Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

July 31, 2026

To All Concerned Parties

Company Name	Air Water Inc.	
Representative	Representative Director President and Executive Officer	Yoshihiro Senzai
	（Code Number 4088　Tokyo Stock Exchange Prime Market, Sapporo Stock Exchange Market）	
Contact	General Manager of Corporate Communications Office	Keisuke Fukushima
	（TEL　06-6252-3966）	

Notice Regarding Material Weaknesses in Internal Control over Financial Reporting and Filing of Internal Control Report and Amendment Report

As announced in our “Notice Regarding the Submission of Correction Reports for Annual Securities Reports and Other Reports for Prior Fiscal Years, and Amendments to Financial Results Summaries and Other Disclosures for Prior Fiscal Years” issued today, we have filed correction reports for Annual Securities Reports and other reports for prior fiscal years with the Kanto Local Finance Bureau and have made corrections to Financial Results Summaries and other disclosures for prior fiscal years.

Accordingly, today, pursuant to Article 24-4-5, Paragraph 1 of the Financial Instruments and Exchange Act, we filed amendment reports to the Internal Control Reports for prior fiscal years. In addition, pursuant to Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act, we filed an Internal Control Report stating that material weaknesses that should be disclosed existed in internal control over financial reporting with the Kanto Local Finance Bureau. We hereby announce the details as described below.

1. Details of the Material Weaknesses to Be Disclosed

We identified deficiencies in certain aspects of entity-level controls, internal controls over business processes, and internal controls over financial closing and financial reporting

processes at the Company and certain consolidated subsidiaries.
We have determined that these deficiencies are reasonably likely to have a material impact on financial reporting and therefore constitute material weaknesses that should be disclosed. The specific details are set forth in “6. Details of the Corrections.”

2.Measures Implemented to Remediate Material Weaknesses and the Status of Remediation

We have reaffirmed the importance of internal control over financial reporting and, based on the findings and recommendations of the Special Investigating Committee as well as the results of the reassessment of internal controls, have formulated recurrence prevention measures to remediate the material weaknesses that should be disclosed and have commenced their implementation.

Specifically, we are undertaking initiatives including reforming our corporate culture to place the highest priority on compliance, governance reforms such as strengthening the oversight function of the Board of Directors, strengthening our accounting and finance functions and subsidiary management framework, enhancing the internal audit function and the functions of the Audit & Supervisory Board, establishing and reviewing regulations and business processes relating to accounting treatment, and providing continuous education and training for officers and employees.

In addition, since April 2026, we have implemented various measures, including the dissemination of messages from top management and the holding of town hall meetings aimed at reforming our corporate culture, strengthening the whistleblowing system, enhancing the oversight function of the Board of Directors, reorganizing and strengthening the headquarters administrative divisions and the accounting and finance functions, strengthening collaboration with the accounting departments of subsidiaries, and expanding the scope of internal audits.

On the other hand, some of these measures have only recently been implemented, and it is therefore necessary to accumulate a certain period of operational results in order to evaluate their effectiveness. Accordingly, as of the date of submission of this report, we have not yet reached a stage where the remediation of the material weaknesses that should be disclosed can be considered complete.

We will continue to verify the operation and effectiveness of each measure on an ongoing basis and make necessary improvements in order to ensure the proper establishment and operation of internal control over financial reporting.

3. Impact on the Consolidated Financial Statements and Non-Consolidated Financial Statements

The necessary corrections arising from the material weaknesses that should be disclosed described above have been reflected in the amendment reports to the Annual Securities Reports and other reports for prior fiscal years submitted today, as well as in the corrections to Financial Results Summaries and other disclosures for prior fiscal years announced today.

4. Audit Opinions in the Auditor’s Reports on the Consolidated Financial Statements and Non-Consolidated Financial Statements

The opinion expressed in the auditor’s report on the consolidated financial statements is a “Qualified Opinion,” while the opinion expressed in the auditor’s report on the non-consolidated financial statements is an “Unmodified Opinion.”

5. Internal Control Reports Subject to Correction

The 21st Internal Control Report (from April 1, 2020, to March 31, 2021)
The 22nd Internal Control Report (from April 1, 2021, to March 31, 2022)
The 23rd Internal Control Report (from April 1, 2022, to March 31, 2023)

The 24th Internal Control Report (from April 1, 2023, to March 31, 2024)
The 25th Internal Control Report (from April 1, 2024, to March 31, 2025)

6. Details of the Corrections

With respect to the above Internal Control Reports, Item 3, “Matters Relating to Evaluation Results,” has been corrected as follows. The corrected portions are underlined.

(Note): The descriptions contained in the amended Internal Control Reports for the five fiscal years subject to correction differ depending on the facts and circumstances of each fiscal year, the timing of occurrence of the relevant matters, and the details of the material weaknesses that should be disclosed. Accordingly, this document describes the details of the corrections for the 25th fiscal year (fiscal year ended March 31, 2025) as a representative example.
For further details, please refer to the amendment reports to the Internal Control Reports for each fiscal year.

3. Matters Relating to Evaluation Results

(Before Correction)

Based on the above evaluation results, we concluded that our internal control over financial reporting was effective as of the end of the fiscal year.

(After Correction)

The deficiencies in internal control over financial reporting described below had a material impact on financial reporting and constituted material weaknesses that should be disclosed. Accordingly, we concluded that our internal control over financial reporting was not effective as of the end of the fiscal year.

We discovered, in July 2025, through a voluntary inspection, inappropriate accounting treatment (deferral of loss recognition) relating to inventories at our subsidiary Nippon Helium Inc. (“Nippon Helium”). Thereafter, in the course of an internal investigation, we discovered, in September 2025, inappropriate accounting treatment (deferral of loss recognition) relating to inventories, supplies and other items at our subsidiaries Air Water Ecoroca Co., Ltd. (“Ecoroca”) and Air Water Mechatronics Inc. (“AWMX”), as well as at the Company's Plant Gas Division, and also received comments from the independent auditor regarding these accounting treatments during the audit process. In response, we proceeded with an internal investigation led by an outside Audit & Supervisory Board Member with support from external attorneys and certified public accountants. However, as the possibility emerged that the Company's officers and employees had been involved in the four matters described above, and further investigation became necessary to determine whether similar incidents had occurred within the Company or other subsidiaries, we established a Special Investigating Committee composed of external experts on October 9, 2025.

Thereafter, we received an investigation report from the Special Investigating Committee on February 12, 2026 (as of February 9, 2026), a subsequent investigation report on March 31, 2026, and an additional investigation report on June 19, 2026. The reports revealed that, at AW Safety Service (AW Safety Service”), material inappropriate accounting treatment had been conducted, including the overstatement of work in process, the recognition of sales in inappropriate accounting periods, and profit manipulation through the reallocation of costs. In addition, at NIHON KAISUI (“NIHON KAISUI”), inappropriate accounting treatment had been conducted, including the arbitrary capitalization of periodic maintenance expenses and labor costs relating to plant facilities and the recognition of gross sales in agency transactions that should have been recognized on a net basis. Furthermore, it was discovered that, at the

Company and a substantial number of subsidiaries and affiliates (hereinafter collectively referred to as the “Group Companies”), inappropriate accounting treatment had been widely conducted using various methods for the purpose of overstating sales and profits, including the overstatement of inventories, the deferral of asset impairment losses, the overstatement or premature recognition of sales, the inflation of consolidated revenue through transactions involving unnecessary counterparties, the avoidance of recording provisions, and earnings adjustments through the capitalization of expenditures that did not qualify as assets (hereinafter, collectively referred to as the “Matter,” together with the four matters described above, the matter involving AW Safety Service, and the matter involving NIHON KAISUI).

Accordingly, we determined that it was necessary to retrospectively correct the amounts associated with the inappropriate accounting treatment relating to the Matter. As a result, on July 31, 2026, we filed amendment reports for the Annual Securities Reports for the fiscal years ended March 31, 2021, through 2025, the Quarterly Reports for the first quarter through the third quarter of the fiscal year ended March 31, 2024, and the Semi-Annual Reports for the interim periods of the fiscal years ended March 31, 2025, and 2026. Based on the facts identified in the investigation reports relating to the Matter and the reports regarding the analysis of its causes, we conducted a reassessment of our internal control over financial reporting. As a result, we identified deficiencies in entity-level controls and process-level controls at the Company and certain subsidiaries. We determined that these deficiencies were highly likely to have a material impact on financial reporting and included matters that constituted material weaknesses that should be disclosed. Accordingly, we decided to correct the section relating to the evaluation results of internal control over financial reporting.

We recognize the following as the causes of the Matter and the deficiencies in internal control.

(1) Organizational Culture, Governance Structure and Other Factors within the Group

At the Company and a substantial number of the Group Companies, inappropriate accounting treatment using various methods, including the overstatement of inventories and the overstatement of sales, was widely conducted, indicating the existence of numerous deficiencies in internal control.

Among these were cases that were intentionally carried out despite recognition that the treatment was inappropriate, cases conducted with the involvement of a substantial number of officers and employees, including directors, executive officers and departmental managers (hereinafter referred to as “Management”), and cases in which top management was found to have directly instructed or condoned such treatment.

In other words, internal controls were overridden with the involvement of top management, Management, and managers of administrative departments and other employees who played key roles in internal control. We have assessed that the following entity-level control deficiencies existed in the process that ultimately led to the override of internal controls.

＜Matrix of Organizational Culture, Governance Structure and Other Factors within the Group and Material Weaknesses that Should Be Disclosed＞

		＊1	CLC						FRCLC
			Control Environment	Risk Assessment and Response	Control Activities	Information and Communication	Monitoring	Response to IT	Personnel Assignment and Competence
MW1	(1)①	Vulnerability in Governance Due to the Concentration of Authority in Top	●						
MW2	(1)②	Governance Failure Caused by Top Management's Direct Involvement in Inappropriate Accounting Treatment and the Involvement of Numerous Officers and Employees in Inappropriate Accounting Practices Due to Deference to Top Management	●		●		●		
MW3	(1)③	Vulnerability in the Supervision of the Company's Business Divisions and Subsidiaries Due to Insufficient Personnel in the Accounting	●	●	●		●		●
MW4	(1)④	Lack of Monitoring Functions by the Internal Audit Department and the Audit & Supervisory Board	●	●	●	●	●		

＊1 CLC：Entity-level controls at the
FRCLC：Company-wide controls over financial closing and financial reporting processes at the Company

① Vulnerability in Governance Due to the Concentration of Authority in Top Management

Under a management environment in which rigid and excessively demanding performance targets that did not flexibly reflect actual business conditions or changes in the business environment were determined through a top-down process, and strict monthly budget-to-actual performance management was implemented, officers and employees throughout the Group were routinely subjected to considerable pressure, including severe reprimands from the former Chairman and Representative Director (the "Former Chairman") in cases of budget shortfalls or loss-making results.

In addition, with respect to the appointment of directors, executive officers and department heads of the Company, as well as presidents and directors of subsidiaries, the Former Chairman, who served as the top executive, effectively held the final decision-making authority. Nominations and appointments were made in line with the Former Chairman's intentions following prior consultations and consensus-building with him.

Furthermore, although directors' remuneration was to be deliberated and reviewed by the Nomination and Compensation Committee, authority to determine the individual remuneration of each director had been delegated to the Former Chairman. As with personnel decisions, this served as a source of the Former Chairman's strong influence.

Under such circumstances, in which the influence of top management extended significantly to personnel and compensation matters involving internal directors, it was difficult for individual internal directors to express frank opinions or critical views from an independent standpoint. In addition, even when outside directors raised concerns regarding compliance or governance, such comments were not reflected in business execution, and adequate follow-up by those who raised such concerns was not conducted.

As a result, we have assessed that entity-level control deficiencies existed in the following respects: the Board of Directors did not sufficiently perform its monitoring and oversight functions over top management; organizational structures and practices made it difficult to raise concerns even when problems existed; fairness in the performance evaluation of officers and employees was lacking; resources necessary for the preparation of reliable financial reporting were not appropriately allocated; and fundamental policies emphasizing the importance of reliable financial reporting were not clearly established.

② Governance Failure Caused by Top Management's Direct Involvement in Inappropriate Accounting Treatment and the Involvement of Numerous Officers and Employees in Inappropriate Accounting Practices Due to Deference to Top Management

Top management is in a position that should proactively promote an effective governance framework, including the establishment and maintenance of internal controls, in order to ensure appropriate business execution. However, because officers and employees throughout the Group, including Management, became aware that top management had directly instructed, approved, or tolerated inappropriate accounting treatment, a perception arose that achieving the Group's performance targets, even though inappropriate accounting treatment, was consistent with the intentions of top management. As a result, an atmosphere became pervasive in which engaging in inappropriate accounting treatment was regarded as unavoidable and justified, and ethical awareness was significantly diminished.
Consequently, governance failed to function effectively, as internal controls were not operating effectively (or were intentionally disregarded) at any level, including within business divisions (including subsidiaries under their supervision) (the first line), the Company's administrative departments such as the accounting department (the second line), and the Company's internal audit department (the third line). From the perspective of internal control evaluation, we have assessed that deficiencies existed in the control environment of entity-level controls, including the failure to clearly communicate fundamental policies emphasizing reliable financial reporting, the failure to appropriately design and operate internal systems based on sound corporate philosophies and codes of ethics, and organizational structures and practices that made it difficult to raise concerns even when problems existed.
We have also assessed that deficiencies existed in control activities of entity-level controls, in that control activities were not faithfully carried out throughout the organization. In addition, we have assessed that deficiencies existed in monitoring of entity-level controls, including the failure to appropriately incorporate ongoing monitoring into the Company's business activities and the failure to appoint individuals with sufficient knowledge and competence to carry out monitoring responsibilities effectively.

③ Vulnerability in the Supervision of the Company's Business Divisions and Subsidiaries Due to Insufficient Personnel in the Accounting Department

Although the scale of the Group expanded, the number of employees at the Company remained largely unchanged, and the organization and staffing of the Company's Accounting Department, which was responsible for overseeing Group companies, did not reach a sufficient level. As a result, the management structure was unable to keep pace with the increase in the number of Group companies driven by business expansion. Because of limitations in resources, it was difficult for the Accounting Department to proactively devote sufficient time to reviewing the accounting treatment and other matters of subsidiaries. In addition, an effective framework under which the Accounting Department could exercise appropriate oversight and checks into the Company's business divisions and subsidiaries have not been established. Furthermore, neither the Company's business divisions nor its subsidiaries had adequate management functions capable of ensuring appropriate business execution from an independent standpoint separate from interests in business performance. As a result, we have assessed that deficiencies existed in the control environment of entity-level controls and company-wide financial reporting processes, including the failure to secure personnel with appropriate expertise and the resources necessary for the preparation of reliable financial reporting. We have also assessed that deficiencies existed in risk assessment and response within entity-level controls, including the lack of a framework for reassessing risks arising from changes that could have a significant impact on financial reporting. In addition, we have assessed that deficiencies existed in control activities within entity-level controls, including the failure to clearly define roles and responsibilities relating to the preparation of reliable financial reporting. Furthermore, we have assessed that deficiencies existed in monitoring within entity-level controls, including the adequacy of the knowledge and competence of those responsible for monitoring, the implementation of necessary corrective actions in response to significant internal control information communicated from within and outside the Company, and the appropriate escalation of information relating to deficiencies in internal control.

④ Lack of Monitoring Functions by the Internal Audit Department and the Audit & Supervisory Board

The head of the Internal Audit Department, which was expected to serve as a key function in ensuring compliance throughout the Group, including the preparation of appropriate financial reporting, was himself involved in inappropriate accounting treatment and even engaged in conduct such as actively considering ways to avoid detection by the independent auditor. In addition, no framework had been established to ensure that issues identified through internal audits were shared with the Representative Director, Audit & Supervisory Board Members, or other relevant parties on a timely basis and promptly remediated. Furthermore, the Internal Audit Department faced limitations in terms of both staffing and capabilities and did not have an adequate structure to effectively complete internal control evaluations. For example, the Company itself was not included within the scope of internal operational audits, and it had become customary for all internal control evaluations to conclude that controls were effective. As a result, the intended disciplinary and monitoring effect of internal control evaluations over the entities being assessed did not function adequately.

The Audit & Supervisory Board likewise did not engage in sufficient proactive discussions regarding the risk of inappropriate accounting treatment, nor did it sufficiently share information or coordinate with the Internal Audit Department and the independent auditor regarding audit results, findings, and other relevant matters. Consequently, it did not sufficiently exercise its oversight function over management with respect to financial reporting and the related internal controls.

As a result, we have assessed that deficiencies existed in the control environment of entity-level controls, including the failure of the Audit & Supervisory Board to appropriately supervise and monitor management with respect to financial reporting and related internal controls, and the failure to allocate the resources necessary for the preparation of reliable financial reporting. We have also assessed that deficiencies existed in risk assessment and response within entity-level controls, in that factors both inside and outside the Company that could affect financial reporting were not appropriately considered. In addition, we have assessed that deficiencies existed in control activities within entity-level controls, including the failure to faithfully carry out control activities throughout the organization and the failure to take appropriate action in response to identified issues. Furthermore, we have assessed that deficiencies existed in information and communication within entity-level controls, including the failure to appropriately escalate important information relating to internal controls. We have also assessed that deficiencies existed in monitoring within entity-level controls, including the failure to appropriately adjust the scope and frequency of independent evaluations based on the effectiveness of ongoing monitoring, the lack of sufficient knowledge and competence among those responsible for monitoring, and the failure to implement necessary corrective actions in response to significant internal control information communicated from within and outside the Company.

(2) Inappropriate Accounting Treatment Cases

As a result of the entity-level control deficiencies at the Company described above, internal controls relating to various business processes failed to function effectively, giving rise to multiple cases of inappropriate accounting treatment.
The relationship between the inappropriate accounting treatment cases and the identified deficiencies in internal control is shown in the table below.

＜Matrix of Inappropriate Accounting Treatment Cases and Material Weaknesses that Should Be Disclosed＞

		*1	CLC			Subsidiary CLC		FRCLC		Subsidiary FRCLC
		*2	Control Environment	Risk Assessment and Response	Monitoring	Control Environment	Information and Communication	Accounting Policies	Personnel Assignment and Competence	Closing Journal Entries
MW1	(2)①	Failure to Record Inventory Valuation Losses	●	●	●					
		Overstatement of Inventories at Ecoroca	●	●	●	●	●			
		Deferral of Valuation Losses on Slow-Moving Inventories at AWMX	●	●	●	●	●			
MW1-1		Overstatement of Inventories at Nippon Helium	●	●	●	●	●			
MW1-2		Overstatement of Inventories at AW Safety Service	●	●	●	●	●			
MW2	(2)②	Gross Recognition of Revenue from Agency Transactions, Transactions Involving Materials Supplied for Consideration, etc.	●	●	●			●	●	
		Overstatement of Sales through Double Transaction Flows, Premature Recognition of Sales, etc.	●	●	●					
		Overstatement of Sales at Ecoroca	●	●	●	●	●			
MW2-1		Premature Recognition of Revenue under Percentage-of-Completion and Construction Revenue at AW Safety Service	●	●	●	●	●			
MW2-3		Premature Recognition of Sales at AWMX	●	●	●	●	●			
MW5	(2)③	Determination of the Scope of Consolidation						●	●	
MW3	(2)④	Failure to Recognize Asset Retirement Obligations						●	●	
MW4	(2)⑤	Capitalization of Expenditures That Did Not Meet the Requirements for Asset Recognition at the Company	●	●	●			●	●	
		Capitalization of Expenditures That Did Not Meet the Requirements for Asset Recognition at NIHON KAISUI	●	●	●	●	●	●	●	●
	(2)⑥	Failure to Recognize Impairment Losses on Fixed Assets	●	●	●	●				

		*1	Subsidiary CLC		FRPLC		Subsidiary FRCLC	PLC		
		*2	Accounting Policies	Personnel Assignment and Competence	PKG Approval	Consolidation Worksheet Approval	Fixed Asset Impairment	Sales	Purchasing	Inventories
MW1	(2)①	Failure to Record Inventory Valuation Losses			●	●				
		Overstatement of Inventories at Ecoroca			●	●				
		Deferral of Valuation Losses on Slow-Moving Inventories at AWMX			●	●				
MW1-1		Overstatement of Inventories at Nippon			●	●				●
MW1-2		Overstatement of Inventories at AW Safety Service			●	●			●	●
MW2	(2)②	Gross Recognition of Revenue in Agency Transactions, Transactions Involving Materials Supplied for Consideration, etc.	●	●	●	●				
		Overstatement of Sales through Double Transaction Flows, Premature Recognition of Sales, etc.			●	●				
		Overstatement of Sales at Ecoroca			●	●				
MW2-1		Premature Recognition of Sales under Percentage-of-Completion Contracts and Construction Revenue at AW Safety Service			●	●		●	●	
MW2-3		Premature Recognition of Sales at AWMX			●	●		●		
MW5	(2)③	Determination of the Scope of Consolidation								
MW3	(2)④	Failure to Recognize Asset Retirement Obligations								
MW4	(2)⑤	Capitalization of Expenditures That Did Not Meet the Requirements for Asset Recognition at the Company								
		Capitalization of Expenditures That Did Not Meet the Requirements for Asset Recognition at NIHON KAISUI			●	●				
	(2)⑥	Failure to Recognize Impairment Losses on Fixed Assets		●	●	●	●			

*1
CLC: Entity-level controls at the Company
Subsidiary CLC: Entity-level controls at subsidiaries
FRCLC: Company-wide controls over financial closing and financial reporting processes at the Company
Subsidiary FRCLC: Company-wide controls over financial closing and financial reporting processes at subsidiaries
FRPLC: Internal controls over business processes relating to financial closing and financial reporting at the Company
Subsidiary FRPLC: Internal controls over business processes relating to financial closing and financial reporting at subsidiaries
PLC: Internal controls over business processes at the Company or subsidiaries

*2
Accounting Policies: Selection and application of accounting policies
Closing Journal Entries: Review and approval of closing journal entries by supervisors
PKG Approval: Approval of subsidiary consolidation packages by supervisors in the Company's Accounting Department
Consolidation Worksheet Approval: Approval of consolidation worksheets by supervisors in the Company's Accounting Department

① Inappropriate Accounting Treatment of Inventories

At the Group, inappropriate accounting treatment of inventories had been conducted, including the overstatement of inventories, failure to record valuation losses, and deferral of such losses. For example, at Nippon Helium, a subsidiary of the Company, losses arising from unavoidable raw material losses were deferred by not recording such losses and by overstating raw materials. Although a substantial number of officers and employees of Nippon Helium and the Company were aware of this deferral of loss recognition, appropriate accounting treatment was not immediately performed, and similar inappropriate accounting treatment continued.

At Ecoroca, another subsidiary of the Company, inappropriate accounting treatment had also been conducted, including differences in inventory quantities resulting from the failure to conduct physical inventory counts, understatement of the unit cost of cost of sales due to overvaluation of inventory unit prices, overstatement of inventories due to delays in processing inventory issues, negative cost adjustments through inappropriate inventory corrections, and failure to record valuation losses on slow-moving or defective inventories, supplies and other items. Even after this series of inappropriate accounting treatment was discovered, the recognition of losses continued to be deferred. We recognize that part of this inappropriate accounting treatment involved the then President and Representative Director of Ecoroca, the Former Chairman of the Company, and the then General Manager of the Company's Internal Audit Department.

At AWMX, a subsidiary of the Company, the then Executive Officer of the Company and Director of AWMX did not approve the recording of inventory valuation losses in accordance with the Group's accounting practice guidelines in order to achieve the budget. As a result, the recognition of valuation losses on slow-moving inventories was deferred by recording valuation losses only to the extent that such processing could be approved internally within AWMX.

At AW Safety Service, another subsidiary of the Company, under the leadership of the then Managing Director of AW Safety Service, costs that should have been expensed in relation to work orders used to manage temporary expenses for make-to-stock products were capitalized as work in process balances, resulting in the deferral of such expenses. Even after this matter was reported to the then President and Representative Director of AW Safety Service, the Former Chairman of the Company, and the then General Manager of the Company's Accounting Department, appropriate accounting treatment was not immediately performed, and similar inappropriate accounting treatment continued.

With respect to these cases of inappropriate accounting treatment involving subsidiaries or officers of the Company, deficiencies existed in the control environment and information and communication within entity-level controls. Specifically, the subsidiaries had not sufficiently established a corporate culture that would serve as the foundation for preparing reliable financial reporting, timely and appropriate communication of information to management within the parent company and subsidiaries had not been sufficiently ensured, and personnel with the necessary knowledge and skills had not been sufficiently assigned. In addition, although written pledges clearly stating a sincere commitment to reliable financial reporting had been submitted by subsidiary presidents to the Company's Accounting Department, reliable financial reporting was not actually being performed.

In addition to the above, multiple Group companies failed to record inventory valuation losses. We have assessed that deficiencies existed in the control environment, risk assessment and response, and monitoring within entity-level controls. These deficiencies included the failure of the Company to establish, throughout the Group, a corporate culture that would serve as the foundation for preparing reliable financial reporting; the failure to define the level of knowledge and skills necessary for the preparation of reliable financial reporting and to appropriately assign relevant personnel; the insufficiency of a comprehensive risk assessment management framework for the preparation of reliable financial reporting; and the failure to appoint individuals with sufficient knowledge and competence to perform duties as persons responsible for conducting monitoring, including audits by the Internal Audit Department.

We have also assessed that deficiencies existed in business processes relating to financial closing and financial reporting, as the Accounting Department did not appropriately approve the appropriateness of financial information collected from subsidiaries in the process of preparing consolidated financial statements or the appropriateness of the consolidated financial statements prepared based on such information, and did not conduct in-depth verification. At Nippon Helium, we have assessed that deficiencies existed in internal controls over the inventory process, including the failure to conduct physical inventory counts of raw materials and the failure, since prior fiscal years, to have inventory details reviewed by a third party other than the preparer.

At AW Safety Service we have assessed that deficiencies existed in internal controls over the purchasing and inventory processes. Specifically, work orders used to manage temporary expenses made it possible to record, as accounting assets in work in process balances, amounts that should originally have been recorded as costs for the projects in which the expenses were incurred, and there was no confirmation that the balances in the front-end system and the accounting system matched.

② Inappropriate Accounting Treatment of Sales

At the Group, inappropriate accounting treatment had been conducted, including the premature recognition of sales, the recognition of gross sales in agency transactions, and the overstatement of sales. For example, at Ecoroca, numerous instances of inappropriate accounting treatment relating to sales were identified, including improper sales recognition relating to consigned inventories, entrusted inventories, and deposits received. At AWMX, in connection with sales transactions involving equipment for which performance verification was a condition for acceptance, sales were recognized prematurely by treating the equipment as accepted prior to completion of performance verification based on discussions with customers. At AW Safety Service, sales were recognized prematurely in percentage-of-completion contracts and construction projects.

We have assessed that these instances of inappropriate accounting treatment were attributable to deficiencies in the control environment and information and communication within entity-level controls at the subsidiaries, similar to those described in ① above. In addition to the above, several subsidiaries recognized revenue from agency transactions and transactions involving materials supplied for consideration on a gross basis. This occurred because, when determining the appropriate accounting treatment for transactions, transactions were not classified with an appropriate level of granularity and assessed according to their respective transaction types. As a result, revenue was recognized on a gross basis even for transactions that should have been recognized on a net basis. From the perspective of internal control evaluation, in addition to the deficiencies in the control environment, risk assessment and response, monitoring, and business processes relating to financial closing and financial reporting within the Company's entity-level controls described in ① above, we have assessed that deficiencies existed in company-wide controls over financial closing and financial reporting at the Company and certain subsidiaries. These deficiencies included the failure to adequately verify that the Group's accounting policies complied with generally accepted accounting principles and the failure to assign a sufficient number of personnel with the appropriate expertise necessary to make proper accounting judgments.

In addition, at several other subsidiaries, sales lacking economic substance were recorded twice by re-entering the same transaction flow through companies outside the Group, and sales were recognized prematurely or deferred. We have assessed that these matters were attributable to deficiencies in the control environment, risk assessment and response, monitoring, and business processes relating to financial closing and financial reporting within the Company's entity-level controls, similar to those described in ① above.

With respect to the premature recognition of sales at AW Safety Service in percentage-of-completion contracts and construction projects, we have assessed that deficiencies existed in internal controls over the sales and purchasing processes. Specifically, the persons responsible for construction procurement did not appropriately approve purchase authorization documents, the persons responsible for construction planning did not appropriately approve cost management records, and the persons responsible for sales did not appropriately approve sales slips after reconciling them with supporting documentation.

With respect to the premature recognition of sales at AWMX, we have assessed that deficiencies existed in internal controls over the sales process, in that department managers did not sufficiently verify recorded sales against supporting sales evidence, and administrative departments, including the accounting department, did not sufficiently confirm the consistency between recorded sales transactions and the supporting documentation therefor.

③ Determination of the Scope of Consolidation

Following the Special Investigating Committee's investigation, it was discovered that multiple instances of inappropriate accounting treatment had been conducted through the use of unconsolidated subsidiaries for the purpose of recognizing profits in both the Company's non-consolidated and consolidated financial reporting. As a result, we decided to include all subsidiaries within the scope of consolidation.

While the Group had excluded certain subsidiaries from consolidation by applying the concept of materiality under the IFRS Conceptual Framework in interpreting the IFRS principle requiring the consolidation of all subsidiaries, the Group continued to expand through M&A and other initiatives. However, due in part to insufficient personnel within the Accounting Department, rules and procedures for reasonably reviewing the scope of consolidation, taking into account not only quantitative materiality but also qualitative factors, had not been sufficiently established or operated.

We have assessed that deficiencies existed in company-wide controls over financial closing and financial reporting processes, including the failure to adequately verify that the Group's accounting policies complied with generally accepted accounting principles and the failure to assign a sufficient number of personnel with the appropriate expertise necessary to properly determine the scope of consolidation.

④ Failure to Recognize Asset Retirement Obligations

At the Company and several subsidiaries, asset retirement obligations were not recognized because the Group's rules were not revised in light of actual experience relating to the removal of plant facilities and other assets. We have assessed that this matter was attributable to deficiencies in company-wide controls over financial closing and financial reporting processes similar to those described in ③ above.

⑤ Capitalization of Expenditures That Did Not Meet the Requirements for Asset Recognition

At the Company, accounting treatment had been conducted whereby expenditures that should have been classified as revenue expenditures were classified as capital expenditures, and expenditures that did not meet the requirements for asset recognition were capitalized. We recognize that one of the causes of this was that rules for distinguishing between revenue expenditures and capital expenditures were not clearly established with respect to expenditures, and that this unclear operation consequently made it possible to avoid expense recognition by considering the degree of achievement against the performance budget.
From the perspective of internal control evaluation, in addition to assessing that deficiencies existed in the control environment, risk assessment and response, and monitoring within entity-level controls, including the failure of the Company to establish a corporate culture that would serve as the foundation for preparing reliable financial reporting, the failure to define the level of knowledge and skills necessary for the preparation of reliable financial reporting and to

appropriately assign relevant personnel, the insufficiency of a comprehensive risk assessment management framework for the preparation of reliable financial reporting, and the failure to appoint individuals with sufficient knowledge and competence to perform duties as persons responsible for conducting monitoring, including audits by the Internal Audit Department, we have also assessed that deficiencies existed in company-wide controls over financial closing and financial reporting processes similar to those described in ③ above.

Similarly, at NIHON KAISUI, a subsidiary of the Company, in the absence of clear rules for determining capital expenditures, accounting treatment had been conducted whereby expenditures that did not meet the requirements for asset recognition, such as revenue expenditures and labor costs of personnel in the equipment and safety groups at each plant, were capitalized.

As with the above, we have assessed that deficiencies existed in the control environment, risk assessment and response, and monitoring within entity-level controls, including the failure of the Company to establish, throughout the Group, a corporate culture that would serve as the foundation for preparing reliable financial reporting, as well as deficiencies in company-wide controls over financial closing and financial reporting processes.

We have also assessed that deficiencies existed in business processes relating to financial closing and financial reporting, as the Accounting Department did not appropriately approve the appropriateness of financial information collected from subsidiaries in the process of preparing consolidated financial statements or the appropriateness of the consolidated financial statements prepared based on such information, and did not conduct in-depth verification.

Furthermore, at NIHON KAISUI, deficiencies existed in the control environment and information and communication within entity-level controls, as the company had not sufficiently established a corporate culture that would serve as the foundation for preparing reliable financial reporting, had not sufficiently ensured timely and appropriate communication of information to management within the parent company and subsidiaries, and had not sufficiently assigned personnel with the necessary knowledge and skills. In addition, although written pledges clearly stating a sincere commitment to reliable financial reporting had been submitted by subsidiary presidents to the Company's Accounting Department, reliable financial reporting was not actually being performed. We have also assessed that deficiencies existed in company-wide controls over financial closing and financial reporting processes, as closing journal entries had been approved without sufficient review by supervisors.

⑥ Failure to Recognize or Understatement of Impairment Losses on Fixed Assets

At NIHON KAISUI, NIHON KAISUI TTS Kanda Power Co., Ltd. ("Kanda Power"), and Air Water Onahama Biomass Power Co., Ltd. ("Onahama Biomass Power"), impairment assessments of fixed assets had not been performed, resulting in the failure to recognize impairment losses. In addition, at Air Water India Private Limited ("AW India"), the recoverable amount was not appropriately determined in measuring impairment losses on fixed assets, resulting in an understatement of impairment losses. From the perspective of internal control evaluation, we have assessed that, similar to the matters described in ⑤ above, deficiencies existed in the Company's entity-level controls and company-wide controls over financial closing and financial reporting processes. In addition, at NIHON KAISUI, Kanda Power, and Onahama Biomass Power, deficiencies existed in company-wide controls over financial closing and financial reporting processes, in that a sufficient number of personnel with the appropriate expertise necessary to make proper accounting judgments had not been assigned. We have also assessed that deficiencies existed in internal controls over business processes relating to financial closing and financial reporting, in that evaluations of whether impairment losses on fixed assets should be recognized were not performed in accordance with the Group's accounting policies. These deficiencies in entity-level controls, business processes, and controls over financial closing and financial reporting processes have a material impact on financial reporting. Accordingly, we have determined that they constitute material weaknesses that should be disclosed.

As these facts were identified after the end of the fiscal year, we were unable to remediate these deficiencies by the end of the fiscal year.

We recognize the importance of internal control over financial reporting and, in order to remediate these material weaknesses, we will enhance and strengthen the design and operation of internal controls by implementing the following recurrence prevention measures, taking into account the findings and recommendations of the Special Investigating Committee.

Inappropriate Incidents or Cases	Recurrence Prevention Measures
(1)①Vulnerability in Governance Due to the Concentration of Authority in Top Management	We will undertake fundamental reforms aimed at fostering a corporate culture that places the highest priority on compliance and promotes a sound, open, and ethical working environment. Specifically, we will ensure that the Representative Director clearly demonstrates and communicates his commitment to corporate reform, clarify organizational roles, responsibilities and lines of authority, and reconstruct reporting processes. In addition, we will enhance and strengthen compliance awareness among top management and Management and continuously communicate the importance of placing the highest priority on compliance. We will also work to establish appropriate performance targets and eliminate excessive performance pressure, strengthen the oversight function of the Board of Directors, and enhance the role of the Nomination and Compensation Committee. Furthermore, evaluations of officers and employees will be conducted through a collective review process in order to ensure transparency. Measures relating to the allocation of resources necessary for the preparation of reliable financial reporting are the same as the recurrence prevention measures described in “(1) ① Vulnerability in the Supervision of the Company’s Business Divisions and Subsidiaries Due to Insufficient Personnel in the Accounting Department.”
(1)②Governance Failure Caused by Top Management’s Direct Involvement in Inappropriate Accounting Treatment and the Involvement of Numerous Officers and Employees in Inappropriate Accounting Practices Due to Deference to Top Management	We will institutionalize training on corporate ethics management for top management and Management and will provide ongoing education and training on professional ethics and accounting literacy to all employees across the Group. Through these initiatives, we will fundamentally strengthen education and training relating to ethics and accounting literacy. In addition, we will strengthen the operation of the whistleblowing system by establishing external reporting channels and a reporting channel to outside Audit & Supervisory Board Members that ensure independence, while also promoting a broader understanding that the whistleblowing system is a means of protecting the organization.

	Furthermore, the Board of Directors will re-examine and share its understanding of the importance of compliance and governance, including the effectiveness of business operations and internal controls across the entire Group, including subsidiaries. At the same time, we will provide training for directors, reconstruct internal controls from a Group-wide perspective, and establish a framework under which information relating to compliance and governance throughout the Group is reported to the Board of Directors on a monthly basis. In addition, we will conduct fact-finding investigations and identify issues relating to detected misconduct and fraud risks, formulate and implement recurrence prevention measures, and carry out ongoing monitoring on a regular basis.
(1)③Vulnerability in the Supervision of the Company's Business Divisions and Subsidiaries Due to Insufficient Personnel in the Accounting Department	To strengthen oversight and control functions over the Company's business divisions and subsidiaries, we will appoint an executive officer with extensive expertise in finance and accounting. In addition, we will assign and increase personnel with sufficient knowledge and experience in accounting and disclosure practices, reconstruct business processes with clearly defined segregation of duties, approval authorities, and control functions, and enhance coordination and communication among accounting departments at the headquarters and subsidiaries. Through these efforts, we will establish a framework that enables appropriate accounting treatment based on a thorough understanding of business operations. Furthermore, we will thoroughly reinforce awareness that the accounting function serves as the organization ultimately responsible for consolidated financial reporting and disclosure practices and constitutes a key component of internal control over financial reporting. At the same time, we will provide continuous education and training to ensure a sufficient level of accounting knowledge.
(1)④Lack of Monitoring Functions by the Internal Audit Department and the Audit & Supervisory Board	We will assign and increase personnel with sufficient knowledge and experience to appropriately perform internal audit activities and, while supplementing any gaps through the support of external specialists, simultaneously ensure that such knowledge and expertise are accumulated within the Internal Audit Department. In addition, we will clarify and thoroughly communicate roles and responsibilities relating to monitoring and oversight, and will verify and evaluate risk factors and deficiencies identified through internal audits, whistleblowing reports and other channels, while ensuring that such information is promptly shared with the relevant organizations. Furthermore, we will provide education and training to members of the Internal Audit Department and strengthen coordination with Audit & Supervisory Board Members and the independent auditor, thereby enhancing the internal audit function.

	With respect to the Audit & Supervisory Board, we will strengthen its structure and functions through measures such as revising audit plans based on a risk-based approach, appointing audit assistants, expanding support functions for collecting internal information and identifying issues, and utilizing external fraud and accounting specialists. In addition, the Audit & Supervisory Board will proactively collect information and identify signs of risk at an early stage, conduct in-depth risk-based audits reflecting changes in risk conditions, and strengthen coordination with the Internal Audit Department and the independent auditor, thereby enhancing its audit function.
(2) ①Inappropriate Accounting Treatment of Inventories (2) ②Inappropriate Accounting Treatment of Sales	In addition to the recurrence prevention measures to address the deficiencies in entity-level controls at the Company described above, we will revise relevant regulations in order to clearly establish rules governing important processes, including accounting-related procedures, as part of our efforts to develop, communicate, and embed Group-wide rules. We will also hold regular meetings to strengthen coordination between the Company's Accounting Department and the accounting departments of subsidiaries and establish a framework under which the Company's Accounting Department can assess the appropriateness of accounting treatment based on an understanding of the business operations and transaction substance of subsidiaries. As recurrence prevention measures to address deficiencies in entity-level controls at subsidiaries, top management and Management will continuously communicate the importance of placing the highest priority on compliance throughout the Group. At the same time, we will promote the sharing of management's commitment through direct dialogue with employees across the Group, enhance employees' compliance awareness, create an organization that ensures psychological safety, and foster a corporate culture in which all employees respect one another and can express their views openly and freely. In addition, subsidiaries will enhance the development of internal regulations, business workflows, and operational improvements. At the same time, in order to ensure appropriate accounting operations as subsidiaries of a listed company, we will assign and increase personnel with sufficient knowledge and experience, improve accounting literacy through education and training relating to operational and accounting processes, and rebuild internal controls from a Group-wide perspective by conducting periodic validation and monitoring of areas where inappropriate accounting treatment could occur, including inventory management and sales management. With respect to the overstatement of inventories at Nippon Helium, improvements will be made by conducting physical inventory counts on a regular basis and having inventory records reviewed by a third party other than the preparer to verify their

	appropriateness. With respect to the overstatement of inventories at AW Safety Service, improvements will be made by reconciling balances between the accounting system and the front-end system and by prohibiting purchase transactions that are not linked to actual customer orders. With respect to the premature recognition of revenue in percentage-of-completion contracts and construction projects at AW Safety Service, we will improve controls by prohibiting the procurement of raw materials and other items that are not necessary for the relevant construction projects. In addition, with respect to other instances of premature revenue recognition in construction projects, we will require the administrative department to obtain supporting documentation evidencing the completion of construction work directly from customers. Furthermore, we will establish a new department responsible for verifying the appropriateness of construction costs, and this department will collect purchase order acknowledgements from subcontractors as part of its review procedures. With respect to the premature recognition of revenue at AWMX, we will improve controls by requiring the Performance Management Department, which operates independently from the sales division, to review supporting documentation for revenue recognition and record revenue only after such verification has been completed.
(2)③Determination of the Scope of Consolidation (2)④Failure to Recognize Asset Retirement Obligations (2)⑤Capitalization of Expenditures That Did Not Meet the Requirements for Asset Recognition (2)⑥Failure to Recognize or Understatement of Impairment Losses on Fixed Assets	As part of our efforts to develop, communicate, and embed Group-wide rules, we will revise relevant regulations in order to clearly establish rules governing important processes, including accounting-related procedures. In addition, we will hold regular meetings to strengthen coordination between the Company's Accounting Department and the accounting departments of subsidiaries and establish a framework under which the Company's Accounting Department can assess the appropriateness of accounting treatment based on an understanding of the business operations and transaction substance of subsidiaries. Furthermore, we will provide ongoing education and training on professional ethics and accounting literacy to all employees across the Group in order to promote awareness of the Group's rules and enhance accounting literacy throughout the Group. At the same time, we will thoroughly reinforce among members of the Company's Accounting Department the understanding that the Accounting Department serves as the organization ultimately responsible for consolidated financial reporting and disclosure practices and constitutes a key component of internal control over financial reporting, while also providing continuous education and training to ensure a sufficient level of accounting knowledge. In addition, we will assign and increase personnel with sufficient knowledge and experience in accounting and disclosure practices

	and secure adequate resources for subsidiary management. We will also enhance coordination and communication between the accounting departments of the headquarters and subsidiaries and establish a framework that enables appropriate accounting treatment based on a thorough understanding of business operations. In addition, at NIHON KAISUI, Nihon Kaisui TTS Kanda Power Co., Ltd. (“Kanda Power”), Air Water Onahama Biomass Power Co., Ltd. (“Onahama Biomass Power”), and Air Water India Private Limited (“AW India”), we will strengthen the development of internal regulations, business workflows, and operational improvements. At the same time, in order to ensure appropriate accounting operations as subsidiaries of a listed company, we will assign and increase personnel with sufficient knowledge and experience, improve accounting literacy through education and training relating to operational and accounting processes, and establish a framework that enables accounting treatment in accordance with the Group’s accounting policies. Furthermore, we will rebuild internal controls by conducting periodic validation and monitoring of areas where inappropriate accounting treatment could occur, including the capitalization of fixed assets and assessments of whether impairment losses on fixed assets should be recognized.

END