

Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending December 31, 2023
(Nine Months Ended September 30, 2023)

[Japanese GAAP]

October 31, 2023

Company name: Fenwal Controls of Japan, Ltd. Listing: Tokyo Stock Exchange
 Stock code: 6870 URL: <https://www.fenwal.co.jp/>
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 Scheduled date of filing of Quarterly Report: November 10, 2023
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: None
 Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Nine Months of 2023 (January 1 to September 30, 2023)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|---------------------------------|-------------|-------|------------------|--------|-----------------|--------|---|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Nine months ended Sep. 30, 2023 | 9,083 | 6.8 | 705 | 19.7 | 801 | 9.9 | 46 | (77.1) |
| Nine months ended Sep. 30, 2022 | 8,505 | (6.2) | 589 | (36.1) | 728 | (23.7) | 202 | (65.8) |

Note: Comprehensive income (millions of yen) Nine months ended Sep. 30, 2023: 342 (up 57.6%)
 Nine months ended Sep. 30, 2022: 217 (down 71.3%)

| | Net income per share | Diluted net income per share |
|---------------------------------|----------------------|------------------------------|
| | Yen | Yen |
| Nine months ended Sep. 30, 2023 | 8.30 | - |
| Nine months ended Sep. 30, 2022 | 36.24 | - |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of Sep. 30, 2023 | 19,091 | 12,262 | 64.2 | 2,186.74 |
| As of Dec. 31, 2022 | 18,813 | 12,312 | 65.4 | 2,196.73 |

Reference: Shareholders' equity (millions of yen) As of Sep. 30, 2023: 12,262 As of Dec. 31, 2022: 12,312

2. Dividends

| | Dividends per share | | | | |
|-----------------|---------------------|--------|--------|----------|-------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| 2022 | - | 0.00 | - | 70.00 | 70.00 |
| 2023 | - | 0.00 | - | - | - |
| 2023 (forecast) | - | - | - | 72.00 | 72.00 |

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for 2023 (January 1 to December 31, 2023)

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Net income per share |
|-----------|-------------|-------|------------------|--------|-----------------|--------|---|--------|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 12,342 | (0.5) | 850 | (35.1) | 930 | (37.1) | 147 | (82.2) | 26.22 |

Note: Revisions to the most recently announced consolidated forecast: Yes

For more details, please refer to the "Notice of Recognition of Extraordinary Loss and Revision to Consolidated Forecast for 2023" that was announced today (October 31, 2023).

* Notes

(1) Changes in significant subsidiaries during the period (change in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury shares)

| | | | |
|----------------------|------------------|----------------------|------------------|
| As of Sep. 30, 2023: | 5,893,000 shares | As of Dec. 31, 2022: | 5,893,000 shares |
|----------------------|------------------|----------------------|------------------|

2) Number of treasury shares at the end of the period

| | | | |
|----------------------|----------------|----------------------|----------------|
| As of Sep. 30, 2023: | 285,522 shares | As of Dec. 31, 2022: | 287,922 shares |
|----------------------|----------------|----------------------|----------------|

3) Average number of shares during the period

| | | | |
|----------------------------------|------------------|----------------------------------|------------------|
| Nine months ended Sep. 30, 2023: | 5,606,652 shares | Nine months ended Sep. 30, 2022: | 5,597,541 shares |
|----------------------------------|------------------|----------------------------------|------------------|

Note: The number of treasury shares excluded from the calculation of the number of treasury shares at the end of the period and average number of shares during the period include the shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account) as trust assets for distributing stock to officers.

* The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Cautionary statement with respect to forward-looking statements, and other special items

Cautionary statement with respect to forecasts

Forecasts of future performance in this document are based on assumption judged to be valid and information currently available to the Company's management, but are not promises by the Company regarding future performance. Actual results may differ materially from the forecasts for a number of reasons. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 4 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first nine months of 2023, there was a slow recovery of the Japanese economy as economic activity began to return to normal due to the easing of pandemic restrictions.

Despite this recovery, the outlook for the economy remains uncertain because of the negative effects of global monetary tightening, concerns about the Chinese economy, the rising cost of resources caused by numerous events worldwide, and the yen's depreciation.

Orders received decreased mainly because of a downturn in the thermal segment caused by the slowdown of the semiconductor industry. Sales were higher than in the first nine months of the previous fiscal year because of a big increase in shipments in the fire pumps segment.

On October 31, 2023, we made an announcement concerning the voluntary recall of products affected by the misconduct incident. We will continue to work on determining the true causes of the frequent occurrence of product problems and on measures centered on strengthening our corporate culture to prevent this type of problem from happening again.

Orders received were 9,383 million yen, down 6.1% year-on-year and sales were 9,083 million yen, up 6.8%. Operating profit was 705 million yen, up 19.7%, due to the increase in gross profit resulting from sales growth and ordinary profit was 801 million yen, up 9.9%. Profit attributable to owners of parent was 46 million yen, down 77.1% due to a provision for loss related to product repairs as an extraordinary loss.

Business segment performance was as follows:

Safety Security Protection (SSP)

Sales increased because of higher sales of sensors and other products. Although orders increased for update and maintenance services, total orders received decreased in part because of the suspension of some sales activities in order to take actions concerning to the improper conduct incident that happened in 2022.

Orders received were 4,177 million yen, down 0.8% year-on-year, and sales were 3,543 million yen, up 0.5%.

We expect that orders received are expected to be generally as planned despite restrictions on some sales activities in order to deal with problems involving products. One reason for this outlook is the high level of sales of update and maintenance services.

We will continue to take many actions concerning sales and earnings. Although a decline in alarm installation work at electric utilities and other key industries is expected, we are continuing to receive orders for maintenance inspections, replacements and other existing business activities.

One highlight of the progress with technology and product development activities is the start of sales of our new lineup of relays following completion of development work and receipt of certification of the new model. In addition, development work is continuing on updated versions of devices and control units that monitor the environment inside equipment and detect dangerously high temperatures.

Thermal

Orders decreased mainly because of downturns in orders for hot plates and sensors used in semiconductor manufacturing equipment, the main category of this segment, as investments in the semiconductor manufacturing equipment market declined, chiefly in the memory device and advanced logic sectors. Sales remained generally firm.

Orders received were 1,202 million yen, down 37.5% year-on-year, and sales were 1,941 million yen, up 25.6%.

Looking ahead, we expect the adjustment phase in the semiconductor manufacturing equipment market to continue, but we will keep on reinforcing our manufacturing capabilities for further growth in this sector.

Activities are continuing for the development of hot plates and thermos switches with the main objective of providing functions and performance that meet the requirements of specific customers as well as of the markets for these products. Work is also proceeding at projects for updating existing products in the temperature control

unit category.

Medical

Demand for kidney dialysis equipment is recovering slowly in some countries following the negative effects of the multi-year pandemic. Orders increased for artificial kidney dialysis equipment and associated products outside Japan, the major products in this segment. Sales of products used with artificial kidney dialysis equipment were down in Japan. This decline is attributable mainly to the continuing limitations on the ability to supply these products caused by the difficulty of procuring parts and the high cost of raw materials.

Orders received were 1,118 million yen, up 30.2% year-on-year, and sales were 834 million yen, down 2.5%.

We expect an upturn in shipments of artificial kidney dialysis equipment and associated products to overseas customers, which is the main business of this segment.

Work has started on the development of even better functions in order to meet the needs of healthcare facilities, provide greater convenience and make other improvements. Activities are continuing on the development of the software and key components that will be needed for these advances.

Printed Wiring Board Assembly (PWBA)

Orders and sales were lower than one year earlier. The main reasons are declines in the production of products for industrial equipment due to the difficulty of procuring some electronic components and inventory reductions of products used in office equipment.

Orders received were 656 million yen, down 30.2% year-on-year, and sales were 689 million yen, down 26.5%.

We expect that the business climate in this segment will remain challenging even as demand for products used in medical equipment recovers. We anticipate negative effects primarily from inventory reductions by customers of products used in industrial equipment and office equipment.

Fire Pumps

Sales in Japan increased because of a large volume of sales of fire engines and fire pumps to the Ministry of Internal Affairs and Communications and local governments. Outside Japan, sales of fire pumps remained strong in China and South Korea.

Orders received were 2,228 million yen, up 8.2% year-on-year, and sales were 2,074 million yen, up 26.6%.

In Japan, the outlook for deliveries of vehicles based on fire trucks is currently unclear. To support our sales during the remainder of 2023, we are strengthening ties with factories that outfit fire trucks. Outside Japan, we expect that orders and sales will remain strong, chiefly in South Korea, Taiwan and Vietnam. In addition, we are receiving an increasing number of public-sector orders through competitive bids in China. We are strengthening activities to capture orders, mainly in China.

A project to develop the next model of an air-cooled fire pump has been completed. We are currently concentrating on completing the development of a new model of a water-cooled fire pump.

(2) Explanation of Financial Position

Total assets amounted to 19,091 million yen at the end of the third quarter of 2023, an increase of 277 million yen or 1.5% compared with 18,813 million yen at the end of 2022. The main reasons were an 856 million yen increase in cash and deposits (up 13.6%), a 396 million yen increase in raw materials (up 25.7%), a 292 million yen increase in finished goods (up 55.4%), a 665 million yen decrease in notes and accounts receivable-trade (down 32.6%) and a 617 million yen decrease in accounts receivable from completed construction contracts and contract assets (down 35.0%).

Total liabilities amounted to 6,829 million yen, an increase of 328 million yen or 5.1% compared with 6,500 million yen at the end of 2022. This increase was mainly due to a 334 million yen increase in provision for loss related to product repair (up 48.1%).

Net assets totaled 12,262 million yen, a decrease of 50 million yen or 0.4% compared with 12,312 million yen at the end of 2022. The main reason for decrease was dividends paid of 396 million yen, while there was a 178

million yen increase in valuation difference on available-for-sale securities (up 33.5%) and a 109 million yen increase in foreign currency translation adjustment (up 26.1%).

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

We have reviewed current trends in our performance and revised the consolidated earnings forecast for 2023 (January 1 to December 31, 2023), which was disclosed on February 10, 2023.

For more details, please refer to the “Notice of Recognition of Extraordinary Loss and Revision to Consolidated Forecast for 2023” that was announced today (October 31, 2023).

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

| | (Thousands of yen) | |
|---|-------------------------------|--|
| | 2022 (As of Dec. 31, 2022) | Third quarter of 2023 (As of Sep. 30, 2023) |
| Assets | | |
| Current assets | | |
| Cash and deposits | 6,316,751 | 7,173,131 |
| Notes and accounts receivable-trade | 2,037,864 | 1,372,687 |
| Electronically recorded monetary claims-operating | 1,219,146 | 1,182,321 |
| Accounts receivable from completed construction contracts and contract assets | 1,766,471 | 1,148,765 |
| Securities | - | 503,316 |
| Finished goods | 527,609 | 819,825 |
| Work in process | 425,536 | 391,851 |
| Raw materials | 1,543,158 | 1,939,741 |
| Other | 115,249 | 254,575 |
| Allowance for doubtful accounts | (3,899) | (3,899) |
| Total current assets | 13,947,889 | 14,782,315 |
| Non-current assets | | |
| Property, plant and equipment | 1,254,861 | 1,301,751 |
| Intangible assets | | |
| Goodwill | 926,590 | 839,722 |
| Other | 168,924 | 168,206 |
| Total intangible assets | 1,095,515 | 1,007,929 |
| Investments and other assets | | |
| Investment securities | 2,015,209 | 1,544,930 |
| Other | 822,600 | 474,955 |
| Allowance for doubtful accounts | (322,747) | (20,650) |
| Total investments and other assets | 2,515,062 | 1,999,236 |
| Total non-current assets | 4,865,439 | 4,308,916 |
| Total assets | 18,813,328 | 19,091,232 |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 1,841,883 | 1,841,118 |
| Accounts payable for construction contracts | 427,671 | 477,518 |
| Short-term borrowings | 550,000 | 700,000 |
| Current portion of long-term borrowings | 295,920 | 295,920 |
| Income taxes payable | 206,922 | 70,224 |
| Provision for bonuses | - | 97,140 |
| Provision for bonuses for directors (and other officers) | - | 12,348 |
| Provision for product warranties | 119,972 | 218,308 |
| Other | 1,045,206 | 1,020,664 |
| Total current liabilities | 4,487,576 | 4,733,242 |
| Non-current liabilities | | |
| Long-term borrowings | 936,220 | 714,280 |
| Provision for share awards for directors (and other officers) | 7,124 | 5,834 |
| Retirement benefit liability | 330,053 | 305,963 |
| Asset retirement obligations | 23,852 | 23,852 |
| Provision for loss related to product repair | 696,800 | 1,031,713 |
| Other | 18,883 | 14,269 |
| Total non-current liabilities | 2,012,935 | 2,095,913 |
| Total liabilities | 6,500,512 | 6,829,155 |

| | (Thousands of yen) | |
|---|-----------------------|-----------------------|
| | 2022 | Third quarter of 2023 |
| | (As of Dec. 31, 2022) | (As of Sep. 30, 2023) |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 996,600 | 996,600 |
| Capital surplus | 1,460,517 | 1,460,517 |
| Retained earnings | 9,340,161 | 8,990,408 |
| Treasury shares | (416,416) | (413,653) |
| Total shareholders' equity | 11,380,862 | 11,033,871 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 531,606 | 709,839 |
| Foreign currency translation adjustment | 418,441 | 527,781 |
| Remeasurements of defined benefit plans | (18,093) | (9,415) |
| Total accumulated other comprehensive income | 931,954 | 1,228,205 |
| Total net assets | 12,312,816 | 12,262,077 |
| Total liabilities and net assets | 18,813,328 | 19,091,232 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statement of Income)
(For the Nine-month Period)

| | (Thousands of yen) | |
|--|---|---|
| | First nine months of 2022 (Jan. 1 - Sep. 30, 2022) | First nine months of 2023 (Jan. 1 - Sep. 30, 2023) |
| Net sales | 8,505,998 | 9,083,684 |
| Cost of sales | 5,890,696 | 6,232,052 |
| Gross profit | 2,615,301 | 2,851,631 |
| Selling, general and administrative expenses | 2,025,463 | 2,145,825 |
| Operating profit | 589,837 | 705,806 |
| Non-operating income | | |
| Interest income | 10,447 | 28,480 |
| Dividend income | 24,202 | 27,764 |
| Foreign exchange gains | 89,721 | 28,889 |
| Other | 25,328 | 20,509 |
| Total non-operating income | 149,699 | 105,644 |
| Non-operating expenses | | |
| Interest expenses | 10,210 | 8,823 |
| Other | 438 | 1,351 |
| Total non-operating expenses | 10,648 | 10,174 |
| Ordinary profit | 728,888 | 801,277 |
| Extraordinary income | | |
| Gain on sale of investment securities | 33,670 | 6,388 |
| Total extraordinary income | 33,670 | 6,388 |
| Extraordinary losses | | |
| Provision for loss related to product repair | 425,381 | 692,235 |
| Total extraordinary losses | 425,381 | 692,235 |
| Profit before income taxes | 337,177 | 115,429 |
| Income taxes-current | 222,366 | 117,990 |
| Income taxes-deferred | (88,052) | (49,089) |
| Total income taxes | 134,314 | 68,900 |
| Profit | 202,862 | 46,529 |
| Profit attributable to owners of parent | 202,862 | 46,529 |

(Quarterly Consolidated Statement of Comprehensive Income)**(For the Nine-month Period)**

(Thousands of yen)

| | First nine months of 2022 (Jan. 1 - Sep. 30, 2022) | First nine months of 2023 (Jan. 1 - Sep. 30, 2023) |
|---|---|---|
| Profit | 202,862 | 46,529 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (275,129) | 178,232 |
| Foreign currency translation adjustment | 290,831 | 109,340 |
| Remeasurements of defined benefit plans, net of tax | (1,098) | 8,678 |
| Total other comprehensive income | 14,602 | 296,251 |
| Comprehensive income | 217,465 | 342,780 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 217,465 | 342,780 |

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment Information

I First nine months of 2022 (Jan. 1 – Sep. 30, 2022)

Information related to net sales and profit or loss for each reportable segment and breakdown of revenue

(Thousands of yen)

| | Reportable segment | | | | | | Adjustment (Note 1) | Amounts shown on quarterly consolidated statement of income (Note 2) |
|---|----------------------------------|-----------|---------|--|------------|-----------|------------------------|--|
| | Safety Security Protection | Thermal | Medical | Printed Wiring Board Assembly | Fire Pumps | Total | | |
| Net sales | | | | | | | | |
| Goods or services that are transferred at a point in time | 354,128 | 1,546,442 | 856,229 | 938,193 | 1,638,515 | 5,333,509 | - | 5,333,509 |
| Goods or services that are transferred over a certain period of time | 3,172,488 | - | - | - | - | 3,172,488 | - | 3,172,488 |
| Revenue from contracts with customers | 3,526,616 | 1,546,442 | 856,229 | 938,193 | 1,638,515 | 8,505,998 | - | 8,505,998 |
| Other revenue | - | - | - | - | - | - | - | - |
| External sales | 3,526,616 | 1,546,442 | 856,229 | 938,193 | 1,638,515 | 8,505,998 | - | 8,505,998 |
| Inter-segment sales and transfers | - | - | - | - | - | - | - | - |
| Total | 3,526,616 | 1,546,442 | 856,229 | 938,193 | 1,638,515 | 8,505,998 | - | 8,505,998 |
| Segment profit (loss) | 498,122 | 370,299 | 39,882 | 134,413 | (11,725) | 1,030,992 | (441,154) | 589,837 |

Notes: 1. The adjustment of negative 441,154 thousand yen to segment profit (loss) includes corporate expenses related to the administration division that cannot be attributed to any reportable segments.

2. Segment profit (loss) is adjusted with operating profit shown on the quarterly consolidated statement of income.

II First nine months of 2023 (Jan. 1– Sep. 30, 2023)

Information related to net sales and profit or loss for each reportable segment and breakdown of revenue

(Thousands of yen)

| | Reportable segment | | | | | | Adjustment (Note 1) | Amounts shown on quarterly consolidated statement of income (Note 2) |
|---|----------------------------------|-----------|---------|--|------------|-----------|------------------------|--|
| | Safety Security Protection | Thermal | Medical | Printed Wiring Board Assembly | Fire Pumps | Total | | |
| Net sales | | | | | | | | |
| Goods or services that are transferred at a point in time | 550,663 | 1,941,581 | 834,860 | 689,110 | 2,074,583 | 6,090,801 | - | 6,090,801 |
| Goods or services that are transferred over a certain period of time | 2,992,883 | - | - | - | - | 2,992,883 | - | 2,992,883 |
| Revenue from contracts with customers | 3,543,547 | 1,941,581 | 834,860 | 689,110 | 2,074,583 | 9,083,684 | - | 9,083,684 |
| Other revenue | - | - | - | - | - | - | - | - |
| External sales | 3,543,547 | 1,941,581 | 834,860 | 689,110 | 2,074,583 | 9,083,684 | - | 9,083,684 |
| Inter-segment sales and transfers | - | - | - | - | - | - | - | - |
| Total | 3,543,547 | 1,941,581 | 834,860 | 689,110 | 2,074,583 | 9,083,684 | - | 9,083,684 |
| Segment profit | 547,269 | 405,013 | 76,747 | 80,352 | 83,551 | 1,192,934 | (487,128) | 705,806 |

Notes: 1. The adjustment of negative 487,128 thousand yen to segment profit includes corporate expenses related to the administration division that cannot be attributed to any reportable segments.

2. Segment profit is adjusted with operating profit shown on the quarterly consolidated statement of income.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.