Explanatory Materials for Financial Results

Fiscal Year Ended March 31, 2024

IWATSU ELECTRIC CO., LTD. | May 15, 2024

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Financial Highlights/ Progress of Medium-term Management Plan

Financial Highlights for the Fiscal Year Ended March 31, 2024

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Revenue	Operating profit	Profit attributable to owners of parent	ROE
¥21.29 billion	¥(0.48) billion	¥0.52 billion	2.0%
YoY -6.9% [¥(1.58) billion]	YoY –% [+¥0.49 billion]	YoY –% [+¥1.72 billion]	YoY +6.8%

External Environment

- With the easing of restrictions related to the COVID-19 pandemic, normalization of social and economic activities are advancing, and the economy is on a gentle path toward recovery.
- However, the outlook remains uncertain due to concerns of a possible slowdown in consumption and capital investment caused by unstable international conditions, soaring fuel prices, currency fluctuations, and continuous price increases.

Major Impacts on Business

Business communication systems

Although the impact on sales caused by components procurement difficulties is easing, demand for business phones is on a gradual decline, resulting in distributor inventory adjustments as well as a decline in replacement demand.
Wide adoption of diverse work styles has led to the advancement of cloud-based services and diversification of network equipment, resulting in prolonged business negotiations.

Printing systems

The overall market is on a declining trend due to advancement of paperless working practices as a result of increasing focus on environmental conservation and cost reduction.
We are utilizing the expertise we have cultivated through our printing business to transition to a business model focused on products that apply chemical technology.

Test and measurement equipment

We are seeing robust orders for power electronics-related products helped by rising environmental awareness.
Demand for electronic components, which temporarily surged in the previous fiscal year, has now stabilized due to improvements in the supply chain.

Property leasing

Office vacancy rates are declining mainly in central Tokyo, resulting in steady operations of our office rental property.
The rental residential apartments we newly acquired through an anonymous association that is a consolidated subsidiary are nearly fully occupied.

Major Medium-term Measures Implemented in the Fiscal Year Ended March 31, 2024

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Medium-term Tier 1: Improved efficiency of indirect operations

- **Review of operations through the introduction of the new ERP**

  The new ERP system was implemented and went live from May 2023 as planned. We are promoting review and efficiency enhancement of operations through implementation of DX and utilization of business mainframe system and ancillary digital tools.

Medium-term Tier 2: Business selection and concentration

- **Divestment of groxi.Inc. shares**
  - As a result of the business selection and concentration study, we sold all shares in groxi.Inc. (a 100% consolidated subsidiary) to Elecom Co., Ltd. as of the end of June 2023.
  - We shall strengthen collaboration with Elecom Co., Ltd. to enhance our business of promoting office DX by leveraging economies of scale to diversify products and services, accelerate delivery, and enhance cost competitiveness.

Medium-term Tier 2: Acceleration of overseas expansion of test and measurement equipment business

- **Capital and business alliance with Heimann Industries AG (hereinafter referred to as Heimann)**

  In February 2024, we subscribed to a third-party share allotment made by Heimann Industries AG, a German probe manufacturer, and entered into a capital and business alliance agreement with Heimann. By strengthening the relationship with Heimann and expanding sales of our measurement products in Europe and the US, we will speedily conduct a business rollout and secure stable procurement of Heimann's high-performance probes to maintain and enhance the cost competitiveness of our products.

Medium-term Tier 3: Promotion of growth strategies through M&A

- **Capital and business alliance with Ai Holdings Corporation (hereinafter referred to as Ai HD) and a third-party share allotment of Company shares to Ai HD**

  In December 2023, we entered into a capital and business alliance agreement with Ai HD, and implemented a third-party share allotment of Company shares to Ai HD with a view to expanding the business domain of our business communication systems business and accelerate overseas expansion of our test and measurement equipment business. Our business operations are complementary, so by working together we aim to achieve more stable business operations while enhancing the enterprise values of both companies, with a focus on securing business synergies between the companies.

Progress of Medium-term Management Plan

Tier 1 Thorough reduction of fixed costs

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As explained above, the measures in the second year of the medium-term management plan are basically showing progress as planned, but the impact on P/L is behind plan.

Theme	Contents	Major measures	
		Details of implementation (fiscal year ended March 31, 2024)	Effect amount (total)
Cost reduction of Kugayama Headquarters	● Reduction of property maintenance costs for Kugayama Headquarters, etc. ● Improved efficiency of indirect operations (Review of operations through the introduction of ERP, etc.)	The new ERP system was implemented and went live from May 2023 as planned. We are promoting review and efficiency enhancement of operations through implementation of DX and utilization of business mainframe system and ancillary digital tools.	¥0 million
Improved efficiency of production	● Improved efficiency of production system with multiple locations ● Improvement of product organization and purchasing methods ● Improved production efficiency through factory DX, etc.	• Completed transfer of all shares of Iwatsu (Malaysia) (a manufacturing subsidiary) in September 2023. Although we are promoting production efficiency improvements with a view to consolidated production of business communication equipment into domestic factories by August 2024, the impact on P/L is behind plan. • Promoting production efficiency by advancing factory DX through equipment automation and increased deployment of cobots.	¥0 million
Improved efficiency of development	● Reduction of obsolete parts support ● Commonization of multiple business phone architectures, etc. ● Reduction of outsourcing costs by increasing inhouse production	Measures are mostly progressing according to plan. Commonized architecture of business phones will be adopted for development planned in next fiscal year. We are also promoting commonization of the development environment and in-house production of business phones.	¥0 million
Review of business profitability	● Review of printing business operations	Iwatsu Chemical Cross is exploring businesses utilizing chemical technology. We will continue to review operations side by side with commercialization studies.	¥0 million

Progress of Medium-term Management Plan
Improvement in Operating Income

Tier 1 Thorough reduction of fixed costs

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Theme	Fiscal year ended March 31, 2024			Fiscal year ending March 31, 2025	Fiscal year ending March 31, 2026 (Final year of the medium-term management plan)	Rate of progress (A/B)
	Initial plan	Result (A)	Rate of achievement	Forecast	Plan (B)	
Cost reduction of Kugayama Headquarters	¥0 million	¥0 million	- %	¥0 million	¥470 million	- %
Improved efficiency of production	¥30 million	¥0 million	- %	¥110 million	¥410 million	- %
Improved efficiency of development	¥0 million	¥0 million	- %	¥190 million	¥200 million	- %
Review of business profitability	¥0 million	¥0 million	- %	¥0 million	¥100 million	- %

Total ¥1,180 million

Progress of Medium-term Management Plan

Tier 2 Promote growth strategies through business selection and concentration and alliances

IWATSU

As explained above, the measures in the second year of the medium-term management plan are basically showing progress as planned, but the impact on P/L is slightly behind plan.

Theme	Contents	Major measures	
		Details of implementation (fiscal year ended March 31, 2024)	Effect amount (total)
Growth of test and measurement equipment	● Accelerate overseas expansion (China, Europe, America) with a focus on instrumentation in the power electronics-related field ● Expand lineup of power electronics-related products	• We made a ¥800 million capital investment in Heimann Industries AG, our German collaboration partner in the fields of sales, maintenance and joint development in February 2024. We also entered into a capital and business alliance with Heimann to accelerate overseas sales expansion. The impact on P/L is slightly behind plan.	¥180 million
Growth of business communication systems	● Strengthen subscription business ・ Strengthen business of promoting office DX ・ Shift to cloud-based services for contact center systems ● Strengthen contract production business	• We promote collaboration with other companies to strengthen our business of promoting office DX. • The shift to cloud-based services through our in-house Cloud Communication Platform Blue Commpaas is making good progress. • The impact on P/L of contract production business was still negative as of the fiscal year ended March 31, 2024, owing to difficulties in procuring components and soaring raw materials prices. As part of our efforts to strengthen the contract production business, we are engaging in ODM production of interactive kiosks in collaboration with Ai Holdings Corporation. We intend to promote a growth strategy as a Tier 3 project in future.	¥(220) million
New area development	● Initiatives in advanced technologies such as 5G-related technologies, energy, healthcare, materials, etc. ● Expansion of IoT business through integration of information and communication technology and electronic measurement technology ● Create new markets by applying chemical technology cultivated in the printing business	• For local 5G-related technologies, verification tests conducted within the Group are partly reaching the evaluation/validation phase. We are expanding the scope of the verification tests within the Group. • A certain level of effectiveness has been identified through joint research with The University of Electro-Communications on cutting-edge material technology (radio wave reflector using transparent conductive materials). We will continue the joint research with the university into the next fiscal year. • Application of chemical technologies in areas such as electric printing has reached the feasibility study phase where we are conducting search for a collaboration partner as well as validation of technical issues. The project is progressing steadily, although we expect it will take time to reach the commercialization stage.	

Progress of Medium-term Management Plan
Improvement in Operating Income

Tier 2 Promote growth strategies through business selection and concentration and alliances

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Theme	Fiscal year ended March 31, 2024			Fiscal year ending March 31, 2025	Fiscal year ending March 31, 2026 (Final year of the medium-term management plan)	Rate of progress (A/B)
	Initial plan	Result (A)	Rate of achievement	Forecast	Plan (B)	
Growth of test and measurement equipment	¥190 million	¥180 million	94.7%	¥210 million	¥310 million	- %
Growth of business communication systems	¥0 million	¥(220) million	- %	¥0 million	¥130 million	- %
					Total ¥440 million	

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Results for the Fiscal Year Ended March 31, 2024

Results for the Fiscal Year Ended March 31, 2024

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- Revenue declined year on year due to the impact of the exclusion of certain subsidiaries from consolidation, fluctuation of contract production demand, and delay of new projects, but was ahead of the Company forecast.
- Operating profit and ordinary profit increased year on year helped by the reduction of the loss on valuation of inventories, but were behind the Company forecast due to the delay of the reduction of the same loss.
- Profit increased year on year and was better than the Company forecast helped by gain on sale of shares of subsidiaries and associates and investment securities.

(¥100 million)	Results for the fiscal year ended March 31, 2023*1	Results for the fiscal year ended March 31, 2024	Change from previous term	Forecast for the fiscal year ended March 31, 2024*2	Compared to previous forecast
Revenue	228.7	212.9	(15.8) [(6.9%)]	210.0	+2.9 [+1.4%]
Operating profit	(9.8)	(4.8)	+5.0 [–]	(4.0)	(0.8) [–]
Ordinary profit	(9.1)	(5.1)	+4.0 [–]	(4.0)	(1.1) [–]
Profit attributable to owners of parent	(11.9)	5.2	+17.3 [–]	4.0	+1.2 [–]
ROE	(4.8%)	2.0%	+6.8%	1.6%	+0.4%

*1 Includes impact of retrospective application due to changes in accounting policies

*2 Announced on February 9, 2024

Analysis of Change in Operating Profit from Previous Term

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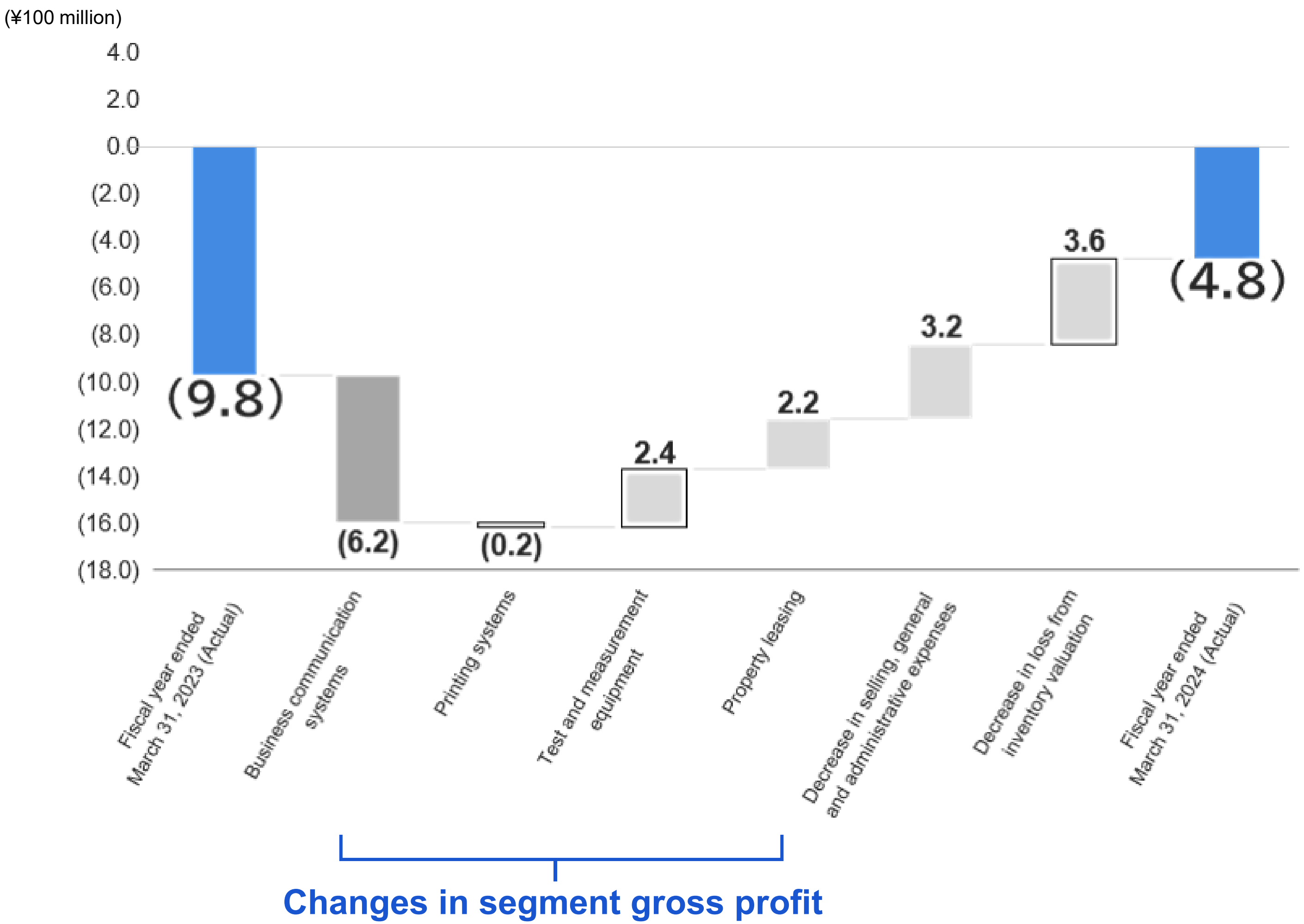

Main causes of change

- **Changes in segment gross profit (total): -¥180 million**
  Reference: “Segment Overview” section

- **Decrease in selling, general and administrative expenses: +¥320 million**
  Despite incurring one-off expenses related to the measures in the medium-term management plan, increases in expenses were kept to ¥40 million due to streamlining of other expenses. Coupled with a ¥360 million reduction in personnel costs due to the exclusion of certain subsidiaries from consolidation, overall SG&A expenses declined by ¥320 million.

- **Decrease in loss from inventory valuation: +¥360 million**
  Loss on valuation of inventories, which surged in the previous fiscal year owing to advance procurement of materials under the difficult procurement environment, decreased in the current fiscal year in line with the improvement of the environment.

Analysis of Change in Operating Profit Compared to Company Plan

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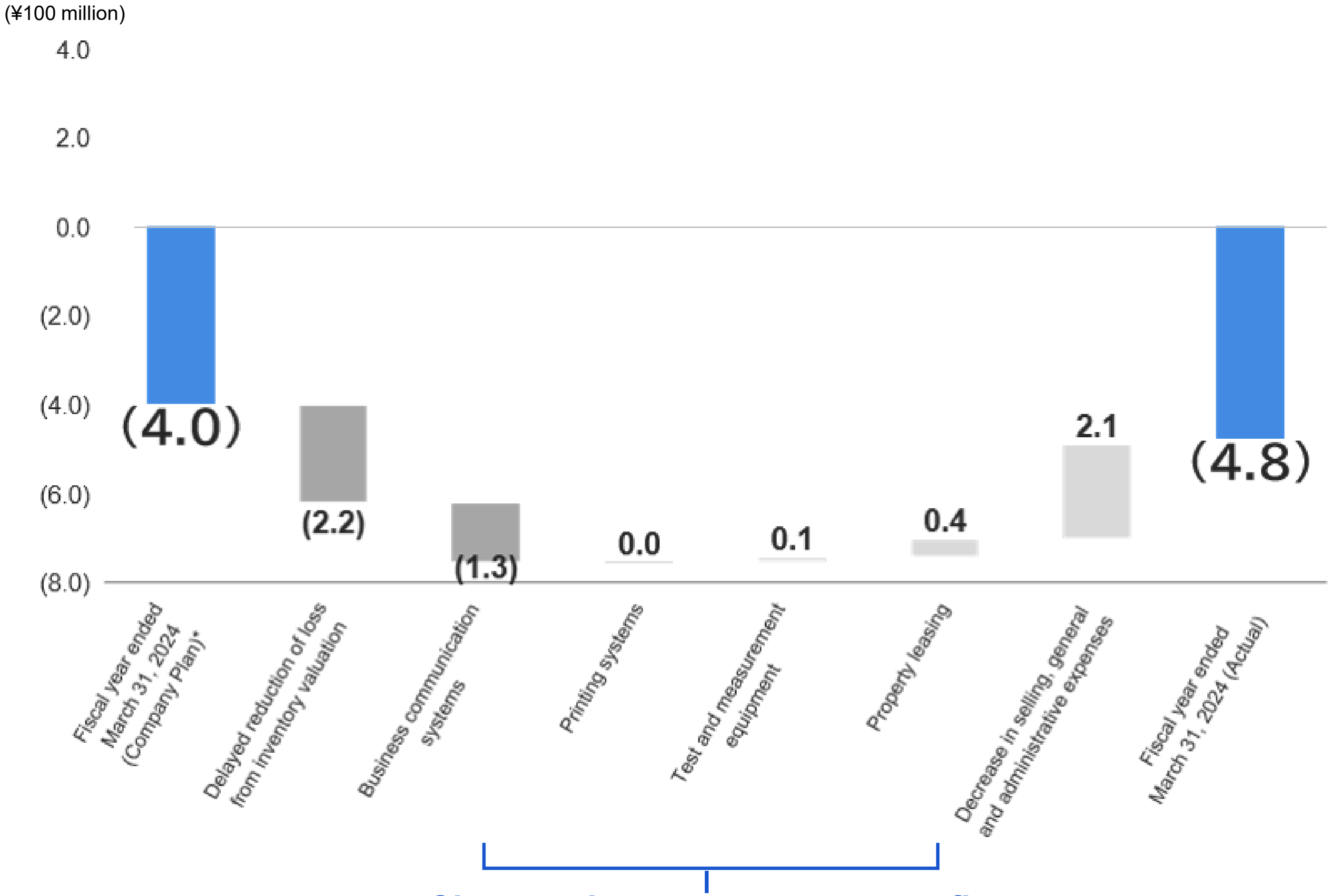

* Announced on February 9, 2024

Main causes of change

- **Delayed reduction of loss from inventory valuation: -¥220 million**
  Reduction of loss on valuation of inventories was delayed due to the continued high level of inventories, owing to changes and extensions to some delivery due dates coupled with receipt of delivery of advance procurement components.
- **Changes in segment gross profit (total): -¥80 million**
  Reference: "Segment Overview" section
- **Decrease in selling, general and administrative expenses: +¥210 million**
  Decrease of expenses from ongoing streamlining efforts

Segment Overview: Business Communication Systems

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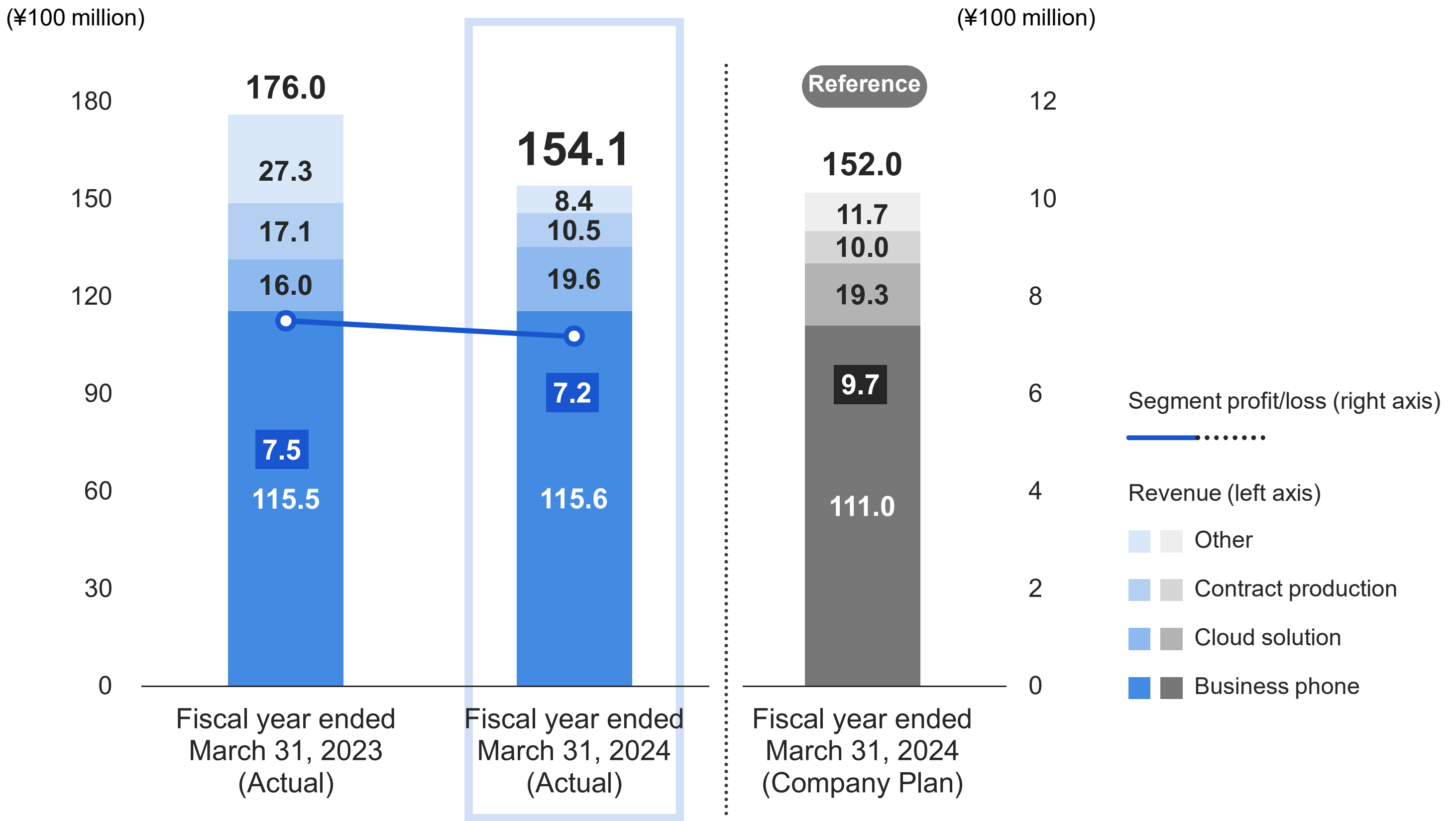
Revenue, Segment Profit/Loss



Main causes of change

- **Revenue**
  The increase in cloud solution sales from large project orders was offset by a decrease in contract production sales caused by fulfillment of orders from past projects and delay of new projects, coupled with the impact of the deconsolidation of certain subsidiaries. As a result, revenue decreased 12.4% year on year to ¥15,410 million.
- **Segment profit/loss**
  Despite the surge of raw material costs and increase in outsourced installation work, a significant reduction of loss on valuation of inventories compared with the previous fiscal year led to a segment profit of ¥720 million, which is roughly at the same level as the previous fiscal year.

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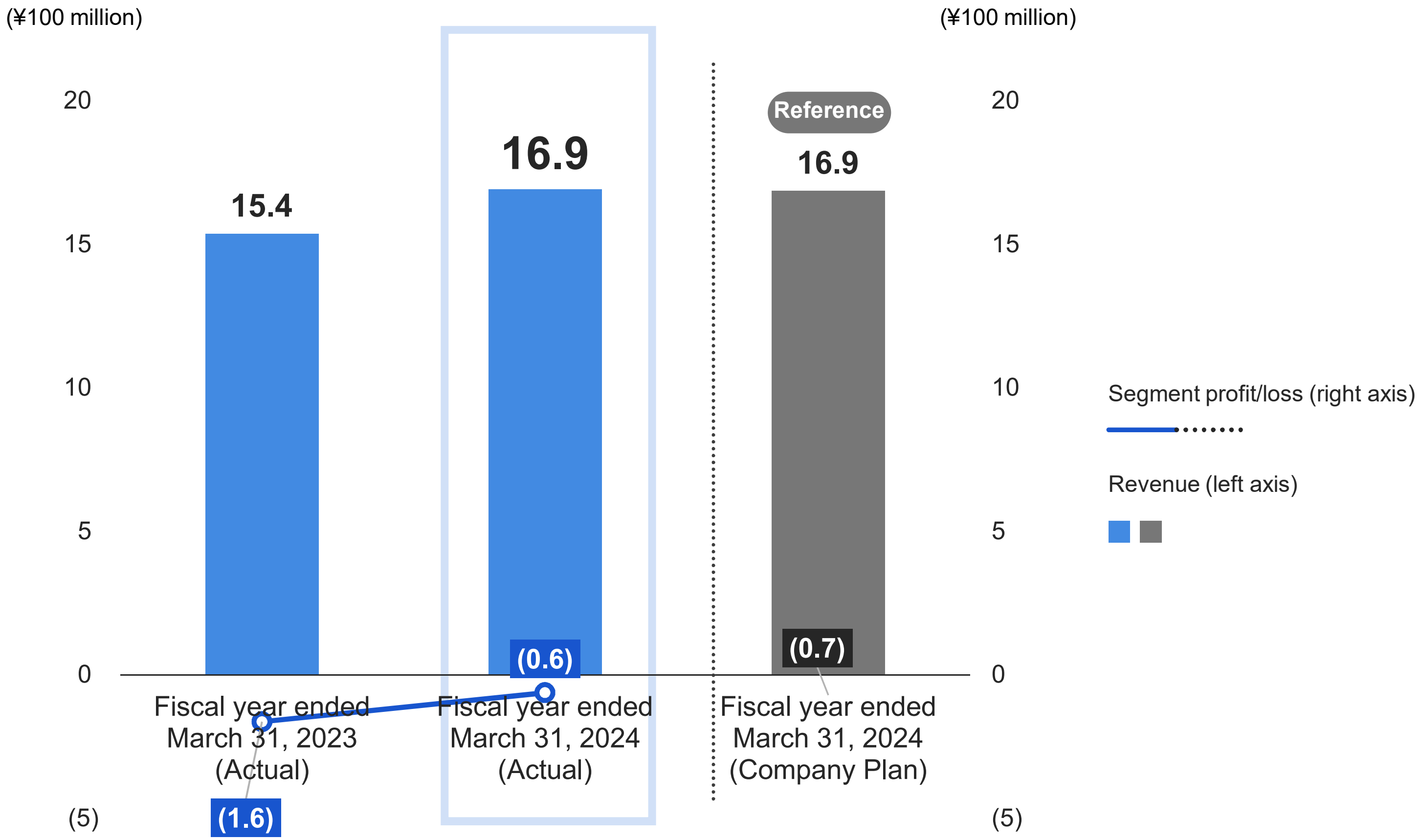
Revenue, Segment Profit/Loss



Main causes of change

- **Revenue**
  Revenue increased 10.1% year on year to ¥1,690 million, mainly due to a rise in domestic consumables demand before the price revision from September 2023 and large order awards of printing-related products.
- **Segment profit/loss**
  The increase in revenue, coupled with the reduced loss on valuation of inventories in the current fiscal year as a result of implementing the liquidation of products in the previous fiscal year in line with the business restructuring helped segment profit/loss improve by ¥100 million year on year, resulting in a segment loss of ¥60 million.

Segment Overview: Test and Measurement Equipment

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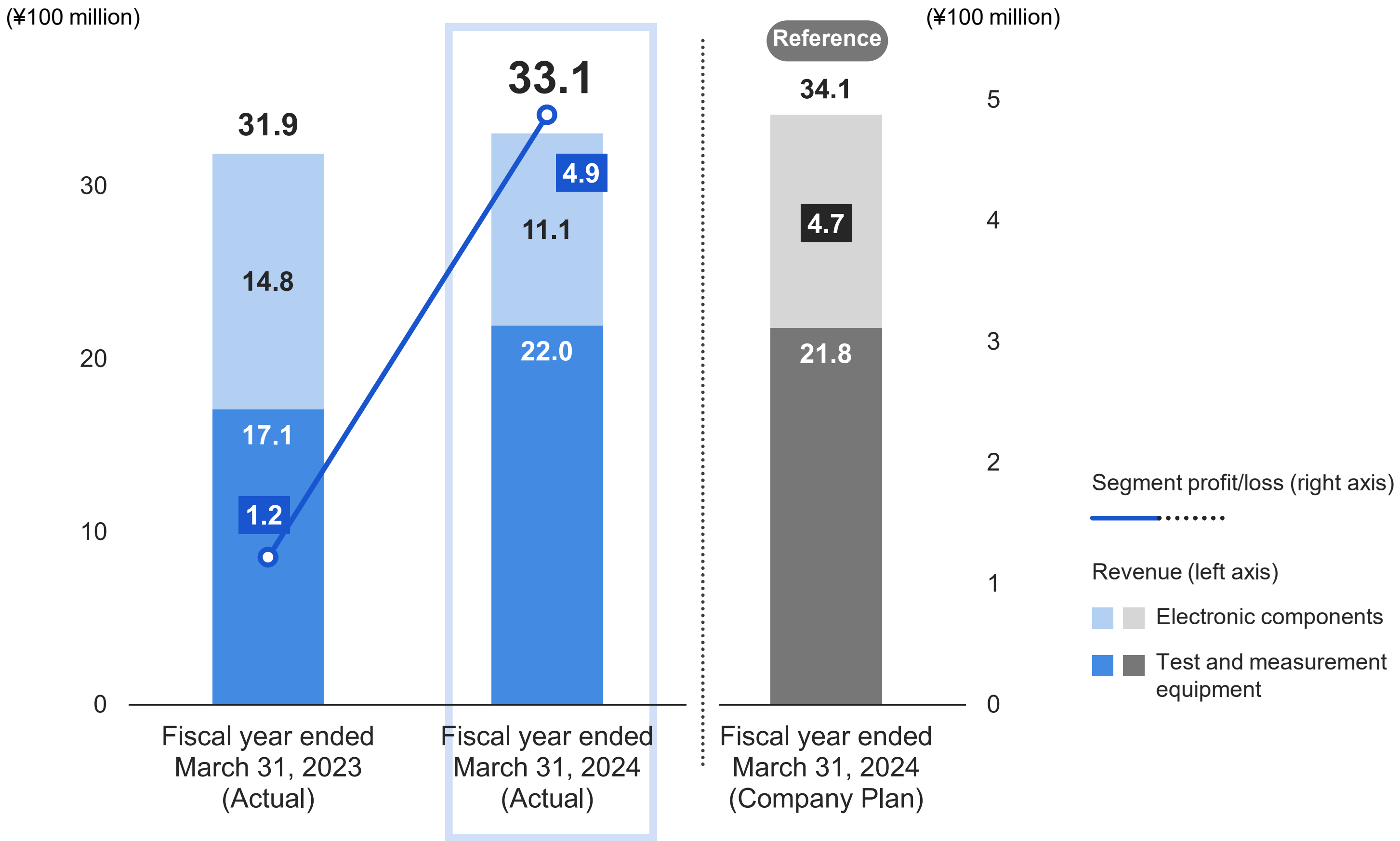
Revenue, Segment Profit/Loss



Main causes of change

- **Revenue**
  Revenue was ¥3,310 million, an increase of 3.7% year on year, due to growth in demand for power electronics-related products against a backdrop of rising environmental awareness, despite the decline (normalization) in electronic components sales as a repercussion of the extraordinary surge of demand in the previous fiscal year.

- **Segment profit/loss**
  Due to the improvement of the cost of sales ratio owing to the change of products composition, segment profit increased 300.0% year on year to ¥490 million.

Segment Overview: Property Leasing

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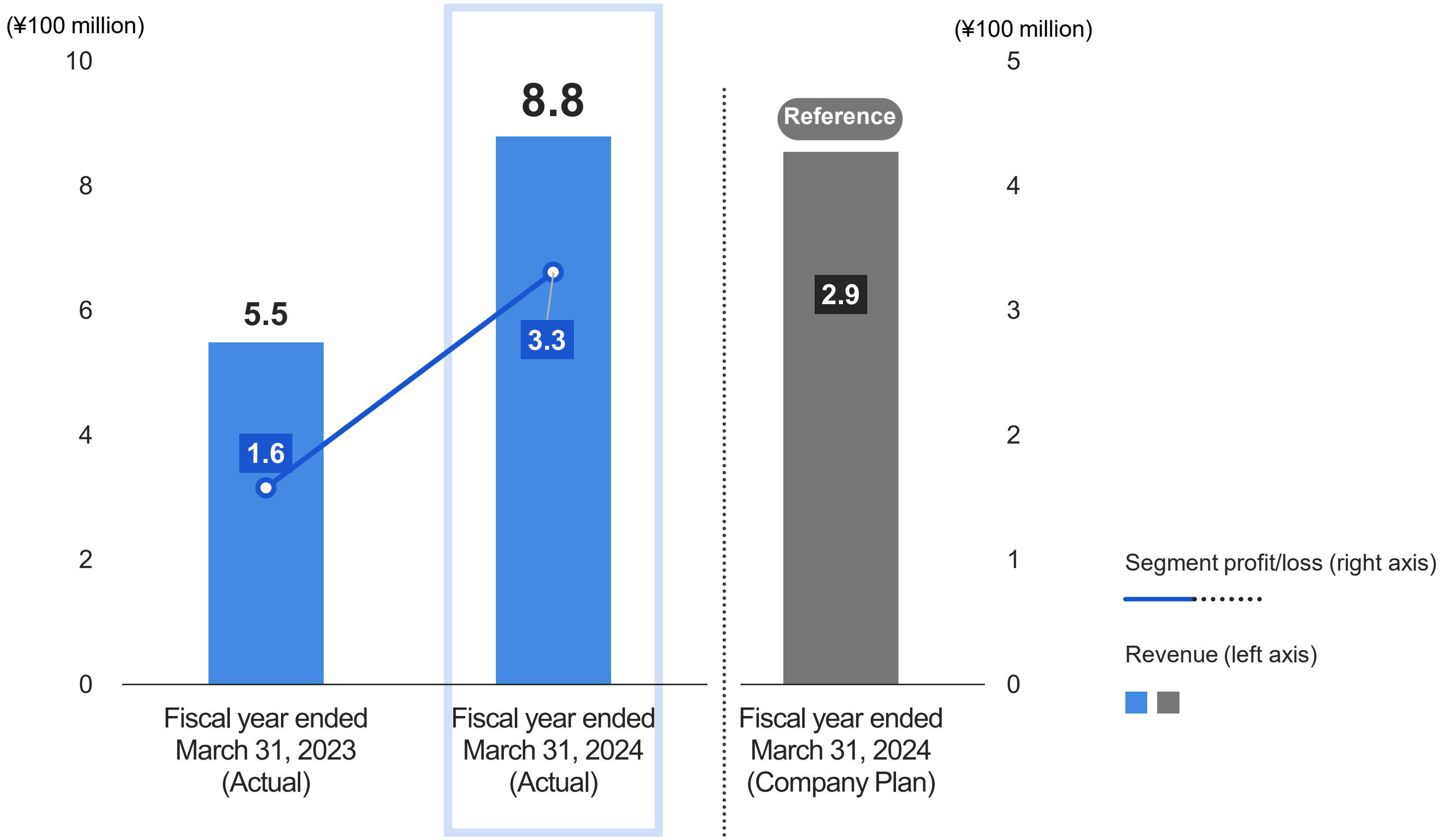
Revenue, Segment Profit/Loss



Main causes of change

- **Revenue**
  Revenue was ¥880 million, an increase of 60.1% year on year, due to the start of operation of rental apartments by an anonymous association that is a consolidated subsidiary, and the improved occupancy ratio of rental offices.

- **Segment profit/loss**
  Segment profit was ¥330 million, an increase of 109.4% year on year, due to the improved occupancy ratio of rental offices and the newly acquired rental apartments nearly fully occupied.

Consolidated Balance Sheet

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(¥100 million)	Fiscal year ended March 31, 2023*	Fiscal year ended March 31, 2024	Change from previous year
Current assets	168.6	191.6	+23.0
Non-current assets	184.3	275.5	+91.2
Total assets	**353.0**	**467.2**	**+114.2**
Current liabilities	41.2	36.1	(5.1)
Non-current liabilities	70.2	131.1	+60.9
Total liabilities	**111.5**	**167.3**	**+55.8**
Net assets	**241.5**	**299.8**	**+58.3**
Total liabilities and net assets	**353.0**	**467.2**	**+114.2**

* Includes impact of retrospective application due to changes in accounting policies

Main causes of change

- **Current assets: +¥2,300 million**
  Cash and deposits: +2,450
  Electronically recorded monetary claims-operating: +230
  Merchandise and finished goods: +220
  Raw materials and supplies: -430 etc.
- **Non-current assets: +¥9,120 million**
  Buildings and structures: +3,050
  Land: +5,090
  Investment securities: +1,120 etc.
- **Current liabilities: -¥510 million**
  Notes and accounts payable-trade: -460
  Contractual liabilities: -220 etc.
- **Non-current liabilities: +¥6,090 million**
  Long-term borrowings: +5,980 etc.
- **Net assets: +¥5,830 million**
  Share capital: +1,850
  Capital surplus: +1,850
  Retained earnings: +520
  Valuation difference on available-for-sale securities: +290
  Non-controlling interests: +1,390 etc.

Consolidated Statement of Cash Flows

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Cash and cash equivalents were ¥7.12 billion, up ¥2.46 billion from the end of the previous fiscal year.

(¥100 million)	Fiscal year ended March 31, 2023*	Fiscal year ended March 31, 2024	Year-on-year
Cash flows from operating activities	(4.3)	+7.7	+12.0
Cash flows from investing activities	(4.6)	(93.9)	(89.3)
Free cash flows	(9.0)	(86.1)	(77.1)
Cash flows from financing activities	(2.1)	+110.5	+112.6
Cash and cash equivalents	46.6	71.2	+24.6

* Includes impact of retrospective application due to changes in accounting policies

Major breakdown items

- **Cash flows from operating activities: +¥770 million**
  Profit before income taxes: +580
  Depreciation: +1,110
  Loss (gain) on sale of shares of subsidiaries and associates: -870
  Decrease (increase) in trade receivables: -1,250
  Decrease (increase) in inventories: -440
  Other: +1,590 etc.
- **Cash flows from investment activities: -¥9,390 million**
  Purchase of property, plant and equipment: -9,250
  Proceeds from (payments for) sale of shares of subsidiaries resulting in change in scope of consolidation: +440 etc.
- **Cash flows from financing activities: +¥11,050 million**
  Proceeds from long-term borrowings: +6,000
  Proceeds from issuance of shares: +3,690
  Proceeds from share issuance to non-controlling shareholders: +1,370 etc.

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Forecast for the Fiscal Year Ending March 31, 2025

Forecast for the Fiscal Year Ending March 31, 2025

In order to accelerate business selection and concentration to achieve the goals of "Thorough reduction of fixed costs" and "Promotion of growth strategies" outlined in the medium-term management plan REBORN, the Company will implement the following structural reforms as per our Notice Regarding the Implementation of Structural Reforms (announced on May 15, 2024).

Forecasts of earnings and dividends for the fiscal year ending March 31, 2025 are undetermined, pending a thorough examination of future circumstances. An announcement will be made as soon as the forecasts are determined.

[Optimization of Group staffing level and Group reorganization]

- In order to strengthen human capital and enhance labor productivity, we will shift resources to work related to DX promotion and high added value activities, and optimize staffing levels by approximately 200 across the Group by around September 2024.
- In order to pool our Group's human resources in a unified effort, and further streamline Group management, we will implement Group consolidation, including merging of our subsidiaries into the Company, aiming for completion by the end of the fiscal year ending March 31, 2026.
- We estimate the positive impact of the structural reforms to be an increase in operating profit of around ¥700 million in the fiscal year ending on March 31, 2025, and ¥1,200 million from the fiscal year ending on March 31, 2026 onward. We expect the impact on our business results of one-off expenses related to these structural reforms to be insignificant, as we are expecting one-off revenues that will offset the one-off expenses anticipated in the fiscal year ending March 31, 2025.

Caution Regarding Forward-Looking Information

Statements in this document regarding future plans, forecasts, strategies and other future information of the Company and the Group are based on certain assumptions that the Company determines to be reasonable based on information available at the time this document was prepared, and actual results may differ significantly from these assumptions. These statements regarding forward-looking information involve a variety of risks and uncertainties, the principal ones are listed below, but this list is not exhaustive.

- Trends at major customers
- Bias towards second-half performance
- Intensifying market competition with competitors
- Deterioration in business performance of business partners, etc.
- Litigation and other legal proceedings
- Natural disasters, etc.
- Information leaks
- Spread of infectious disease
- Procurement risks (e.g., supply shortages due to rapid changes in international conditions and increasing procurement prices)
- Economic trends

The statements contained herein do not constitute a public offering of securities.