal Year Ending March 2027
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[Time]	18:00 - 18:57 (Total: 57 minutes, Presentation: 12 minutes, Q&A: 45 minutes)
[Venue]	Webcast
[Number of Speakers]	1 Michiko Nakajima — Director, Vice President & Executive Officer, Head of Accounting & Treasury Headquarters

Presentation

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

Summary of FY26 1Q Results (YoY comparison)

- Orders increased, driven by the Control business's acquisition of large-scale projects primarily in Japan, and increased AI data center-related demand in the Measuring Instruments business (excluding the impact of exchange rates: +¥18.8 billion, +12.6%).
- Sales increased mainly due to the impact of foreign exchange rates (excluding the impact of exchange rates: -¥0.6 billion, -0.4%).
- Operating income was at about the same level as the previous fiscal year, mainly due to higher SG&A expenses (excluding the impact of exchange rates: -¥2.1 billion, -12.8%).

(Billion ¥)

	FY25 1Q	FY26 1Q	Difference	Growth rate	Impact of exchange rate
Orders	149.1	**183.4**	+34.4	+23.1%	+15.6
Sales	130.2	**141.3**	+11.1	+8.6%	+11.7
Operating income	16.2	**16.5**	+0.3	+1.8%	+2.4
ROS(%)	12.4	**11.7**	(0.8pt)	–	–
Ordinary income	15.6	**16.9**	+1.3	+8.1%	+2.4
Profit attributable to owners of parent	15.2	**12.2**	(2.9)	(19.4%)	+2.2
Exchange rate US$1=	¥144.11	**¥160.44**	+16.33	–	–

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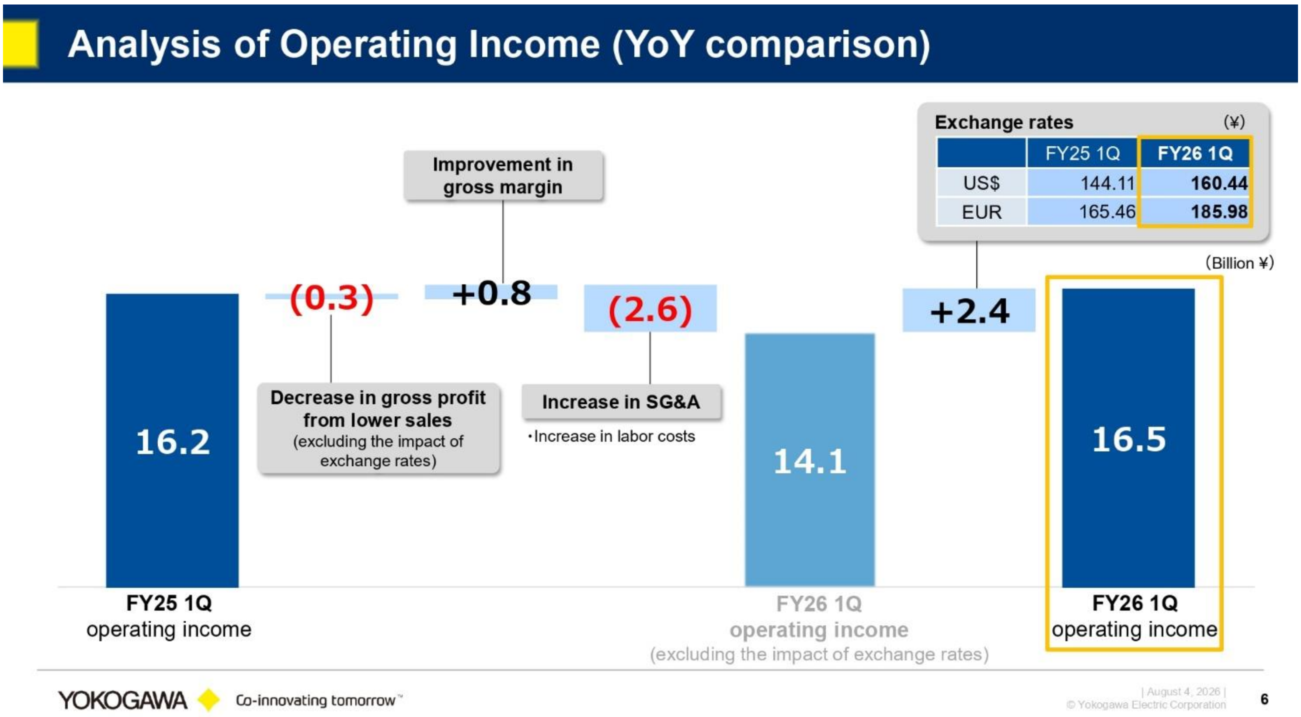
Page 5 shows a financial results summary.

Orders totaled JPY183.4 billion, representing an increase of JPY18.8 billion, or 12.6%, excluding the impact of exchange rates.

Sales totaled JPY141.3 billion; excluding the impact of foreign exchange rates, it was roughly on par with the previous year.

Operating income was JPY16.5 billion, representing a nominal increase of JPY0.3 billion from the previous year; however, excluding the impact of foreign exchange rates, it decreased by JPY2.1 billion.

Although net income for the current period decreased by JPY2.9 billion YoY, this was mainly due to the absence of a temporary decrease in deferred tax expenses recorded in the same period of the previous fiscal year.

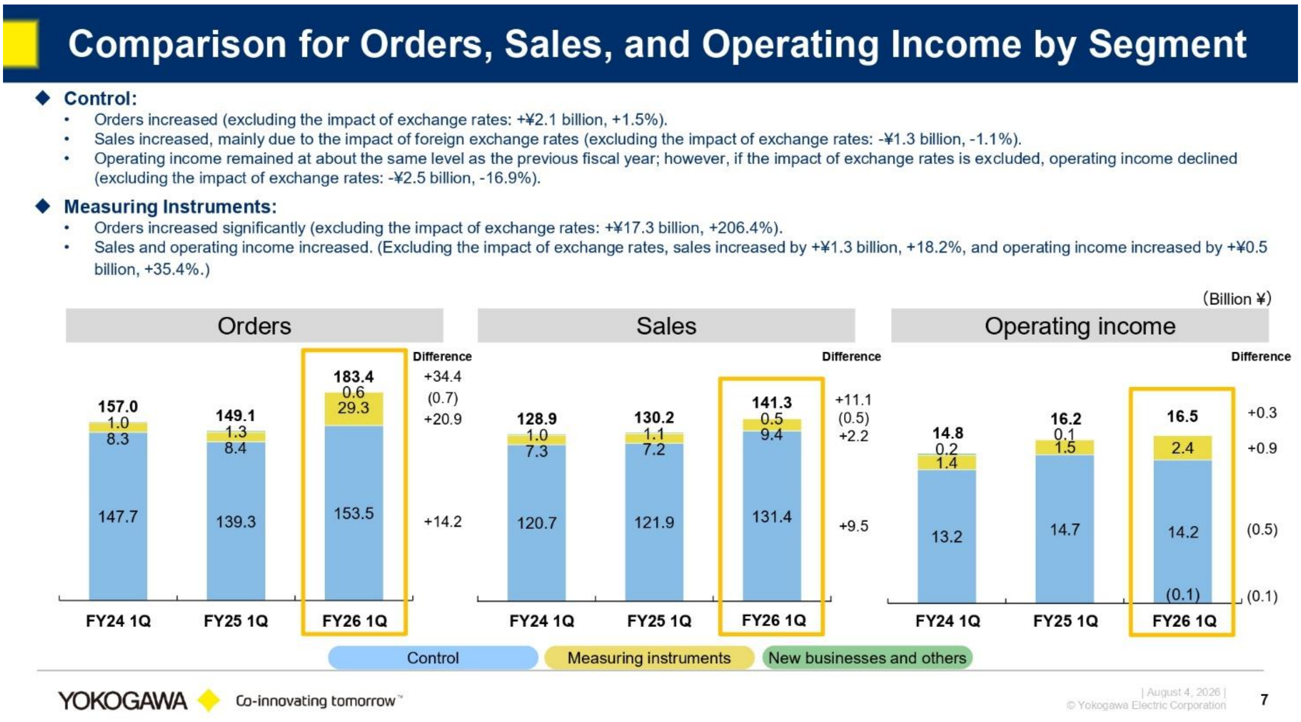


Page 6 shows an analysis of operating income.

Operating income decreased by JPY2.1 billion from the JPY16.2 billion recorded in the same period of the previous year.

Breaking down the changes, while the decrease in gross profit from lower sales was minus JPY0.3 billion, which remained essentially flat in real terms, gross profit from higher gross margin was +JPY0.8 billion. On the positive side, there was an improvement driven by a rebound from the decline seen the previous year due to US tariffs, as well as an increase in sales from highly profitable projects mainly in the Middle East. These improvements have offset the impact of strategic price cuts in markets such as China, which had a negative effect, resulting in an overall positive outcome.

The main factor behind the decline in profit was an increase in selling, general, and administrative expenses. Although this impact amounts to a minus JPY2.6 billion, the increase in selling, general, and administrative expenses includes not only base costs such as higher personnel expenses but also upfront expenses such as the amortization of goodwill related to companies we acquired during the previous fiscal year and the companies' period expenses.



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

Regarding the Control business in blue, orders increased JPY14.2 billion, or 1.5%, excluding the impact of exchange rates. Sales increased by JPY9.5 billion; excluding the impact of foreign exchange rates, sales decreased slightly by 1.1%. Operating income decreased by JPY0.5 billion, and by JPY2.5 billion excluding the impact of foreign exchange rates. This is primarily due to the improvement in gross profit margin and the increase in selling, general, and administrative expenses, as explained earlier.

Regarding the Measuring Instruments business in yellow, orders increased by JPY20.9 billion, and even excluding foreign exchange, it was about three times higher than the same period of the previous year. While orders related to AI data centers had been surging since the third quarter of last year, they have grown even further in this first quarter. Regarding the increase for the current period, we understand that, in addition to expanded investment, it reflects the impact of advance orders received from customers due to longer delivery times.

Sales increased by JPY2.2 billion compared to the previous year, representing an 18.2% increase excluding the impact of foreign exchange rates. Although we are gradually expanding our production capacity, its contribution to sales remains limited compared to the sharp increase in orders.

Operating income saw a nominal increase of JPY0.9 billion from the previous year; and excluding the impact of foreign exchange rates, it increased by JPY0.5 billion.

Regarding the New Business and Others in green, we had continued to undertake a portion of production on a contract manufacturing basis for a business that had previously been divested. However, this arrangement ended in the previous fiscal year, and as a result, orders and sales have been negatively affected throughout the current fiscal year, leading to a year-on-year decline. Other than that, there have been no significant changes from the previous year.

Orders and Sales by Region in Control Segment

◆ Despite a reactionary decline following the receipt in the previous fiscal year of large orders in the Middle East, orders were up overall, driven by the acquisition of large-scale projects in Japan.

(Billion ¥)

Orders	FY25 1Q (A)	FY26 1Q (B)	Difference (B-A)
Japan	**32.6**	**40.0**	**+7.3**
Asia	42.9	50.7	+7.8
(Southeast Asia, Far East)	21.3	23.6	+2.4
(China)	15.5	17.8	+2.4
(India)	6.2	9.2	+3.0
Europe and CIS	12.2	13.7	+1.4
Middle East and Africa	35.8	31.5	(4.3)
North America	10.7	12.4	+1.7
Central and South America	5.0	5.3	+0.4
Outside Japan	**106.7**	**113.6**	**+6.9**
Consolidated	**139.3**	**153.5**	**+14.2**
Exchange rate USD1$ =	¥144.11	¥160.44	+16.33

Sales	FY25 1Q (A)	FY26 1Q (B)	Difference (B-A)
Japan	**31.7**	**30.5**	**(1.1)**
Asia	36.4	41.3	+4.9
(Southeast Asia, Far East)	17.3	20.1	+2.9
(China)	14.2	15.5	+1.3
(India)	5.0	5.7	+0.7
Europe and CIS	14.7	15.8	+1.1
Middle East and Africa	22.9	27.3	+4.4
North America	12.7	12.6	(0.1)
Central and South America	3.5	3.8	+0.3
Outside Japan	**90.2**	**100.9**	**+10.6**
Consolidated	**121.9**	**131.4**	**+9.5**
Exchange rate USD1$ =	¥144.11	¥160.44	+16.33

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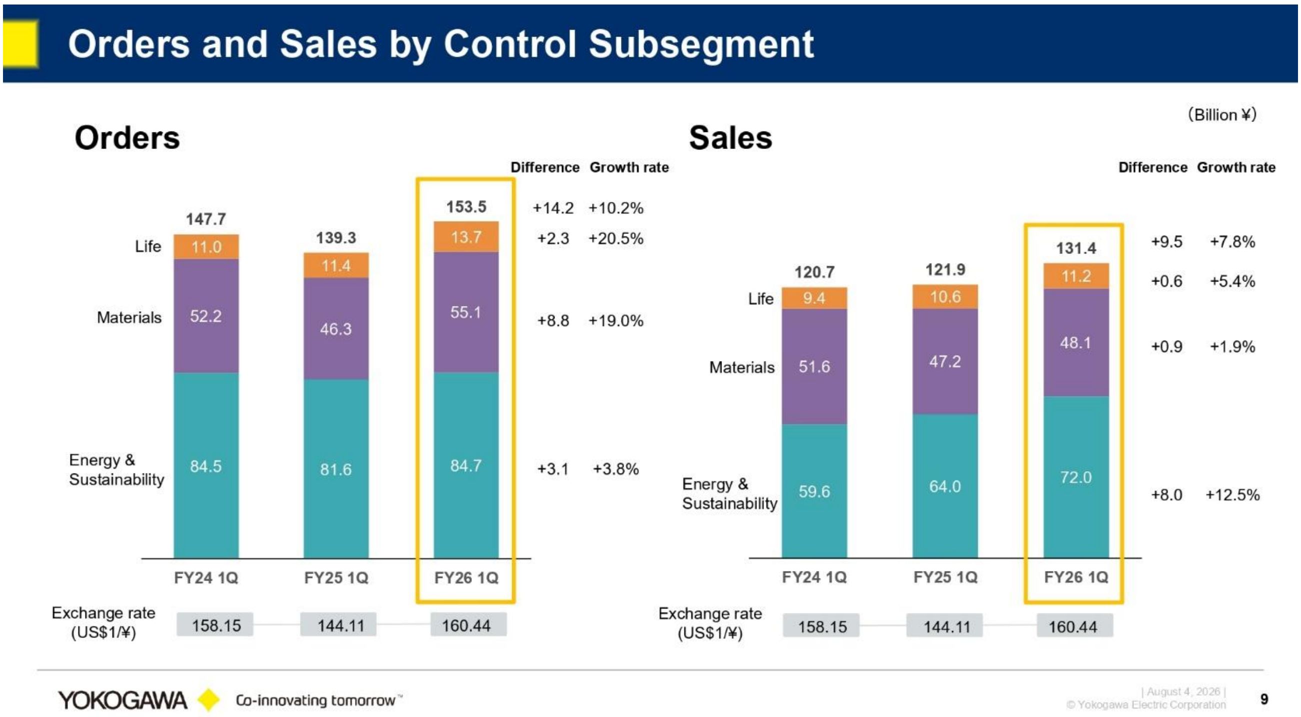
Page 8 shows orders and sales by region for the Control segment.

Orders on the left-hand side, as mentioned at the beginning, were impacted by the absence of several large projects, primarily in the Middle East, which had been concentrated in the first quarter of the previous fiscal year.

However, this was largely offset by the acquisition of large-scale projects in Japan, enabling the Control business to achieve growth of 1.5% year on year, even excluding the impact of foreign exchange rates.



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

The Energy & Sustainability segment at the bottom of the table shows a YoY increase of JPY3.1 billion; however, excluding the impact of foreign exchange rates, it shows a decrease of JPY3.9 billion, or 4.8%.

Orders in the first quarter declined year on year due to a reactionary decrease following several large overseas projects, particularly in the Middle East and Southeast Asia, that were awarded in the first quarter of the previous fiscal year. As a result, a comparison of the three-month period alone shows a decline.

However, underlying demand remains solid, and we continue to see healthy customer investment activity going forward. While orders in the first quarter were affected by the absence of these large overseas projects, domestic orders grew, supported by the acquisition of large-scale projects related to fuel and energy storage infrastructure. In addition, base orders remain robust in both domestic and overseas markets.

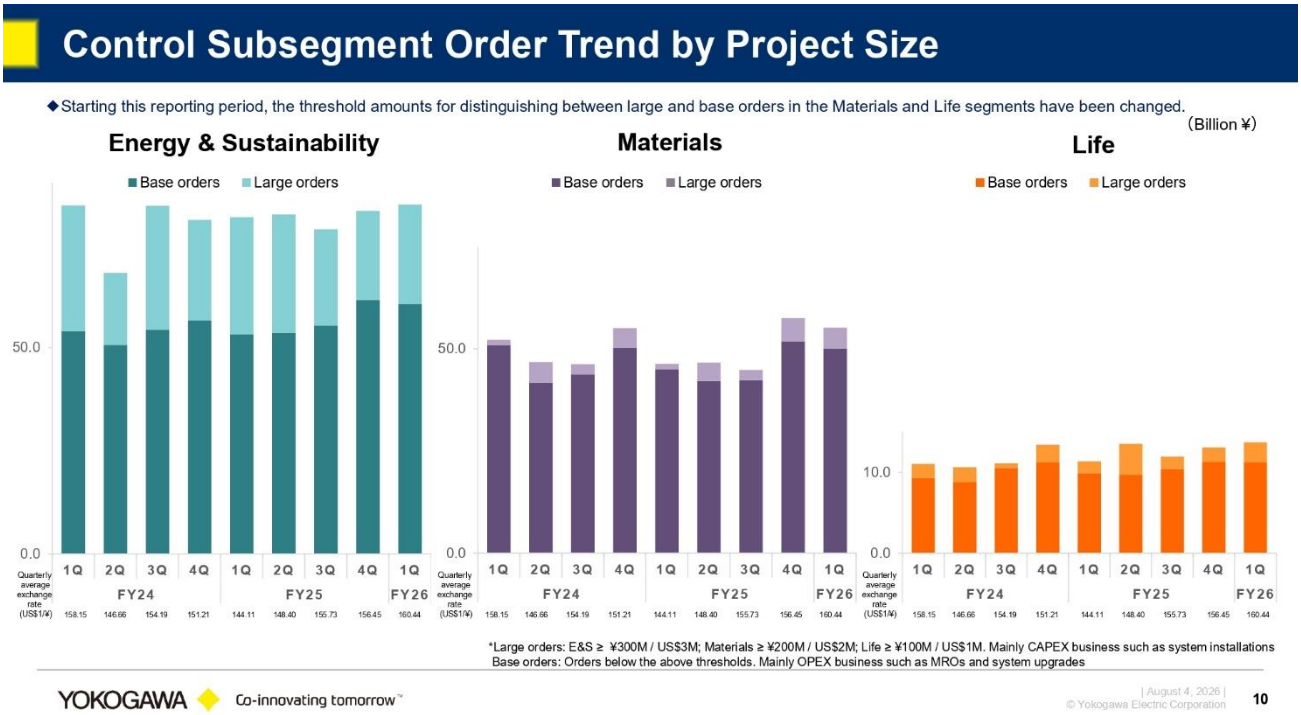
Materials, in purple represents an YoY increase of JPY8.8 billion; even excluding the impact of exchange rates, it represents an increase of JPY4.5 billion, or 9.6%.

Orders increased significantly, driven by strong growth in both large and small projects in Japan, as well as the acquisition of a large mining-related project in South America. In addition, within the Mobility & Electric sector, business with semiconductor-related customers has been expanding across various regions since the second half of the previous fiscal year and remained solid in this first quarter.

Meanwhile, the Materials segment had been experiencing weak investment demand, particularly in China and neighboring regions, due to the prolonged economic slowdown in China. However, recent increases in AI-related and semiconductor-related investments are beginning to spill over into the materials field, and we are starting to see signs of a gradual recovery.

Lastly, Life in orange represents an YoY increase of JPY2.3 billion; and excluding the impact of exchange rates, it represents an increase of JPY1.6 billion, or 14.4%.

This was supported by the acquisition of multiple large-scale projects in the process solutions business in Japan, as well as growth in North America for life science products.



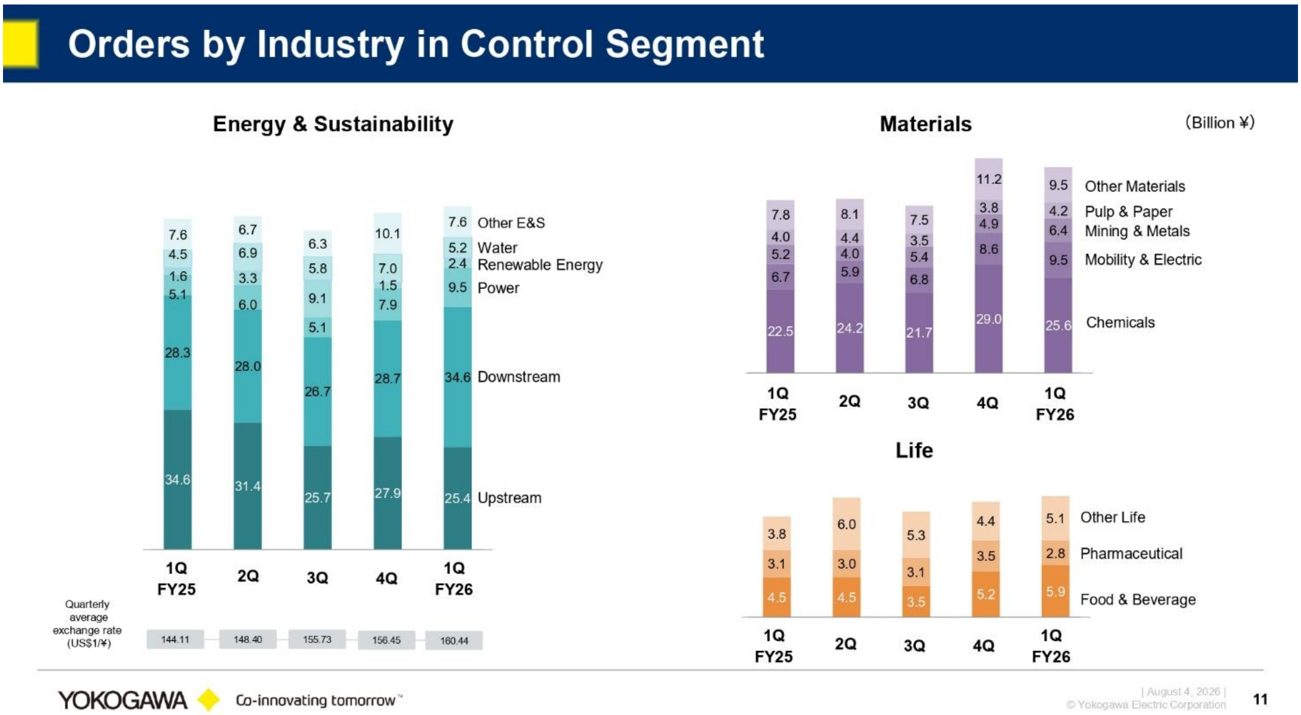
Page 10 shows the quarterly trends by industry segment, broken down into large and base orders.

Starting from this fiscal year, we have revised the threshold for what constitutes a large project to better reflect the characteristics of each industry segment. Please refer to the note at the bottom of the slide for details.

One point to note is the concentration of large orders in the Energy & Sustainability segment during the first quarter of the previous fiscal year, which I mentioned earlier. As shown in this chart, that concentration stands out when compared with the trends before and after the period.

As for base orders, while there are some quarter-to-quarter fluctuations, the overall trend remains solid.

In the Materials segment, the chart also shows that business conditions have been improving since the fourth quarter of the previous fiscal year, with this positive trend continuing into the first quarter of the current fiscal year.



Page 11 shows the current three business segments broken down further by industry.

Looking at the changes within Energy & Sustainability, Upstream declined year on year due in part to the reactionary impact of large orders received in the prior-year period. In contrast, Downstream was very strong. Power also delivered robust growth.

In the Materials segment, as mentioned earlier, Mobility & Electric has been growing significantly since the fourth quarter of the previous fiscal year. In addition, Mining recorded growth, supported not only by solid underlying demand but also by the contribution from large project orders.

FY26 Forecast (unchanged)

- While there are short-term concerns about the impact of the Middle East geopolitical situation, orders are expected to increase, supported by robust energy demand and a continued strong customer appetite for investment (excluding the impact of exchange rates: +¥31.3 billion, +5.1%).
- Sales are expected to increase, but growth will be limited after factoring in the impact of the Middle East situation.(excluding the impact of exchange rates: +¥14.2 billion, +2.4%).
- Operating income is expected to increase, mainly due to higher sales.

	FY25 (A)	FY26 forecast (B)	Difference (B-A)	Growth rate (B/A-1)	Difference (excl.forex)	Growth rate (excl.forex)
Orders	617.8	**645.0**	+27.2	+4.4%	+31.3	+5.1%
Sales	604.8	**615.0**	+10.2	+1.7%	+14.2	+2.4%
Operating income	82.6	**85.0**	+2.4	+3.0%	+3.0	+3.7%
ROS(%)	13.6	**13.8**	+0.2pt	–		
Ordinary income	84.3	**85.0**	+0.7	+0.9%		
Profit before income taxes	78.9	**85.0**	+6.1	+7.7%		
Tax, etc.	20.9	**26.5**	+5.6	+26.8%		
Profit attributable to owners of parent	58.1	**58.5**	+0.4	+0.7%		
EPS(¥)	227.72	**229.75**	+2.03	–		
Exchange rate US$1=	¥151.17	**¥150.00**	(1.17)	–		

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*The Company has resolved to acquire its own shares (acquisition period: May 8, 2026 to September 30, 2026).
"EPS (yen)" in the FY26 forecast does not consider the impact of the acquisition of own shares.
Therefore, it may change depending on the status of the future acquisition of own shares.

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Page 12 and thereafter continues with the annual forecast.

Since we have not revised our earnings forecasts at this time, I will omit the explanation.

That is all from me.

Question & Answer

[Q]: How do you assess first quarter performance in orders, sales, and operating income against the full-year plan, which remains unchanged?

Nakajima [A]: Orders in the Control business were largely in line with our expectations. In the Measuring Instruments business, however, orders significantly exceeded our expectations, including a certain level of advance ordering. As delivery lead times have extended and some orders likely relate to the next fiscal year, we would like to monitor whether this trend continues.

Sales were somewhat below our initial expectations, and we had hoped to generate an additional JPY2-3 billion in sales in the first quarter. While gross profit associated with sales came in below our original assumptions, orders and order backlog of Control business in Japan have increased substantially compared with the first quarter of the previous fiscal year. As a result, the portion expected to contribute to sales in the current fiscal year has grown considerably. We believe orders in Japan have gotten off to a solid start and do not expect sales to fall below our full-year plan going forward.

As for SG&A expenses, they are generally tracking in line with our original assumptions.

[Q]: To what extent do you estimate advance orders contributed to Measuring Instruments orders? Also, could you elaborate on the reasons sales came in roughly JPY2-3 billion below expectations?

Nakajima [A]: We believe advance orders are included in Measuring Instruments orders. However, it is difficult to determine how much of the increase is attributable to advance ordering on a value basis. We expect a clearer picture to emerge after reviewing order trends over the next three months in the second quarter.

Regarding the sales shortfall, there was no particular large factor behind it. We believe it was mainly due to delays in cost accumulation on projects recognized based on progress.

[Q]: You had indicated that the full-year plan incorporates a certain level of impact from the Middle East situation. How did actual first quarter performance compare with those assumptions? If there were any effects on orders, could you also share your assessment?

Nakajima [A]: It is difficult to isolate how much of the assumed Middle East impact actually materialized, or conversely, where performance exceeded expectations despite the risks we had anticipated. That said, based on the assumptions incorporated at the beginning of the fiscal year, we do not believe the situation currently warrants an immediate revision.

Our original assumptions included a ceasefire by the end of June and normalization of traffic through the Strait of Hormuz from the second half of the fiscal year. Some investors may be concerned that this timeline has been delayed. However, investment appetite in the Middle East remains resilient, and we continue to see customers actively pursuing investments.

As a result, although there has been a reactionary decline from large projects booked in the previous fiscal year, orders appear to be coming in at a stronger pace than we originally expected.

Accordingly, at this stage we do not see any reason to make a significant upward or downward revision to our full-year outlook.

[Q]: Orders in Japan were particularly strong. Recent economic indicators, including the Tankan survey, suggest a recovery in Japanese manufacturing during the April-June period. Are you seeing a similar trend in your business? Could you also explain the factors behind the approximately 20% growth in Japan? In addition, regarding semiconductor-related demand in the Materials industry, particularly in Asian markets such as China and South Korea, do you believe this strength is sustainable based on customer discussions, feedback from the field, and your own analysis?

Nakajima[A]: We do not necessarily expect the 22% growth seen over the past three months in Japan to continue at the same pace. However, we view the fact that planned projects are being booked on schedule, or in some cases ahead of schedule, as evidence of customers' willingness to invest. Orders related to large-scale fuel and energy storage projects have also contributed, as they have been awarded as scheduled or earlier than expected.

Regarding semiconductor-related demand in the Materials industry, orders from equipment manufacturers in the Control business have increased sharply since around March and have remained solid, contrary to our initial concerns. Demand is expanding across regions. While this market can be volatile, we currently see no signs of a slowdown and will continue to respond flexibly.

[Q]: Based on the situation in Japan, is it fair to say that planned investments are now actually moving forward?

Nakajima[A]: Yes. Projects are progressing largely as planned, and at this point we see no reason to revise our assumptions.

[Q]: Could you explain how to think about gross profit? Gross profit associated with lower sales was minus JPY0.3 billion, which appears to be behind the pace implied by the full-year plan of JPY6.5 billion. How should we interpret this, and are you comfortable with the current progress?

Nakajima [A]: Although gross profit associated with sales started at minus JPY0.3 billion against the full-year target of JPY6.5 billion, we remain comfortable with our assumptions for the fiscal year. Orders remain solid and the backlog of orders continues to build. While progress may appear weak at this stage, our view for the full fiscal year remains unchanged.

[Q]: Could you explain the factors behind the improvement in gross margin shown on page 6, as well as the factors that led to the deterioration in gross margin during the second half of the previous fiscal year? Also, were there any strategic projects recorded in the first quarter?

Nakajima [A]: Yes, strategic projects were included in the first quarter. However, they were not significant enough to warrant separate discussion as a major factor behind year-on-year changes.

As for the +JPY0.8 billion improvement in gross margin, it is difficult to comment in detail because quarterly comparisons can be affected by the timing of project sales. That said, the impact of product discounting remained a negative factor of slightly less than JPY1.0 billion year on year. We expect this gap to narrow going forward and turn positive in the second half of the fiscal year.

The impact of US tariffs improved by slightly less than JPY0.5 billion due to a rebound from the higher costs incurred in the previous fiscal year. In addition, sales from highly profitable projects in the Middle East were concentrated in the first quarter, which also supported gross margin.

While quarter-to-quarter fluctuations related to strategic projects and other factors will continue, there has been no deviation from our original assumptions at the start of the fiscal year.

[Q]: Regarding the analysis of operating income, you mentioned that the increase in SG&A expenses includes costs associated with acquired companies. How large was that impact in the first quarter, and was it concentrated in this quarter?

Nakajima [A]: The increase in M&A-related SG&A expenses in the first quarter was approximately JPY0.7 billion, including both goodwill amortization and SG&A expenses at the acquired companies. As for goodwill amortization, the acquisition was completed in the third quarter of the previous fiscal year. As a result, it will remain a year-on-year difference factor through the first half of the fiscal year, but the impact will generally disappear in the second half.

[Q]: Could you provide more detail on the situation in the Middle East? Were there any specific orders related to restoration demand or short-term demand generated by recent events that were booked in the first quarter?

Nakajima [A]: We do not think many cases where reconstruction demand in the Middle East results in large-scale orders within our business domain. In most cases, the damage has been limited to specific equipment within plants, rather than the destruction of entire facilities including control systems. As a result, most of our involvement has been service-related, such as supporting customers in restarting operations after damaged equipment has been restored.

These types of projects have continued to generate orders over the past several months, and we have been supporting customers' efforts to resume operations. However, we do not expect them to generate sales on the same scale seen by some other suppliers.

[Q]: Of the approximately JPY29 billion in orders booked by the Measuring Instruments business in the first quarter, how much was related to AI data centers? Also, compared with the roughly 20% of annual sales recorded last fiscal year, does it feel as though a significant amount of demand has been brought forward this fiscal year?

Nakajima [A]: We believe that the majority of the increase compared with the first quarter of the previous fiscal year was related to AI data center demand. While comparisons are difficult because demand only began to ramp up during the second half of the previous fiscal year, our overall impression is consistent with your observation that orders are being placed earlier than originally expected.

[Q]: The full-year sales plan for the Measuring Instruments business is JPY39 billion, reflecting capacity constraints. Is there room for further upside from here?

Nakajima [A]: We increased daily production capacity to three times its original level during the previous fiscal year and further increased it by more than 50% by July. Our internal production capacity is sufficient, but the supply of optical components sourced from external manufacturers remains very tight. As a result, further sales growth will depend on parts availability from external suppliers.
We would like to continue expanding capacity, but it is still too early to provide a specific figure. We hope to provide an update once visibility improves at the end of the first half of the fiscal year.

[Q]: Regarding orders in the Control business, if the regional outlook for the full fiscal year remains unchanged, it appears that a considerable amount of business is expected from North America and the Middle East after the first quarter. Is this in line with your assumptions at the beginning of the fiscal year, or are conditions stronger than expected?

Nakajima [A]: At this point, conditions are broadly in line with our assumptions at the beginning of the fiscal year. While the contribution to results remains limited so far, we have a solid pipeline heading into the future and intend to secure these opportunities, particularly in the second half of the fiscal year, in both regions. There has been no material change in either the market environment or the pipeline compared with our assumptions at the beginning of the fiscal year.

[Q]: Could you comment on the amount of tariff refunds received?

Nakajima [A]: We prefer not to disclose the specific financial impact of tariffs at this time. I would simply note that we are proceeding appropriately with the tax refund application process. We would ask you to infer the scale based on the tariff-related impact incurred in the previous fiscal year.

[Q]: You indicated that overall order trends remain unchanged. However, the relative scale of Upstream and Downstream appears to have reversed in the first quarter compared with the previous fiscal year. What is driving this change?

Nakajima [A]: Quarterly figures can fluctuate significantly depending on when projects are awarded. Looking at trends over the past five quarters, the apparent shift largely reflects the timing of project awards. For example, Upstream activity in the Middle East, particularly in Saudi Arabia, had been very strong since fiscal year 2024, but that wave has temporarily subsided.

Investment projects tend to move in cycles. A group of projects is awarded and moves into execution, followed by the emergence of the next set of opportunities. Therefore, we do not believe customers' willingness to invest has weakened. In particular, the UAE continues to pursue ambitious investment plans, and we expect Upstream activity to recover steadily going forward.

As for Downstream, the storage-related projects mentioned earlier are included in this category, and orders happened to be concentrated in the first quarter as part of the normal demand cycle. We are also seeing a recovery in chemicals-related activity, including projects that sit at the intersection of the energy and chemicals sectors, suggesting that customer activity remains healthy.

[Q]: Regarding foreign exchange assumptions, the full-year outlook continues to assume JPY150 per US dollar, which differs from the current level. Does this imply that you expect some reversal toward yen appreciation? Also, could foreign exchange volatility become a negative factor for earnings?

Nakajima [A]: When the forecast was formulated, the yen was trading in the JPY160 range against the US dollar. At the time, however, there were concerns that the move had been excessive and that the exchange rate could return to the JPY140 range. There were also concerns about possible market intervention. As we did not revise the overall earnings outlook, we decided not to change only the foreign exchange assumptions and therefore left them unchanged.

As for the impact of foreign exchange fluctuations, there is generally a considerable lead time between order booking and sales recognition. As a result, day-to-day exchange rate movements do not directly affect our earnings to a significant degree.

As a sensitivity measure, if the Japanese yen moves independently against the US dollar, a JPY1 change in the exchange rate against the dollar would have an annual profit impact of approximately JPY0.7-0.8 billion.

Currency movements could indirectly affect economic conditions in certain countries through changes in local currency relationships with the US dollar. However, unless the situation develops into something on the scale of the Asian financial crisis, we do not view it as a significant business risk.

[Q]: Could you discuss the medium- to long-term project pipeline in the Middle East, particularly in Saudi Arabia and the UAE?

Starting with Saudi Arabia, Saudi Aramco has indicated that capital expenditure may peak in 2026. Are you seeing a slowdown in large project orders, or is growth in maintenance and solution services, supported by your expanding installed base, offsetting that trend and keeping the overall business solid?

Regarding the UAE, ADNOC continues to invest aggressively to expand production capacity, and we understand that Yokogawa has a framework agreement with ADNOC. Could you share your outlook for future project opportunities in both Saudi Arabia and the UAE?

Nakajima [A]: While we cannot comment on individual projects, it is true that large investment projects were concentrated in Saudi Arabia during 2024. Projects have continued through 2025 and 2026, although investment levels have not remained at the same scale seen in 2024. At the same time, follow-on phases of those large projects continue to move forward, and we expect capital expenditure to remain at a certain level.

As you noted, the expansion of our installed base through these large projects is a significant strength. In addition to opportunities related to equipment upgrades and operational capital expenditure, we aim to expand our presence in services and solution-based projects. We also see further opportunities to contribute through AI-driven solutions that improve efficiency and reduce costs, and we intend to continue focusing on these areas.

In the UAE, project activity has increased since the second half of the previous fiscal year, helping offset the decline in large projects in Saudi Arabia. Numerous projects remain underway, and we have continued to secure multiple orders over the past three months. As a result, we expect large-scale investment projects in the UAE to continue for some time.

[Q]: Could you provide an update on the progress of the Solution Service business?

Previously, you indicated that you would like to increase the proportion of Solution Services in total revenue to around 30% over the long term. From a profitability perspective, how do you expect the business to contribute in both the near and longer term?

You have previously noted that L3 has performed well. Have L3, L4, and maintenance services already reached the stage where they are contributing to overall profitability, or does the Product business still generate higher profitability while Solution Services remain in a development phase?

In addition, as AI-related solutions such as FKDPP continue to expand, when do you expect Solution Services to begin making a more meaningful contribution to earnings?

Nakajima [A]: Compared with Solution Services, the Product business generally has relatively high gross margins, although it also requires research and development expenses and selling expenses. We do not expect this basic structure to change significantly.

Within Solution Services, there are differences between solution-related offerings and service-related offerings. Service businesses are able to maintain gross margins of roughly 45% and also play an important role in providing a stable earnings base despite fluctuations in large capital expenditure projects.

For solution businesses, we believe there is room for further improvement in gross margins. However, the scale of adoption for individual solutions remains limited at present. Going forward, we aim to improve profitability by standardizing solutions and expanding deployment across a broader customer base. Current gross margins remain slightly below those of system projects.

As for the timing of earnings contributions, some solutions are provided as standalone services while others are bundled with systems or projects. Because delivery models vary, it is difficult to provide a uniform outlook. At this stage, we are unable to specify a particular timeline.

[Q]: A question on FKDPP. During the previous full-year results briefing, you indicated that the business model and monetization approach were still under consideration. Have there been any developments over the past three months?

Nakajima [A]: We continue to work closely with customers to determine the most appropriate approach. At this stage, we do not believe there will be a single business model.

As mentioned earlier, some cases may involve providing FKDPP as part of a broader project to enhance customer value, while others may involve recurring solution-based offerings used on an ongoing basis. The optimal delivery model will depend on each customer's business characteristics and our relationship with that customer.

[Q]: What is the typical lead time between orders and sales recognition in the Measuring Instruments business? You mentioned that some orders already relate to next fiscal year's sales. What is the current average lead time across the backlog of orders?

In addition, what is driving the increase in advance orders for long-lead-time products? Is it mainly concern about supply constraints, or does it reflect stronger-than-expected demand for products such as optical transceivers and laser diodes? If there are any notable regional trends or customer concentration factors, please comment as well.

Nakajima [A]: Lead times vary by product, but under normal conditions they are typically around one month, and at most three months. Recently, however, we have already received orders that are scheduled to be recognized as sales next year, and lead times have extended to more than three times historical levels.

While we have not confirmed this directly with every customer, we believe some customers are placing orders earlier because they expect delivery times to continue lengthening and understand that delaying an order could result in even longer wait times. There also appears to be a view among customers that demand for optical transceivers will remain strong for the foreseeable future.

From a regional perspective, demand has increased not only in Japan but also in China. However, demand booked in China does not necessarily reflect end demand in China. In many cases, companies outsource production to China and place orders there, while the end demand may ultimately come from other regions, including the United States. As China serves as a global manufacturing hub for this industry, a meaningful portion of orders booked in China is linked to demand outside China.

[Q]: Based on current conditions, is it reasonable to assume that elevated order levels could continue into the second quarter and the second half of the fiscal year, supported by demand being brought forward from the next fiscal year and beyond?

Nakajima [A]: We would like to evaluate that possibility after reviewing market conditions through the end of September. Once we have visibility through that point, we will conduct a further assessment.

[Q]: Regarding the outlook for Control orders, you mentioned Middle East projects earlier. Given increasing focus on energy resilience and supply chain diversification, LNG-related projects appear to be progressing in regions outside the Middle East as well.

Project timing likely differs between expansion projects and greenfield developments, but when do you expect major LNG projects across regions to begin contributing to orders?

Nakajima [A]: Some LNG-related projects already contributed to orders during the first quarter. However, we expect order opportunities to be weighted toward the second half of the fiscal year, particularly in North America. There are also LNG projects in the Middle East, but overall we expect order activity to be more concentrated in the latter half of the fiscal year.

That said, many of the projects currently moving forward were not newly initiated in response to recent concerns over energy security. Rather, they are projects that had already been planned and are proceeding on schedule, or in some cases slightly ahead of schedule.

The large-scale projects we target typically require a long period from initial planning to actual order placement. Therefore, projects newly conceived in response to recent geopolitical developments have not yet reached the stage where they can make a significant contribution to this fiscal year's results. However, we do believe the current environment is helping accelerate and support projects that were already planned.

[END]

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