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Securities code: 7995

June 2, 2020

To our shareholders:

Yoshihiro Hombo
Representative Director and President
VALQUA, LTD.
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo

Notice of the 120th Annual General Meeting of Shareholders

You are cordially invited to attend the 120th Annual General Meeting of Shareholders of VALQUA, LTD. (the “Company”), which will be held as indicated below.

Institutional investors can utilize the electronic voting platform operated by ICJ, Inc.

1. Date and time	Thursday, June 18, 2020, at 10:00 a.m. (JST)
2. Venue	Large Conference Room, Head Office of VALQUA, LTD. 24th Floor, ThinkPark Tower, 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo
3. Purpose of the meeting	Matters to be reported <ol style="list-style-type: none">The Business Report and the Consolidated Financial Statements for the 120th fiscal year (from April 1, 2019 to March 31, 2020), and the results of audits of the Consolidated Financial Statements by the Financial Auditor and the Board of Corporate AuditorsThe Non-consolidated Financial Statements for the 120th fiscal year (from April 1, 2019 to March 31, 2020) Matters to be resolved <p>Proposal No. 1: Appropriation of Surplus Proposal No. 2: Election of Two Auditors Proposal No. 3: Election of Two Substitute Auditors</p>
4. Matters regarding the exercise of voting rights	<ol style="list-style-type: none">In the event that the exercise of voting rights document does not indicate approval or disapproval of the proposals, it shall be treated as indicating the intention to approve the proposals.In the event that voting rights are exercised in duplicate, in writing and via the internet, etc., the vote via the internet, etc. shall be treated as valid.In the event that voting rights are exercised multiple times via the internet, etc. only the last vote exercised shall be treated as valid.In the event that voting rights are exercised by proxy on the appointed date, they may be delegated to one other shareholder who possesses voting rights. In such a case, please submit documentation which certifies the proxy rights.

5. Guide to internet-based disclosure	<p>(1) This notice is also posted on the Company’s website (http://www.valqua.co.jp).</p> <p>(2) Regarding the documents which should be attached to this notice, the “Consolidated Statement of Changes in Net Assets” and “Notes to the Consolidated Financial Statements” of the Consolidated Financial Statements as well as the “Non-consolidated Statement of Changes in Net Assets” and “Notes to the Non-consolidated Financial Statements” of the Non-consolidated Financial Statements are posted on the Company’s website (http://www.valqua.co.jp) as stipulated by the laws and regulations and the provisions of Article 16 of the Company’s Articles of Incorporation, so they are not listed in the attached documents of this notice. Accordingly, the documents attached to this notice are part of the Consolidated Financial Statements and the Non-consolidated Financial Statements that were audited by the Auditors and the Financial Auditors when preparing the audit report.</p> <p>(3) In the event that corrections are made to the Reference Documents for the General Meeting of Shareholders, the Business Report, the Non-consolidated Financial Statements, and the Consolidated Financial Statements, the edited corrections shall be posted on the Company’s website (http://www.valqua.co.jp).</p>
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[Attached document]

Business Report (from April 1, 2019 to March 31, 2020)

1. Status of the corporate group

(1) Progress and results of operations

1) Business overview

In the fiscal year under review, the level of production and exports exhibited a declining trend in the Japanese manufacturing industry from the beginning through the third quarter of the fiscal year under review. This reflected, among others, increased vigilance against geopolitical risks in places of the world in addition to the impacts of the generally stagnant global economy and slowdown in capital investment. Domestic personal consumption has also been stagnant due to the impacts of a rise in consumption tax.

Meanwhile, industrial production and personal consumption generally showed a less than stellar performance in major countries abroad, reflecting still deep caution on trade frictions between the United States and China and a heightened concern about disputes and other contingencies in the Near and Middle East. Furthermore, in the fourth quarter of the fiscal year under review, a global spread of novel coronavirus disease (COVID-19) significantly impacted industrial production and personal consumption, causing a further deterioration in the situation.

Under such a business environment, the Group tried to reinforce responsiveness to an increasingly severe business environment. At the same time, the Group promoted the development and strengthening of the corporate foundation for achieving “sound and sustainable growth” in accordance with the strategy described in the “New Valqua Stage Eight” (NV・S8) eighth medium-term management plan.

As a consequence, the Group reports the following consolidated results for the fiscal year under review: net sales of ¥48,212 million (5.9% decrease year on year), operating profit of ¥4,214 million (24.9% decrease year on year), ordinary profit of ¥4,256 million (26.5% decrease year on year), and profit attributable to owners of parent of ¥2,918 million (28.6% decrease year on year).

Although COVID-19 impacted the trend of orders received from customers in the Tech market and the Machinery market in the fiscal year under review, the scale of the impact was limited.

2) Overview of business by segment

Net sales by segment of the Group were as follows:

Category	Net sales			
	Current fiscal year	Previous fiscal year	Changes	Changes (%)
	Millions of yen	Millions of yen	Millions of yen	%
Seal Products Business	32,071	33,593	(1,521)	(4.5)
High Performance Plastics Products Business	13,089	14,313	(1,224)	(8.6)
Other Business	3,051	3,336	(284)	(8.5)
Total	48,212	51,243	(3,031)	(5.9)

(2) Capital expenditures

Capital expenditures during the fiscal year ended March 31, 2020 reached ¥2,907 million based on completed construction work. The Group primarily invested in enhancing production capacity, streamlining, and research and development.

(3) Financing activities

In December 2019, the Group raised ¥800 million from long-term borrowings.

- (4) Business transfers, absorption-type company split, or incorporation-type company split
Not applicable.
- (5) Transfer of business from other companies
Not applicable.
- (6) Succession of rights and obligations regarding the business of another corporation, etc. due to absorption-type merger or absorption-type company split
Not applicable.
- (7) Acquisition or disposal of another company's shares or other equity or share acquisition rights, etc.
Not applicable.
- (8) Issues to be addressed

For the Japanese economy in the next fiscal year, there are concerns over stagnant corporate activities and a further decline in personal consumption with a spread of COVID-19 and its prolonged impacts.

From a global perspective also, the current situation is such that it is recognized to be inevitable that COVID-19 will have a significant impact on international trades, exchange rates, resource prices, etc.

Under such a business circumstance, the Group will strive for ensuring revenue in the next fiscal year. While also executing a growth strategy for the future and developing a corporate foundation in accordance with the following five basic policies. Based on "Aiming for reconstructing our bold and dynamic business foundation in a group-wide effort under the 'THE VALQUA WAY' in order to realize sounder and more sustainable growth in the next era beyond our centennial." The policy described in the "New Frontier 2022" (NF2022) new medium-term management plan, which will be started from the beginning of the next fiscal year.

1. Expanding revenue in existing business areas through selection, focus and acquiring new business areas.
2. Executing open innovation aggressively (accelerating partnership, M&A, etc.).
3. Accelerating bold investment (R&D and human resource development).
4. Enhancing efficiency in all departments and pursuing customer services through the thorough use of IT.
5. Implementing dynamic measures leading to active global human resources.

<Business deployment>

With respect to the Seal Products Business, we will strengthen cooperation between manufacturing, sales, and engineering, further improve QCDS (quality, cost, delivery and service) from a customer perspective and provide the Company's original seal engineering services based on selection and focus not only in our existing core areas, but also in new areas. In the advanced industries market, which the Company expects continued growth in the future. The Company plans to expand dramatically by working diligently to create a global development and manufacturing organization for high-performance seal products.

With respect to the High Performance Plastics Business, the Company plans to increase both the scale and the speed of the business by actively utilizing external resources, including raw material manufacturers, and accelerate the application and field development linked to new businesses.

With respect to other businesses, we will promote the assessment of businesses and functions based on "select and focus" and "executing open innovation aggressively," two of the basic policies of NF2022, and steadily execute investment tied to growth and improving earning capacity.

Moreover, we will apply the "core technologies" cultivated to date in new product development and existing businesses, and boldly take on challenges of developing new markets, expanding into entirely new applications, etc.

With respect to the deployment of business overseas, we will expand business by executing a differentiation strategy centered on the H&S business and implementing reforms in the value chain in addition to further expand of the risk management system.

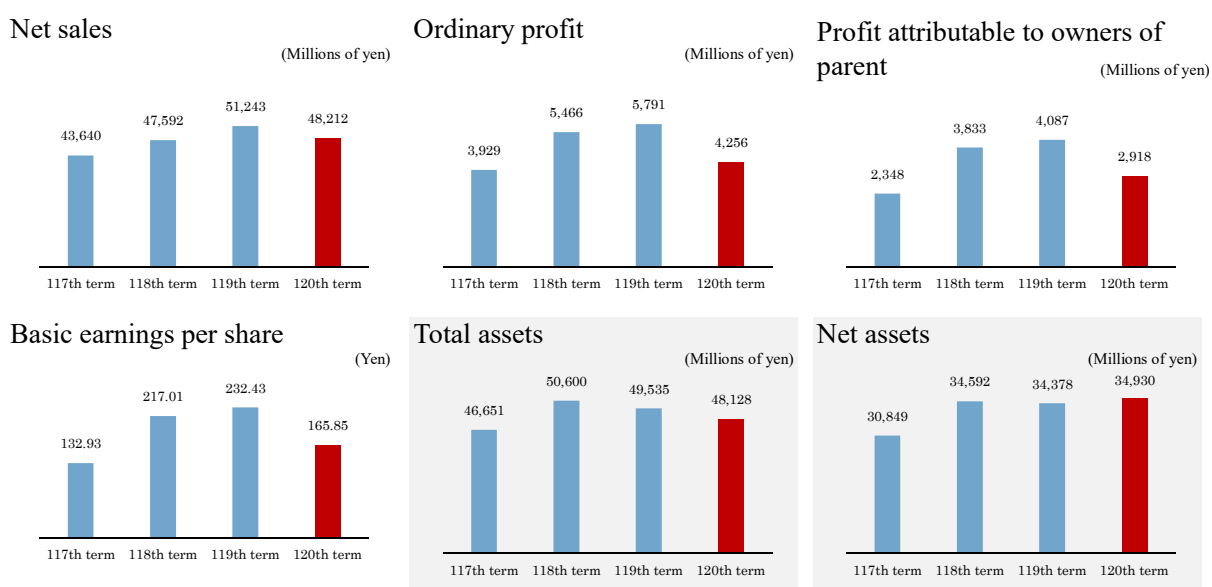
<Global CSR promotion and the strengthening of human resource development>

CSR within the Group consists of the very business activities which embody the corporate philosophy known as “THE VALQUA WAY,” and it promotes CSR activities based on the original concept of living up to the various expectations of society. Under NF2022, the Group will also continue to raise CSR awareness from a global perspective and deploy activities which can contribute to stakeholders around the world.

Regarding human resource development, we will further accelerate our cultivation of strong leaders and followers full of challenging spirit to successfully execute NF2022, reform to a vigorous corporate culture, and proactively undertake the revitalization of global human resources.

In conjunction with the promotion of NF2022, the entire Group will boldly take on the challenge of successfully executing the strategy together while flexibly adapting to environmental changes in addition to strengthening the creation of a Group system for risk management and adhering to compliance.

(9) Summary of assets and profit or loss



Category		117th term (Fiscal year ended March 31, 2017)	118th term (Fiscal year ended March 31, 2018)	119th term (Fiscal year ended March 31, 2019)	Current fiscal year (Fiscal year ended March 31, 2020)
Net sales	(Millions of yen)	43,640	47,592	51,243	48,212
Ordinary profit	(Millions of yen)	3,929	5,466	5,791	4,256
Profit attributable to owners of parent	(Millions of yen)	2,348	3,833	4,087	2,918
Basic earnings per share	(Yen)	132.93	217.01	232.43	165.85
Total assets	(Millions of yen)	46,651	50,600	49,535	48,128
Net assets	(Millions of yen)	30,849	34,592	34,378	34,930
Net assets per share	(Yen)	1,657.08	1,870.47	1,867.57	1,893.45

- (Notes)
1. Figures are rounded down to the nearest million.
 2. Basic earnings per share are calculated based on the average total number of issued shares, excluding treasury shares, during the term.
 3. Net assets per share are calculated based on the total number of issued shares excluding treasury shares at the end of the term.

4. The Company carried out a share consolidation at a ratio of one share for five common shares on October 1, 2016. As a result, basic earnings per share and net assets per share are calculated assuming that the share consolidation was carried out at the beginning of the 117th term.
5. In the 118th term, revenue and profit both increased as a result of promoting the development and strengthening of the corporate foundation for achieving sustainable future growth in addition to executing the strategy described in the “New Valqua Stage Seven” (NV・S7) seventh medium-term management plan.
6. In the 119th term, the Group promptly promoted business strategies including a transition to an H&S company, and also steadily developed the corporate foundation, in addition to executing the strategy described in the “New Valqua Stage Eight” (NV・S8) eighth medium-term management plan.
7. The situation in the current fiscal year is as described in “Progress and results of operations” in section (1) above.

(10) Parent company and major subsidiaries

1) Relationship with the parent company

Not applicable.

2) Major subsidiaries

Company name	Share capital	Company's shareholding ratio	Major businesses
VALQUA TECHNO CO., LTD.	¥30 million	100%	Product sales within each business
VALQUA SES CO., LTD.	¥30 million	100%	Product sales within each business
VALQUA SEAL SOLUTIONS CO., LTD.	¥90 million	100%	Manufacturing of seal products
KYUSHU VALQUA CO., LTD.	¥30 million	100%	Manufacturing of seal products, and solar power generation business
VALQUA ELASTOMER, LTD.	¥25 million	100%	Manufacturing of seal products
VALQUA FFT INC.	¥472 million	83.6%	Silicon wafer recycling and sales
VALQUA METAL TECHNOLOGY CO., LTD.	¥33 million	67.0%	Manufacturing of seal products and high performance plastic products
VALQUA NGC, INC.	US\$2,437 thousand	100%	Manufacturing and sales of high performance plastic products
VALQUA AMERICA, INC.	US\$1,260 thousand	100%	Product sales within each business
VALQUA SEAL PRODUCTS (SHANGHAI) CO., LTD.	¥1,150 million	100%	Manufacturing of seal products and high performance plastic products
VALQUA (SHANGHAI) TRADING CO., LTD.	RMB1,655 thousand	100%	Product sales within each business
SHANGHAI VALQUA FLUOROCARBON PRODUCTS CO., LTD.	RMB65,550 thousand	70.0%	Manufacturing and sales of high performance plastic products
VALQUA KOREA CO., LTD.	KRW10,859 million	100%	Manufacturing of seal products and product sales within each business
TAIWAN VALQUA ENGINEERING INTERNATIONAL, LTD.	NT\$100 million	100%	Manufacturing of seal products and high performance plastic products and product sales within each business
VALQUA VIETNAM CO., LTD.	US\$3,000 thousand	100%	Manufacturing of seal products and product sales within each business
VALQUA INDUSTRIES (THAILAND), LTD.	126 million of Thai Baht	95.3%	Manufacturing of seal products and product sales within each business
VALQUA INDUSTRIES SINGAPORE PTE. LTD.	US\$2,500 thousand	100%	Product sales within each business

(Note) As of March 31, 2020, the Company has 20 consolidated subsidiaries including the companies listed above.

(11) Major businesses (as of March 31, 2020)

Business division	Main products and businesses
Seal Products Business	Plant, equipment, and piping gaskets Equipment gland packing Various rubber products (O-rings, etc.) for industrial and transportation equipment Rubber molded products for semiconductor manufacturing equipment Automobile parts
High Performance Plastics Products Business	Fluorocarbon materials (sheets, rods, etc.) Fluorocarbon molded products Fluorocarbon film and tape products Fluorocarbon lining products and related services
Other Business	Silicon wafer recycling LED lighting Solar power generation H&S Business

(12) Major sales office and plants (as of March 31, 2020)

Domestic

Company name	Name	Location
VALQUA, LTD.	Head office MRT Center Osaka Sales Office Nagoya Sales Office Kitakyusyu Sales Office	Shinagawa-ku, Tokyo Machida-shi, Tokyo Osaka-shi, Osaka Nagoya-shi, Aichi Kitakyushu-shi, Fukuoka
VALQUA TECHNO CO., LTD.	Head office	Shinagawa-ku, Tokyo
VALQUA SES CO., LTD.	Head office	Ichihara-shi, Chiba
VALQUA SEAL SOLUTIONS CO., LTD.	Head office	Gojo-shi, Nara
KYUSHU VALQUA CO., LTD.	Head office	Iizuka-shi, Fukuoka
VALQUA ELASTOMER, LTD.	Head office	Tanagura-machi, Higashishirakawa-gun, Fukushima
VALQUA FFT INC.	Head office	Shinagawa-ku, Tokyo
VALQUA METAL TECHNOLOGY CO., LTD.	Head office	Shinshiro-shi, Aichi

Overseas

Company name	Country name	Location
VALQUA NGC, INC.	United States	Houston, Texas
VALQUA AMERICA, INC.	United States	Santa Clara, California
VALQUA SEAL PRODUCTS (SHANGHAI) CO., LTD.	China	Shanghai
VALQUA (SHANGHAI) TRADING CO., LTD.	China	Shanghai
SHANGHAI VALQUA FLUOROCARBON PRODUCTS CO., LTD.	China	Shanghai
VALQUA KOREA CO., LTD.	South Korea	Seoul
TAIWAN VALQUA ENGINEERING INTERNATIONAL, LTD.	Taiwan	Kaohsiung
VALQUA VIETNAM CO., LTD.	Vietnam	Hai Duong Province
VALQUA INDUSTRIES (THAILAND), LTD.	Thailand	Samut Prakan
VALQUA INDUSTRIES SINGAPORE PTE. LTD.	Singapore	Singapore

(13) Employees (as of March 31, 2020)

1) Employees of the Group

Number of employees	Change from the end of previous fiscal year
1,876 (204)	Increase of 30 (decrease of 1)

(Note) The number of employees excludes employees transferred from a Group company to an outside Group company, and includes employees transferred from an outside Group company to a Group company, and the number of temporary employees is indicated in parentheses as the average number of employed persons during the year.

2) Employees of the Company

Number of employees	Change from the end of previous fiscal year	Average age	Average length of service
438 (96)	Decrease of 7 (increase of 14)	45.8 years old	17.2 years

(Note) The number of employees excludes employees transferred from the Company to an outside company, and includes employees transferred from an outside company to the Company, and the number of temporary employees is indicated in parentheses as the average number of employed persons during the year.

(14) Major lenders (as of March 31, 2020)

Lender	Outstanding borrowings
	Millions of yen
Sumitomo Mitsui Banking Corporation	1,690
The Mie Bank, Ltd.	400
Mizuho Bank, Ltd.	259
Sumitomo Mitsui Trust Bank, Limited	241
Sumitomo Mitsui Banking Corporation (China) Limited	213

(Note) Figures are rounded down to the nearest million.

2. Shares of the Company (as of March 31, 2020)

- (1) Total number of authorized shares: 68,000,000 shares
(2) Total number of issued shares: 18,688,733 shares
(3) Number of shareholders: 9,482
(4) Major shareholders (top 10)

Shareholder name	Number of shares held	Ratio of share held
	Thousands of shares	%
Japan Trustee Services Bank, Ltd. (Trust Account)	1,397	7.94
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,227	6.97
JP MORGAN CHASE BANK 385174	688	3.91
Sumitomo Mitsui Banking Corporation	537	3.05
Valqua Tokyo Kyoekai	470	2.67
The Sumitomo Mitsui Trust Bank, Limited	400	2.27
Toshikazu Takisawa	354	2.01
GOVERNMENT OF NORWAY	338	1.92
Japan Trustee Services Bank, Ltd. (Trust Account 5)	330	1.87
DAIKIN INDUSTRIES, LTD	285	1.62

(Note) The Company holds 1,078 thousand treasury shares but is not included in the list of major shareholders shown above.

The ratio of shares held is calculated by deducting treasury shares.

3. Share acquisition rights, etc. of the Company

Not applicable.

4. Officers

(1) Directors and Auditors (as of March 31, 2020)

Position in the Company	Name	Responsibility in the Company and significant concurrent positions outside the Company
Representative Director and Chairman	Toshikazu Takisawa	CEO
Representative Director and President	Yoshihiro Hombo	COO
Director	Kiyotaka Kurokawa	Senior Managing Executive Officer CCO
Director	Mutsuo Aoki	Managing Executive Officer CTO, CQO
Director	Tadayuki Seki	Advisory Member of ITOCHU Corporation Outside Director of PARCO CO., LTD. Outside Director of JSR Corporation Outside Auditor of Asahi Mutual Life Insurance Company
Director	Midori Miki	President and Representative Director, Miki & Co., Ltd. Director, Miki Archives Incorporated
Director	Chikako Sekine	Representative Director of B-mind Co., Ltd. Outside Director of FamilyMart Co., Ltd. Outside Director of TAKARA & COMPANY LTD.
Standing Auditor	Haruka Hayashi	
Auditor	Kenjiro Nakane	Certified Public Accountant Senior Partner of Moore Shisei & Co. Senior Partner of Moore Shisei Tax Corporation
Auditor	Takahiko Hachinohe	Attorney at law Senior Partner of Hachinohe Law Office
Auditor	Hidenori Takahashi	Certified Public Accountant Outside Director of PENTA-OCEAN CONSTRUCTION CO., LTD.

- (Notes)
1. Directors Tadayuki Seki, Midori Miki, and Chikako Sekine are outside Directors. Moreover, Auditors Kenjiro Nakane, Takahiko Hachinohe, and Hidenori Takahashi are outside Auditors.
 2. Auditor Haruka Hayashi was previously involved in the operations of the Company's finance division for many years and possesses considerable knowledge about corporate finance and accounting.
 3. Auditor Kenjiro Nakane is a licensed Certified Public Accountant and possesses considerable knowledge about corporate finance and accounting.
 4. Auditor Takahiko Hachinohe is a licensed attorney at law and possesses considerable knowledge about corporate legal affairs.
 5. Auditor Hidenori Takahashi is a licensed Certified Public Accountant and possesses considerable knowledge about corporate finance and accounting.
 6. The Company has submitted notification to the Tokyo Stock Exchange that Directors Tadayuki Seki, Midori Miki, and Chikako Sekine as well as Auditors Kenjiro Nakane, Takahiko Hachinohe, and Hidenori Takahashi have been designated as independent officers as provided for by the aforementioned exchange.
 7. Representative Director and Chairman Toshikazu Takisawa assumed the office of CEO, Representative Director and President Yoshihiro Hombo assumed the office of COO, Director Kiyotaka Kurokawa assumed the office of Senior Managing Executive Officer and CCO, and Director Mutso Aoki assumed the office of Managing Executive Officer, CTO, CQO on June 20, 2019.
 8. Representative Director and President Yoshihiro Hombo is scheduled to assume the office of outside Director at Tosoh Corporation on June 25, 2020.
 9. Director Tadayuki Seki assumed the office of outside Director at J. FRONT RETAILING Co., Ltd. on May 28, 2020.

<Reference> Executive Officers (excluding Executive Officers who also serve as Directors) (as of April 1, 2020)

Position in the Company	Name	Responsibility in the Company
Managing Executive Officer	Hiroshi Hamada	Director of Overseas Business Group & Recycle Wafer Business, International Business Support Center
Managing Executive Officer	Kenichi Kobayashi	High Performance Products
Senior Executive Officer	Nobutoshi Morita	Deputy Director of Overseas Business Group, Head of China Business, President of VALQUA (SHANGHAI) TRADING CO., LTD.
Senior Executive Officer	Shinya Sakurai	Director of High Performance Seals Group
Senior Executive Officer	Yoshiaki Tsubakiyama	Director of H&S Sales Group
Senior Executive Officer	Toshiharu Takisawa	Director of High Performance Plastic Group
Executive Officer	Tadashi Ogawa	Chairman Secretary
Executive Officer	Mamiko Yatabe	General Manager of Legal Division & Compliance Supervisory Division, Environment Management Division, Trade Management Division
Executive Officer	Hiroshi Tatsuta	General Manager of Corporate Planning Group, IT Strategy Division
Executive Officer	Katsutoshi Fuseya	Deputy Director of High Performance Seals Group, Representative Director of VALQUA SEAL SOLUTIONS CO., LTD., Innovative Production, Safety Management
Executive Officer	Satoshi Ueki	General Manager of Finance Group, Investor Relations Division
Executive Officer	Minoru Furusawa	Deputy Director of Overseas Business Group, Head of US Business, President of VALQUA AMERICA, INC.
Executive Officer	Naohiko Fujishita	Deputy Director of High Performance Plastics Group, Procurement Group
Executive Officer	Atsushi Nobe	General Manager of General Affairs and Human Resources Group, Human Resources Development Center

(2) Summary of details of limited liability agreements

Outside Directors Tadayuki Seki, Midori Miki, and Chikako Sekine as well as outside Auditors Kenjiro Nakane, Takahiko Hachinohe, and Hidenori Takahashi have entered into limited liability agreements with the Company under Article 427, Paragraph (1) of the Companies Act, and the maximum amount of liability for damages under these agreements is the minimum liability amount provided for under laws and regulations.

(3) Total amount of remuneration, etc. for Directors and Auditors

Category	Number of people	Total amount of remuneration, etc. (millions of yen)
Directors (included outside Directors)	7 (3)	363 (35)
Auditors (included outside Auditors)	4 (3)	50 (31)
Total (included outside officers)	11 (6)	413 (66)

(Note) At the 118th Annual General Meeting of Shareholders held on June 20, 2018, it was resolved that the maximum amount of remuneration for Directors shall be not more than ¥500 million per year (including not more than ¥60 million per year for outside Directors), and the maximum amount of remuneration for Auditors shall be not more than ¥100 million per year. However, the amount of remuneration, etc. for Directors does not include the employee salaries for employees who also serve as Directors.

In addition, at the 119th Annual General Meeting of Shareholders held on June 20, 2019, it was resolved that the total number of restricted shares allotted in each fiscal year shall not be more than 30,000 shares within the maximum amount of remuneration per year stated above as remuneration, etc. related to restricted shares for

Directors (excluding outside Directors). The amount of remuneration related to restricted shares is included in the total amount of remuneration, etc. indicated in the table above.

(4) Matters regarding outside officers

1) Significant concurrent positions and relationship with the Company of outside officers

Director Tadayuki Seki concurrently serves as an Advisory Member of ITOCHU Corporation, an outside Director of PARCO CO., LTD. and an outside Director of JSR Corporation, as well as an outside Auditor of Asahi Mutual Life Insurance Company. There are no matters of particular note between the Company and ITOCHU Corporation or JSR Corporation. Moreover, the Company has no business relations with PARCO CO., LTD. and Asahi Mutual Life Insurance Company.

Director Midori Miki concurrently serves as President and Representative Director, Miki & Co., Ltd. and Director, Miki Archives Incorporated. The Company has no business relations with Miki & Co., Ltd. or Miki Archives Incorporated.

Director Chikako Sekine concurrently serves as Representative Director of B-mind Co., Ltd., outside Director of FamilyMart Co., Ltd., and outside Director of TAKARA & COMPANY LTD. There are no matters of particular note between the Company and B-mind Co., Ltd. or FamilyMart Co., Ltd. Moreover, the Company has no business relations with TAKARA & COMPANY LTD.

Auditor Kenjirou Nakane is a licensed Certified Public Accountant and the Senior Partner of Moore Shisei & Co. and Moore Shisei Tax Corporation. The Company has no business relations with these two corporations.

Auditor Takahiko Hachinohe is an attorney at law and the Senior Partner of Hachinohe Law Office. The Company has no business relations with Hachinohe Law Office.

Auditor Hidenori Takahashi is a Certified Public Accountant and an outside Director of PENTA-OCEAN CONSTRUCTION CO., LTD. The Company has no business relations with PENTA-OCEAN CONSTRUCTION CO., LTD.

2) Major activities in the fiscal year ended March 31, 2020

Category	Name	Activities
Outside Director	Tadayuki Seki	He attended all 14 of Board of Directors meetings, and he made appropriate remarks required for the deliberation of proposals.
Outside Director	Midori Miki	She attended 12 out of the 14 Board of Directors meetings, and she made appropriate remarks required for the deliberation of proposals.
Outside Director	Chikako Sekine	She attended 13 out of the 14 Board of Directors meetings, and she made appropriate remarks required for the deliberation of proposals.
Outside Auditor	Kenjirou Nakane	He attended 12 out of the 14 Board of Directors meetings and 12 out of the 14 Board of Corporate Auditors, and he made appropriate remarks required for the deliberation of proposals primarily from his expert viewpoint as a Certified Public Accountant.
Outside Auditor	Takahiko Hachinohe	He attended all 14 of Board of Directors meetings and all 14 of the Board of Corporate Auditors, and he made appropriate remarks required for the deliberation of proposals primarily from his expert viewpoint as an attorney at law.
Outside Auditor	Hidenori Takahashi	He attended all 14 of Board of Directors meetings and all 14 of Board of Corporate Auditors, and he made appropriate remarks required for the deliberation of proposals primarily from his expert viewpoint as a Certified Public Accountant.

5. Financial Auditor

- (1) Name of Financial Auditor: Ernst & Young ShinNihon LLC
- (2) Audit fees, etc. for Financial Auditor for the fiscal year ended March 31, 2020
 - 1) Audit fees for Financial Auditor for the fiscal year ended March 31, 2020: ¥49 million
 - 2) Total amount of cash and other compensation payable by the Company and its subsidiaries: ¥51 million

- (Notes)
1. The amount of audit fees for audit services under the Companies Act and audit services under the Financial Instruments and Exchange Act are not clearly segregated in the auditing agreement between the Company and the Financial Auditor. As it is impracticable to segregate them, the audit fee amount for the fiscal year under review indicates the total amount.
 2. The Board of Corporate Auditors agreed on the amount of the audit fees for the Financial Auditor etc. after performing the required verification of the details of the Financial Auditor's audit plan and whether or not the Financial Auditor's performance and the basis of calculation for the audit fee estimate were appropriate.
 3. Certain consolidated subsidiaries of the Company are audited by Certified Public Accountants (or auditing firms) other than the Company's Financial Auditor.

- (3) Description of non-auditing services

The Company commissions the Financial Auditor to perform services related to advice and guidance on the application of new revenue recognition standards as non-auditing services outside the scope of services stipulated in Article 2, Paragraph (1) of the Certified Public Accountants Act.

- (4) Policy for decisions on dismissal and non-reappointment of Financial Auditor

In the event that there is an impediment to the execution of a Financial Auditor's duties and it is deemed necessary to do so, the Board of Corporate Auditors shall decide on the details of a proposal to dismiss or non-reappointment the Financial Auditor to be submitted to the General Meeting of Shareholders. Moreover, if the Board of Corporate Auditors determines that the Financial Auditor is subject to any of the items under Article 340, Paragraph (1) of the Companies Act, the Financial Auditor shall be dismissed based on the consent of all Auditors.

6. Company systems and policies

(1) System for ensuring the appropriateness of operations

The “Basic Approach to the Internal Control System” resolved by Board of Directors as a system for the Company to ensure the appropriateness of operations is as follows. (Final revision: April 22, 2015)

1) System for ensuring that the performance of duties by Directors and employees conforms to the laws and regulations as well as the Articles of Incorporation

The Company considers adhering with compliance as the universally most important issue and declares the principle of “fair and square” which should be followed within “THE VALQUA WAY” basic policy as the additional conduct guideline of “adherence with compliance and conscientious conduct” which all Group employees are thoroughly being made aware of.

Enact and distribute a Compliance Manual while establishing a group compliance system centered around the Compliance Committee to develop rules corresponding to the various laws and regulations, provide training, and practice compliance under the system.

Specifically, the position of Chief Compliance Officer (CCO) was established on January 1, 2007, as an officer who presides over compliance related matters, and the CCO reports on the compliance situation for the entire Group to the Compliance Committee on a regular basis.

In order to make the establishment of the compliance system effective, strengthen the audit system within the Group and have the Auditors audit the performance of duties by the Directors and employees based on the auditing standard of the Auditors and set up an Internal Audit Division which is independent of other divisions as an internal audit division. Moreover, establish a whistleblowing system within the Group to receive compliance-related consultations and reports

Regarding the elimination of antisocial forces, the Company declares in the Compliance Manual that it shall “confront antisocial forces” based on a law-abiding spirit and a firm sense of ethics, exclude all relationships with antisocial forces with a resolute attitude, and devote itself to fair and transparent corporate activities.

2) System for storing and managing information pertaining to the performance of duties by Directors

Regarding the internal creation, storage, and preservation, etc. of documents, in principle such tasks shall be carried out based on the document management regulations. In particular, Board of Directors meeting minutes, Managing Director meeting minutes, and other various committee meeting minutes pertaining to the performance of duties by Directors, shall be appropriately preserved according to the procedures, etc. stipulated by each department in charge, and a management system shall be implemented. Moreover, documents requesting managerial decisions, various application documents, and other documents which record the performance of duties shall also be preserved according to these procedures, and a management system shall be constructed.

3) Regulations and other systems for managing exposure to loss

The Company shall strive to construct a global risk management system for the entire Group. In particular, enact and develop rules and manuals, etc. for risks pertaining to disasters, the environment, quality, and export controls, etc. within each department in charge and prevent the manifestation of risks while also adopting measures in advance to minimize losses in the unlikely event that risks manifest. Moreover, establish basic handling procedures and measures in advance to continue and recover operations in an emergency situation while also developing a system to promptly report the corresponding situation to higher officials and interested parties.

4) System for ensuring the efficient performance of duties by Directors

Position Board of Directors as a supervisory authority of business execution carried out through decision making and the Executive Officers to improve the corporate value of the entire Group, and the Executive Officers shall adopt an executive officer system to execute business in accordance with the management policies and strategies decided by Board of Directors. The Directors shall attend important Executive Officer meetings, etc. to counsel and supervise the business execution of the Executive Officers. Clearly define the segregation of duties and authority of Directors, Executive Officers, and employees in the basic management regulations, regulations for official authority,

segregation of business regulations, and other internal regulations while also striving for efficiency at all times based on those regulations.

- 5) System for ensuring the appropriateness of operations within the business group composed of the Company and subsidiaries

Fundamentally, items 1) through 4) above shall be applied to each Group company, and the effectiveness of the control increased through the strengthening of information exchange within the Group, personnel exchange, and other collaboration systems. Moreover, establish an audit system within the Group to implement compliance and risk management in a unified and efficient manner. In addition, establish a system so that transactions within the Group was processed appropriately in accordance with laws and regulations, internal rules, etc.

- A. System for reporting to the Company about matters pertaining to the performance of duties by subsidiary Directors, etc.

Based on the enacted subsidiary management regulations for the purpose of achieving sound and efficient execution and operation of Group-wide operations, subsidiaries shall report to the Company regarding the details of periodically convened meetings of Board of Directors and executive meetings, and establish a system for such reporting through the Company's approval procedure as needed.

- B. Regulations and other systems for managing subsidiary exposure to loss

Based on the regulations and manuals, etc. relating to risk management developed according to the Group risk management system, the subsidiaries shall prevent the manifestation of risks while also adopting measures in advance to minimize losses in the unlikely event that risks manifest. Moreover, the subsidiaries shall establish basic handling procedures and measures in advance to continue and recover operations in an emergency situation, promptly report to the Company in the event that such a situation occurs, and create a system to immediately take measures.

- C. System for ensuring the efficient performance of duties by Directors, etc. of subsidiaries

The Company shall establish the Group medium-term management plan, and each Group company as well as its Officers and employees shall establish an efficient and sound system of execution to perform duties based on that plan. Moreover, funds shall be managed in a centralized and unified manner on the financial side for the optimization of Group finance.

- D. System for ensuring that the performance of duties by Directors, etc. and employees of subsidiaries conforms to the laws and regulations as well as the Articles of Incorporation

The Company shall construct a Group compliance system as described in 1), and the subsidiaries shall observe the compliance related regulations including the compliance manuals based on said system. Moreover, the Company shall implement Group compliance training and practice, etc. as needed for the subsidiaries as part of said system.

- 6) Matters concerning the relevant employee and the employee's independence from the Directors as well as matters with respect to ensuring the effectiveness of instructions from the Auditors to the relevant employee in the event that the Auditors request that an employee be placed to assist in those duties

In the event that the Auditors request that an employee be placed to assist in the performance of duties, an assisting employee shall be placed after consultations between the Directors and Auditors. In order to ensure the relevant employee's independence from the Directors in such a case, the Auditors shall directly issue work instructions to the relevant employee, and the consent of the Auditors shall be required for deciding changes and other matters involving authority over personnel matters.

- 7) System for Directors and employees to report to the Auditors as well as a system to ensure that the reporting party does not receive unfavorable treatment as a result of submitting the relevant report, and a system for providing other reports to the Auditors.

In addition to attending Board of Directors meeting, Managing Director meeting, Executive Officer meeting, etc., the Auditors shall audit the execution of duties by the Directors and Executive Officers by inspecting, etc. important approval documents, etc. while also periodically convening the Board of Corporate Auditors and engaging in a mutual exchange of information. Moreover, a system shall be constructed for the Directors, Executive Officers, and employees to provide timely and necessary information to the Auditors. Furthermore, in order to make the provision of said information effective,

the Group whistleblowing system shall be clearly defined the systemic prohibition of unfavorable treatment of those who are reporting the information.

- 8) System to allow for Directors, Auditors, and employees, etc. of subsidiary or parties who receive a report from such persons to report to the Company Auditors as well as a system to ensure that the reporting party does not receive unfavorable treatment as a result of submitting the relevant report

Establish a system to report to the Auditors the details of Board of Directors and executive meetings of subsidiary and the results of internal Group audits performed by the Company's internal audit division. Moreover, a system shall be constructed for the subsidiary's Officers and employees to provide timely and necessary information to the Auditors. Furthermore, the Group whistleblowing system which covers part of said system shall cover all Group employees and a prohibition on unfavorable treatment of persons reporting information shall be similarly applied to all Group employees.

- 9) Pre-payment of expenses which occur in conjunction with the execution of Auditor duties, expenses occurring due to reimbursement procedures and the execution of other relevant duties, or matters concerning policies pertaining to debt processing

Expenses required by the Auditors for the execution of duties shall be included in the budget in advance. Moreover, the provision that the expenditure of emergency or extraordinary expenses may be later claimed for reimbursement is established within the auditing standard of the Auditors and a system for appropriate management of such claims shall be constructed.

- 10) Other systems for ensuring the efficient performance of audits by the Auditors

In addition to attending Board of Directors meetings, the Auditors shall exchange opinions with the Representative Director as needed while also engaging in regular exchanges of opinions with the Financial Auditors as well as the Internal Audit Division. Moreover, the Auditors shall ensure opportunities to interview to the Company's Directors, Executive Officers, and employees as well as the subsidiary's Officers and employees.

- 11) System for ensuring the appropriateness of financial reports

Internal controls pertaining to financial reports shall be constructed based on the Financial Instruments and Exchange Act, evaluations and reporting shall be conducted in the appropriate manner, and system to ensure the credibility and appropriateness of financial reports shall be developed and operated.

- (2) Overview of the operational status of systems for ensuring the appropriateness of operations

An overview of the operational status of systems for ensuring the appropriateness of operations during the fiscal year under review is as follows.

- 1) Compliance related initiatives

Regular compliance training and training on other topics were conducted for the Group's employees to raise their awareness of compliance issues. Moreover, with respect to the Group whistleblowing system, the Group's employees are continuously being made aware that there is a compliance-consultation and whistleblowing-reporting desk and that persons who provide information shall not receive unfavorable treatment. Furthermore, the CCO reports to the Compliance Committee headed by the Representative Director, Chairman and CEO regarding compliance initiatives for the entire Group.

- 2) Initiative concerning the preservation and management of information

The Group engages in preservation management within the departments in charge of meeting minutes for Board of Directors and other important meetings, documents requesting managerial decisions, various application documents, and other documents concerning the execution of duties according to the document management regulations and other related regulations.

3) Initiative concerning the management of exposure to loss

The Group practices risk management based on the crisis management regulations. Moreover, risks are examined in the Risk Management Committee and the progress including measures to deal with risks is also tracked. Regarding the operation of an emergency contact system in an emergency situation, periodic exercises are carried out to verify the effectiveness of the system.

4) Initiative concerning the appropriateness and efficiency of the execution of duties

The Group decides the management policies and strategies through Board of Directors, and the Executive Officers follow those decisions to execute duties in an appropriate and efficient manner. The Directors involved in the execution of duties verify the execution status through monthly Executive Officer meetings and regularly convened reviews by strategy and region to provide counseling and supervision. Moreover, regarding the individual execution of duties, the necessary approvals are received, and the procedural appropriateness is ensured based on Board of Directors regulations, Managing Director regulations, Subsidiary Management regulations, etc. Moreover, cash management services are used on the financial side to manage the optimization of the Group finance.

5) Initiative concerning the execution of duties by Auditors

In addition to attending Board of Directors and other important meetings, Auditors receive reports about the results of internal Group audits by the Company's internal audit division, order additional audits, and receive those results, etc. Moreover, Auditors periodically exchange opinions with the Financial Auditors and the Internal Audit Division as well as the Representative Director, Chairman and CEO and Representative Director, President and COO when necessary. In addition, Standing Auditors appropriately interview Directors, Executive Officers, and important employees of the Group and receive reports as necessary.

6) Initiative to ensure the appropriateness of financial reports

Regarding the appropriateness of financial reports, the Group obtains reports from the Internal Control Committee about the results of internal control evaluations, receives result explanations, and verifies that the appropriateness and credibility of financial reports is being ensured.

Consolidated Financial Statements

Consolidated balance sheet (as of March 31, 2020)

(Millions of yen)

Item	Amount
Assets	48,128
Current assets	26,811
Cash and deposits	6,644
Notes and accounts receivable - trade	11,357
Electronically recorded monetary claims - operating	1,885
Merchandise and finished goods	3,000
Work in process	646
Raw materials and supplies	1,369
Accounts receivable - other	1,424
Other	498
Allowance for doubtful accounts	(14)
Non-current assets	21,317
Property, plant and equipment	15,866
Buildings and structures	6,278
Machinery, equipment and vehicles	3,353
Tools, furniture and fixtures	1,511
Land	4,005
Leased assets	316
Construction in progress	401
Intangible assets	906
Software	688
Other	218
Investments and other assets	4,544
Investment securities	2,982
Deferred tax assets	236
Retirement benefit asset	224
Other	1,100
Allowance for doubtful accounts	(0)
Total assets	48,128

Item	Amount
Liabilities	13,197
Current liabilities	10,517
Notes and accounts payable - trade	5,190
Short-term borrowings	1,782
Current portion of long-term borrowings	130
Lease obligations	138
Accounts payable - other	802
Income taxes payable	362
Accrued consumption taxes	110
Provision for bonuses	430
Provision for bonuses for directors (and other officers)	38
Other	1,530
Non-current liabilities	2,680
Long-term borrowings	1,158
Lease obligations	168
Deferred tax liabilities	535
Retirement benefit liability	534
Long-term accounts payable - other	80
Other	202
Net assets	34,930
Shareholders' equity	32,843
Share capital	13,957
Capital surplus	3,963
Retained earnings	16,558
Treasury shares	(1,635)
Accumulated other comprehensive income	490
Valuation difference on available-for-sale securities	1,054
Foreign currency translation adjustment	(131)
Remeasurements of defined benefit plans	(432)
Non-controlling interests	1,596
Total liabilities and net assets	48,128

Consolidated statement of income (from April 1, 2019 to March 31, 2020)

(Millions of yen)

Item	Amount	
Net sales		48,212
Cost of sales		30,237
Gross profit		17,974
Selling, general and administrative expenses		13,760
Operating profit		4,214
Non-operating income		
Interest and dividend income	62	
Rental income from facilities	230	
Share of profit of entities accounted for using equity method	14	
Other	118	426
Non-operating expenses		
Interest expenses	63	
Loss on sales of notes receivable - trade	23	
Rental expenses on facilities	190	
Foreign exchange losses	53	
Other	52	384
Ordinary profit		4,256
Extraordinary income		
Gain on sales of non-current assets	5	
Gain on sales of investment securities	127	
Other	2	135
Extraordinary losses		
Loss on abandonment of non-current assets	22	
Impairment loss	45	
Compensation for asbestos-related health damages	50	
Other	4	122
Profit before income taxes		4,270
Income taxes - current	1,182	
Income taxes - deferred	91	1,273
Profit		2,996
Profit attributable to non-controlling interests		78
Profit attributable to owners of parent		2,918

Non-consolidated Financial Statements

Non-consolidated balance sheet (as of March 31, 2020)

(Millions of yen)

Item	Amount
Assets	37,965
Current assets	18,336
Cash and deposits	5,249
Notes receivable - trade	643
Electronically recorded monetary claims - operating	1,731
Accounts receivable - trade	6,469
Merchandise	1,573
Supplies	3
Prepaid expenses	318
Short-term loans receivable	299
Accounts receivable - other	2,022
Other	26
Allowance for doubtful accounts	(0)
Non-current assets	19,628
Property, plant and equipment	6,832
Buildings	2,226
Structures	82
Machinery and equipment	432
Vehicles	1
Tools, furniture and fixtures	725
Land	3,363
Construction in progress	0
Intangible assets	605
Software	565
Telephone subscription right	14
Technology-based intangible assets	24
Investments and other assets	12,191
Investment securities	2,841
Shares of subsidiaries and associates	4,534
Investments in capital of subsidiaries and associates	2,196
Long-term loans receivable	1,410
Leasehold and guarantee deposits	320
Prepaid pension costs	788
Other	113
Allowance for doubtful accounts	(13)
Total assets	37,965

Item	Amount
Liabilities	11,487
Current liabilities	9,733
Notes payable - trade	365
Accounts payable - trade	3,753
Short-term borrowings	996
Accounts payable - other	875
Income taxes payable	110
Accrued expenses	53
Deposits received	3,250
Provision for bonuses	227
Provision for bonuses for directors (and other officers)	38
Other	61
Non-current liabilities	1,754
Long-term borrowings	908
Long-term accounts payable - other	80
Deferred tax liabilities	554
Provision for retirement benefits	41
Long-term guarantee deposits	33
Other	135
Net assets	26,477
Shareholders' equity	25,414
Share capital	13,957
Capital surplus	4,224
Legal capital surplus	4,197
Other capital surplus	26
Retained earnings	8,861
Other retained earnings	8,861
Retained earnings brought forward	8,861
Treasury shares	(1,628)
Valuation and translation adjustments	1,062
Valuation difference on available-for-sale securities	1,062
Total liabilities and net assets	37,965

Non-consolidated statement of income (from April 1, 2019 to March 31, 2020)

(Millions of yen)

Item	Amount	
Net sales		31,763
Cost of sales		21,934
Gross profit		9,828
Selling, general and administrative expenses		10,274
Operating loss		446
Non-operating income		
Interest and dividend income	2,595	
Other	444	3,040
Non-operating expenses		
Interest expenses	67	
Other	338	405
Ordinary profit		2,188
Extraordinary income		
Gain on sales of non-current assets	2	
Gain on sales of investment securities	127	129
Extraordinary losses		
Loss on abandonment of non-current assets	6	
Compensation for asbestos-related health damages	50	56
Profit before income taxes		2,262
Income taxes - current	54	
Income taxes - deferred	61	115
Profit		2,146

Audit Reports

Audit Report on the Consolidated Financial Statements

Translation

Independent Auditor's Report

May 11, 2020

The Board of Directors
VALQUA, LTD.

Ernst & Young ShinNihon LLC
Tokyo, Japan

Tomohisa Yura (Seal)
Designated Engagement Partner
Certified Public Accountant

Shinichi Masuda (Seal)
Designated Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 444, Paragraph (4) of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets, and notes to the consolidated financial statements of VALQUA, LTD. (the "Company") applicable to the fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position and results of operations of the Group, which consisted of the Company and its consolidated subsidiaries, applicable to the fiscal year ended March 31, 2020, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, Corporate Auditor and Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Corporate Auditor and Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Company and its consolidated subsidiaries which should be disclosed in accordance with the Certified Public Accountants Act.

Note to Readers of Independent Auditor's Report

This is an English translation of the Independent Auditor's Report as required by the Companies Act of Japan for the convenience of readers.

Audit Report on the Non-consolidated Financial Statements

Translation

Independent Auditor's Report

May 11, 2020

The Board of Directors
VALQUA, LTD.

Ernst & Young ShinNihon LLC
Tokyo, Japan

Tomohisa Yura (Seal)
Designated Engagement Partner
Certified Public Accountant

Shinichi Masuda (Seal)
Designated Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 436, Paragraph (2), Item (i) of the Companies Act, we have audited the accompanying non-consolidated financial statements, which comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets, notes to the non-consolidated financial statements, and their supplementary schedules (hereinafter referred to as “non-consolidated financial statements”) of VALQUA, LTD. (the “Company”) applicable to the fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position and results of operations of the Company applicable to the fiscal year ended March 31, 2020, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, Corporate Auditor and Board of Corporate Auditors for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Corporate Auditor and Board of Corporate Auditors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the non-consolidated financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

We communicate with the Corporate Auditor and Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Company which should be disclosed in accordance with the Certified Public Accountants Act.

Note to Readers of Independent Auditor's Report

This is an English translation of the Independent Auditor's Report as required by the Companies Act of Japan for the convenience of readers.

Audit Report of Board of Corporate Auditors

Audit Report

Regarding the performance of duties by the Directors for the 120th fiscal year from April 1, 2019 to March 31, 2020, the Board of Corporate Auditors has prepared this Audit Report upon deliberation based on the audit reports prepared by each Auditor and hereby reports as follows:

1. Auditing Methods Employed by the Auditors and the Board of Corporate Auditors and Details of Such Audit
 - (1) We established auditing policies, allocation of duties and other relevant matters, and received reports from each Auditor regarding their execution of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the Financial Auditor regarding performance of their duties, and sought explanations as necessary.
 - (2) Each Auditor complied with the auditing standards of Auditors established by the Board of Corporate Auditors, followed the auditing policies, allocation of duties, and other relevant matters, communicated with Directors, Internal Audit Division and other employees, made efforts to establish the environment for collecting information and auditing, and conducted the audit by the following methods.
 - 1) Each Auditor participated in the meetings of the Board of Directors and other important meetings, received reports from Directors, employees and others regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and financial position at the headquarters and principal offices. With respect to subsidiaries, we communicated and exchanged information with Directors and Auditors of subsidiaries, and received business reports from subsidiaries as necessary.
 - 2) We periodically received reports from Directors, employees and others, requested explanations as necessary, and expressed opinions, regarding the resolution of the Board of Directors on the establishment of following systems (Internal Control System) and the status of operation of the organized system based on such resolution, both of which are described in the Business Report;
 - i) the system for ensuring that the performance of duties by the Directors conforms to the applicable laws and regulations and Articles of Incorporation, and
 - ii) the system stipulated in Article 100, Paragraphs (1) and (3) of the Regulation for Enforcement of the Companies Act, which are necessary for ensuring the appropriateness of operations within the business group composed of the Company and its subsidiaries.As for internal controls over financial reporting, reports made by Directors, etc. and Ernst & Young ShinNihon LLC about the status of assessment and audit of said internal controls were provided to Auditors, who asked for explanations as necessary.
 - 3) We monitored and verified whether the Financial Auditor maintained their independence and implemented appropriate audits, and we received reports from the Financial Auditor regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Financial Auditor that “System for ensuring that duties are performed appropriately” (matters set forth in each item of Article 131 of the Regulation on Corporate Accounting) is organized in accordance with the “Quality Control Standard for Audit” (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the Business Report and its supplementary schedules, the non-consolidated financial statements (the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets, and notes to the non-consolidated financial statements) and their supplementary schedules as well as the consolidated financial statements (the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets, and notes to the consolidated financial statements) applicable to the fiscal year.

2. Audit Results

(1) Results of Audit of Business Report, etc.

- 1) The Board of Corporate Auditors confirms that the Business Report and its supplementary schedules conformed to the applicable laws and regulations, and the Articles of Incorporation, and that they accurately present the situation of the Company.
- 2) With respect to the performance of duties by Directors, the Board of Corporate Auditors found no improper acts or important violation of applicable laws and regulations or the Articles of Incorporation.
- 3) We confirm that the content of the resolution of the Board of Directors regarding the Internal Control System is proper. In addition, we have found no matters on which to remark in regard to the description of the Business Report and the execution of duties by the Directors regarding the Internal Control System, including internal controls over financial reporting.

(2) Results of Audit of the Non-consolidated Financial Statements and their Supplementary Schedules

The Board of Corporate Auditors confirms that the methods used and results achieved by the Financial Auditor, Ernst & Young ShinNihon LLC, are fair and adequate.

(3) Results of Audit of the Consolidated Financial Statements

The Board of Corporate Auditors confirms that the methods used and results achieved by the Financial Auditor, Ernst & Young ShinNihon LLC, are fair and adequate.

May 12, 2020

Board of Corporate Auditors of
VALQUA, LTD.

Standing Auditor Haruka Hayashi (Seal)

Outside Auditor Kenjiro Nakane (Seal)

Outside Auditor Takahiko Hachinohe (Seal)

Outside Auditor Hidenori Takahashi (Seal)

Reference Documents for General Meeting of Shareholders

Proposals and Reference Information

Proposal No. 1 Appropriation of Surplus

The Company has given consideration to matters including the business performance of the fiscal year and future business development, and it proposes to pay year-end dividends as follows.

(1) Type of dividend property

To be paid in cash.

(2) Allotment of dividend property to shareholders and their aggregate amount

¥50 per common share of the Company

Total: ¥880,527,350

(Note) As the Company has already paid an interim dividend of ¥50 per share, the annual dividend for the fiscal year will be ¥100 per share.

(3) Effective date of dividends of surplus


June 19, 2020


Proposal No. 2 Election of Two Auditors

The terms of office of Auditors Haruka Hayashi, Kenjiro Nakane, and Takahiko Hachinohe will expire at the conclusion of this annual general meeting of shareholders. Accordingly, the Company proposes the election of two Auditors. The submission of this proposal has obtained the consent of the Board of Corporate Auditors.

The candidates for Auditor are as follows:

Candidate No.	Name	Current position in the Company	Attendance
1	Akio Ko <u>New election</u>	-	-
2	Takahiko Hachinohe <u>Reelection</u> <u>Outside</u> <u>Independent</u>	Outside Auditor	Board of Directors meetings 14/14 times (100%) Board of Corporate Auditors meetings 14/14 times (100%)

Candidate No.	Name (Date of birth)	Career summary, position in the Company, and significant concurrent positions outside the Company	Number of the Company's common shares owned
<div data-bbox="197 689 331 719" style="border: 1px solid black; padding: 2px;">New election</div> 1	<div data-bbox="352 405 616 685" style="text-align: center;">  </div> <div data-bbox="411 701 560 757" style="text-align: center;"> <p>Akio Ko (June 6, 1956)</p> </div> <div data-bbox="392 781 576 831" style="text-align: center;"> <p>Tenure as Auditor: —</p> </div> <div data-bbox="384 887 587 987" style="text-align: center;"> <p>Number of Board of Corporate Auditors meetings attended: —</p> </div>	<p>Oct. 1999 Joined the Company</p> <p>Apr. 2009 General Manager of Finance Division of Administration Group</p> <p>Apr. 2010 Executive Officer and General Manager of Finance Group</p> <p>Apr. 2018 Senior Executive Officer and General Manager of Finance and Corporate Planning Group, Investor Relations Division</p>	2,400
<p>Reasons for nomination as candidate for Auditor</p> <p>The Company proposes the election of Akio Ko as Auditor based on his abundant experience and deep insight acquired through his past service in addition to his familiarity with the Company's lines of business and corporate culture as he has been in charge of accounting and finance as Senior Executive Officer of the Company, and the determination that he can provide appropriate advice and supervision.</p>			

Candidate No.	Name (Date of birth)	Career summary, position in the Company, and significant concurrent positions outside the Company	Number of the Company's common shares owned
<div style="border: 1px solid black; padding: 2px; display: inline-block;">Reelection</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">Outside</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">Independent</div> <p style="text-align: center;">2</p>	 <p style="text-align: center;">Takahiko Hachinohe (June 5, 1947)</p> <p style="text-align: center;">Tenure as Auditor: 4 years</p> <p style="text-align: center;">Number of Board of Directors meetings attended: 14/14 times</p> <p style="text-align: center;">Number of Board of Corporate Auditors meetings attended: 14/14 times</p>	<p>Apr. 1973 Registered as an attorney at law (Tokyo Bar Association)</p> <p>Apr. 1973 Joined Watanabe Kijuro Law Office</p> <p>May 1987 Senior Partner of Hachinohe Law Office (current position)</p> <p>June 2016 Outside Auditor of the Company (current position)</p>	2,800
<p>Reasons for nomination as candidate for Auditor</p> <p>Although Takahiko Hachinohe has not been involved in corporate management, the Company proposes his election as outside Auditor based on determination that he is an attorney at law and can provide advice and supervision from the perspective of a legal professional.</p>			

- (Notes)
1. There are no special interests between the Auditor candidates and the Company.
 2. Takahiko Hachinohe is a candidate for outside Auditor. The reasons for nominating him for outside Auditor and determining that he is capable of appropriately fulfilling his duties are described under "Reasons for nomination as candidate for Auditor" above.
 3. The Company has submitted notification to the Tokyo Stock Exchange that Takahiko Hachinohe has been designated as an independent officer as provided for by the aforementioned exchange. If his reelection is approved, the Company plans to submit notification concerning his appointment as an independent officer to continue to the aforementioned exchange.
 4. Takahiko Hachinohe is currently an outside Auditor of the Company, and he will have served as an Auditor for four years at the conclusion of this annual general meeting of shareholders.
 5. The Company has entered into a limited liability agreement with outside Auditor candidate Takahiko Hachinohe. The maximum amount of liability for damages under the relevant agreement is the minimum liability amount provided for under laws and regulations. If his reelection is approved, the Company plans to enter into the relevant agreement once again.
 6. There are no matters to be entered other than those described above.



Proposal No. 3 Election of Two Substitute Auditors

The Company proposes the election of two substitute Auditors in preparation for a case where it falls short of the number of Auditors provided for under laws and regulations.

Among candidates for substitute Auditors, the Company proposes the election of Kenjiro Nakane, a substitute Auditor candidate, as a substitute for an outside Auditor and Satoshi Ueki, a substitute Auditor candidate, as a substitute for an Auditor who is not an outside Auditor. The submission of this proposal has obtained the consent of the Board of Corporate Auditors.

The candidates for substitute Auditor are as follows:

Candidate No.	Name	Current position in the Company	Attendance
1	Kenjiro Nakane <div style="text-align: center;">Outside Independent</div>	Outside Auditor	Board of Directors meetings 12/14 times (86%) Board of Corporate Auditors meetings 12/14 times (86%)
2	Satoshi Ueki	Executive Officer and General Manager of Finance Group, Investor Relations Division	–

Candidate No.	Name (Date of birth)	Career summary, position in the Company, and significant concurrent positions outside the Company	Number of the Company's common shares owned
<div style="border: 1px solid black; padding: 2px; display: inline-block; margin-bottom: 5px;">Outside</div> <div style="border: 1px solid black; padding: 2px; display: inline-block; margin-bottom: 5px;">Independent</div> 1	 Kenjirou Nakane (July 9, 1947) Number of Board of Directors meetings attended: 12/14 times Number of Board of Corporate Auditors meetings attended: 12/14 times	Oct. 1975 Registered as a Certified Public Accountant July 1977 Registered as a Tax Accountant Apr. 1988 Senior Partner of SeishinShisei & Co. Audit Corporation (currently Moore Shisei & Co.) (current position) July 2003 Senior Partner of SeishinShisei & Co. Tax Corporation (currently Moore Shisei Tax Corporation) (current position) June 2006 Outside Auditor of the Company (current position) June 2012 Outside Director of NIKKISO CO., LTD.	6,900
<p>Reasons for nomination as candidate for substitute Auditor</p> <p>The Company proposes the election of Kenjirou Nakane as substitute outside Auditor based on determination that he is a Certified Public Accountant and can provide advice and supervision from the perspective of an accounting and tax expert.</p>			
2	 Satoshi Ueki (August 5, 1963)	Apr. 1987 Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation) May 2017 Joined the Company as Deputy General Manager of Finance Group Apr. 2018 Executive Officer and Deputy General Manager of Finance and Corporate Planning Group Apr. 2020 Executive Officer and General Manager of Finance Group, Investor Relations Division (current position)	1,400
<p>Reasons for nomination as candidate for substitute Auditor</p> <p>The Company proposes the election of Satoshi Ueki as substitute Auditor based on his many years of experience at financial institutions as well as his familiarity with the Company's lines of business and corporate culture as he has been in charge of accounting and finance as Executive Officer of the Company, and the determination that he can provide appropriate advice and supervision.</p>			

- (Notes)
1. There are no special interests between substitute Auditor candidates and the Company.
 2. Kenjiro Nakane is a candidate for substitute outside Auditor. The reasons for nominating him for outside Auditor and determining that he is capable of appropriately fulfilling his duties are described under “Reasons for nomination as candidate for substitute Auditor” above.
 3. If Kenjiro Nakane assumes office as outside Auditor, the Company plans to submit a notification to the Tokyo Stock Exchange concerning his designation as an independent officer as provided for by the aforementioned exchange.
 4. Kenjiro Nakane is currently an outside Auditor of the Company, and he will have served as an Auditor for 14 years at the conclusion of this annual general meeting of shareholders.
 5. The Company has entered into a limited liability agreement with substitute outside Auditor candidate Kenjiro Nakane. Since the current agreement expires with his resignation from the position of outside Auditor, if he assumes office of outside Auditor again, the Company plans to enter into a limited liability agreement with him. The maximum amount of liability for damages under the relevant agreement is planned to be the minimum liability amount provided for under laws and regulations.
 6. There are no matters to be entered other than those described above.