



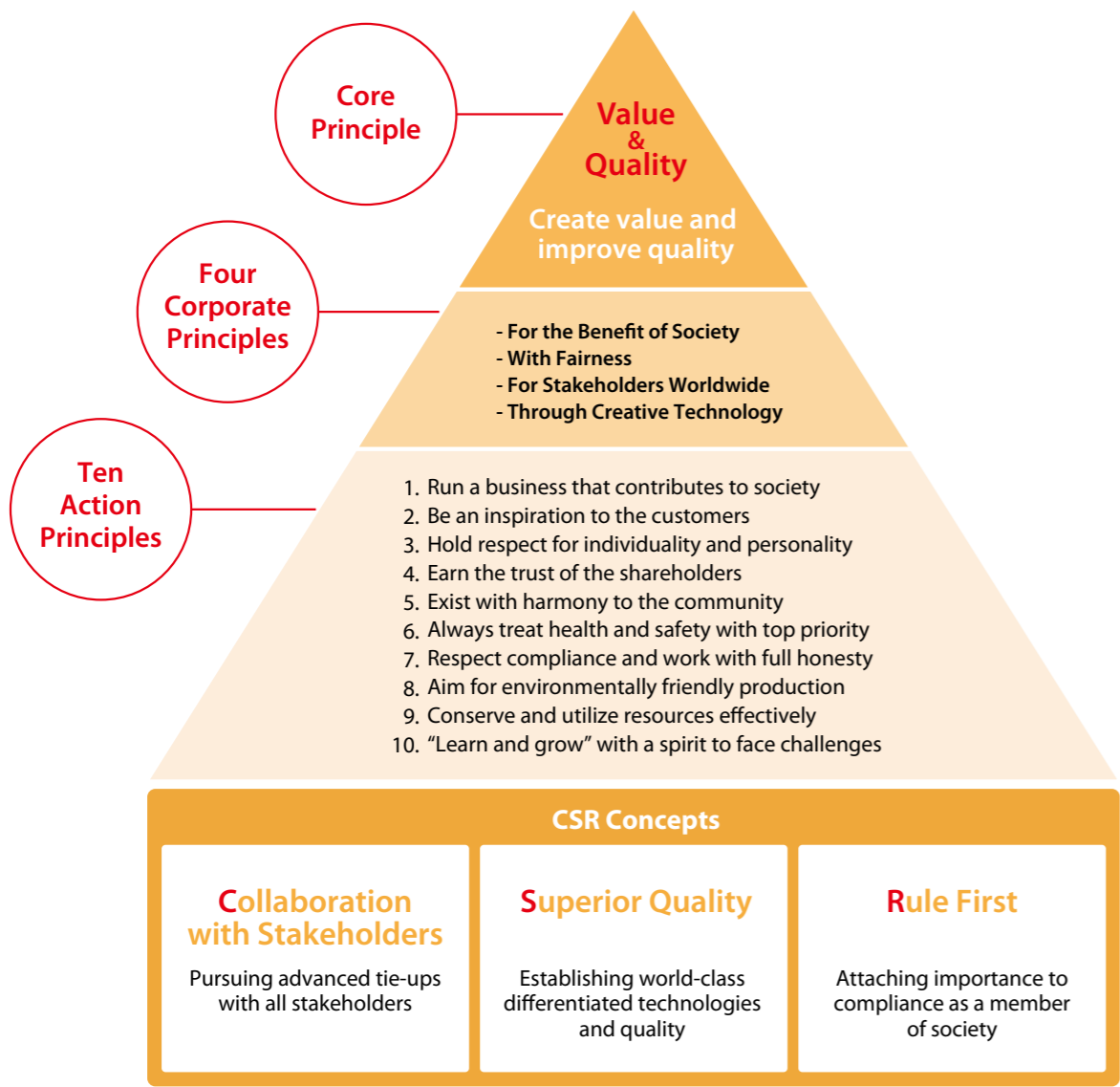
VALQUA GROUP

Sustainability Report 2020



THE VALQUA WAY

The VALQUA GROUP’s Corporate Philosophy – “THE VALQUA WAY” – consists of the Core Principle of “Value & Quality” from which the company name is derived, together with the “4 Corporate Principles” and “10 Action Principles” that aid employee understanding and facilitate implementation. This deep understanding and implementation of THE VALQUA WAY forms the foundation of the VALQUA GROUP’s corporate social responsibility (CSR). In addition, the introduction of the 3 CSR Concepts based on “THE VALQUA WAY” in 2007 has made it possible for us to engage in more practical activity oriented toward solving various social problems.



Effective 2020, the name of this report has been changed to

VALQUA GROUP Sustainability Report.

Editorial Policy

This Sustainability Report is issued once a year to communicate our basic approach to ensuring the sustained growth of the VALQUA GROUP, and the efforts we have made to tackle important challenges in CSR activity, to all of our stakeholders. Some of the data is disclosed only on our website. URLs where this content will be posted are included in this Sustainability Report.

Reporting Period

April 1, 2019 to March 31, 2020
Some of the reports include content from before or after the above period. The information, such as the organizational chart, policies, and standards, are current as of June 2020.

Scope

VALQUA, LTD. and its 19 consolidated subsidiaries
(Hiring rates for persons with disabilities and percentage of women in management positions are figures for VALQUA, LTD. alone.)

Timing of Publication

Issued July 2020 (last issued in September 2019)

Reporting Media

Brochure/ PDF edition	Summarizes high-priority endeavors in the form of an annual report. “Corporate Social Responsibility” http://www.valqua.co.jp/social/
Web edition	Exhaustive posting of latest information and additional information on our website. Updated frequently. “Technical Information”, “Investor Relations”, “Company Information”, and other pages http://www.valqua.co.jp/

CONTENTS

Corporate Philosophy	02
Contents, Editorial Policy	03
Top Message	04
VALQUA’s Relationship to Society	06
Special Feature 1. Promoting human resources diversity	08
Local human resources growing along with VALQUA VIETNAM	
Special Feature 2. Efforts to be an H&S company	10
Solving bottlenecks to the practical application of hydrogen energy	
CSR Management	12
Corporate Governance	
Spread of the Corporate Philosophy	13
Strengthening of corporate governance	14
Promotion of Group’s global activities	15
Dialog with stakeholders	15
Supply Chain Management	
CSR procurement	16
Compliance	
Prevention of corruption and bribery	17
Compliance with environment-related laws and ordinances	18
Legal compliance	19
Environment	
Prevention and reduction of leakage of environmentally hazardous substances	20
Reduction of environmentally hazardous substances in business	21
Safety and Health	
Occupational health and safety	22
Human Resources and Human Rights	
Ensuring of the diversity of human resources (human resources development)	23
Respect for human rights	24
Customer Satisfaction	
Improvement of quality and customers’ safety and peace of mind	25
Community	
Promotion and support of sports, coexistence with local community	26
Company Overview and Map of Bases	27

Top Message

Aiming to be “a challenge-ready corporation that proactively takes on the future and the unknown”, we will go on contributing to the wealth of humanity and the global environment.



Toshikazu Takisawa

VALQUA GROUP Representative
Representative Director, Chairman & CEO
VALQUA, LTD.

Meeting the challenge of the great upheaval caused by the novel coronavirus calamity

The rapid spread of novel coronavirus infection since the beginning of 2020 has developed into an unprecedented situation that has produced many victims throughout the world. While praying for the repose of the souls of the many who lost their lives to the still rampant novel coronavirus pandemic, we offer our heartfelt condolences to their surviving families. We also offer our deepest thanks to the front-line healthcare workers who are

laboring day and night at medical institutions to treat the infected and support society.

By coincidence, this past January, a time when the world was about to be visited by this unforeseen situation, happened to coincide with the end of the VALQUA GROUP's mid-term business plan, New Valqua Stage 8 (NV-S8), one year earlier than scheduled, and the announcement of the establishment of a new mid-term

business plan, New Frontier 2022 (NF2022). This was done because the changes in the business environment that occurred during the period of NV-S8 led us to recognize the need for a new business plan that could overcome and successfully cope with all future changes in the environment.

In NF2022, which was announced in May of this year, we adopted the goal of realizing sounder sustainable growth as we move beyond our 100th anniversary and enter the new era, and we set forth the image of the corporation we would like to be as we celebrate 100 years in business (2027) – a challenge-ready corporation that proactively takes on the future and the unknown in order to contribute to the wealth of humanity and the global environment.

In the past half year, society has undergone great changes. The world is confronting difficulties never before experienced, but we intend to keep our gaze on the future, undaunted by adversity, as we meet the challenge of “pioneering the New Frontier” of the unknown that lies ahead of us.

Toward CSR activities conscious of Sustainable Development Goals (SDGs)

The basis of the VALQUA GROUP's CSR is “THE VALQUA WAY”, the Corporate Philosophy under which employees understand and practice our Core Principle of “Value & Quality”. Employees' CSR activities consist of putting our unique CSR Concepts (“Collaboration with Stakeholders”, “Superior Quality”, and “Rule First”) into practice in the course of performing their duties.

Today, it is not enough for corporations to pursue short-term profits; they cannot remain viable unless they adopt a long-term perspective, pursue the improvement of non-financial indices like environmental, social, and corporate governance (ESG), and find ways of coexisting with the global environment and local community. We are convinced that having our employees practice proactive engagement with the “environment, society, and corporate governance” as better global citizens under the Corporate Philosophy of “THE VALQUA WAY” will contribute to a sustainable society, and we aim to realize this as our corporate ideal as we approach the turning point of our 100th year in business (2027).

Sustainable Development Goals (SDGs)



The SDGs were adopted in 2015 by the United Nations as goals that should be met by 2030 to solve the problems of the global community. They consist of 17 goals and 169 targets. Not only governments, but also citizens and private companies are expected to contribute to their realization.

During the last fiscal year, we reviewed important CSR issues from the standpoint of the stakeholders and that of the VALQUA GROUP on the basis of the SDGs and the Global Reporting Initiative (GRI) Standards and established new CSR challenges. The SDGs, with the target years of 2030, are urgent tasks that we need to tackle as global citizens with a perspective that transcends that of the country, organization, or individual, and we intend to place greater emphasis on them as guidelines for contributing to a sustainable society.

We changed the title of this report from the “CSR Report” to the “VALQUA GROUP Sustainability Report” to signal our determination to strengthen our commitment to contributing to the realization of a sustainable society and engaging in our business activities with a consciousness of this goal.

Development of the “VALQUA Person” – human resources development unrivaled in the world

As a result of promoting diversity in its employees, the VALQUA GROUP has multinational work forces at its bases in Japan, South Korea, the United States, China, Taiwan, Thailand, Vietnam, and Singapore.

To create an environment in which these human resources can exhibit their abilities to the fullest, we have established the “VALQUA GROUP Basic Policy on Human Rights” based on the Action Principle of “Hold respect for individuality and personality”, and we have promoted corporate activities that are unfettered by nationality, gender, age, religion, or other attributes.

However, we now think that a new set of elements will be necessary under the kind of environment that the novel coronavirus has created, which is hitherto inexperienced and characterized by inability to see into the future. That is to create a corporate culture that is undaunted by adversity, seizes it as a “chance” to create new value, and is filled with a challenge-ready pioneer spirit. We plan to promote the kind of rigorous human resources development that can produce leaders with this mindset who can take charge of management as truly global human resources unsurpassed in the world.

We believe that once the novel coronavirus pandemic has been stamped out, a better future awaits us – one that will open the way to new social ideals different from any that came before. We intend to continue delivering new value to our customers while taking pride in the fact that we were the pioneers in seal engineering, and we will make efforts to be a corporation that can contribute to a sustainable society together with all of our stakeholders.

June 2020

Image of the corporation we would like to be as we celebrate 100 years in business (2027)

A challenge-ready corporation that proactively takes on the future and the unknown

– In order to contribute to the wealth of humanity and the global environment –

1. Endless pursuit and monitoring of growth strategy
2. Strengthening of management foundation to make growth unshakeable
3. Putting into practice proactive efforts in the areas of “environment, society, and corporate governance” as a better global citizen

Business objectives to meet by term ending March 2027

- Consolidated sales of 80 billion yen
- Consolidated ROE of 15%

Basic policy of mid-term business plan, New Frontier 2022 (NF2022)

To realize sounder sustainable growth as we move beyond our 100th anniversary and enter the new era, the entire Group is pulling together under “THE VALQUA WAY” to reconstruct our business foundation in a bold and dynamic manner.

1. Increase profits in existing business areas through selection and concentration and acquire new business areas
2. Powerfully execute open innovation (accelerate collaboration, mergers and acquisitions, etc.)
3. Accelerate bold investment (research and development and human resources development)
4. Pursue efficiency in all divisions and customer service through full utilization of IT
5. Execute dynamic policies and measures that invigorate global human resources

VALQUA's Relationship to Society

Our “products & services” play an active role in all sorts of places

A Rockets and satellites



Metal hollow O-rings

These are high performance gaskets that can even prevent leakage in outer space. They are used not only in rockets and satellites, but also in equipment that requires high temperatures, high pressure, and high vacuum.

B Factories and offices



LED illumination

These products have the characteristics of lower power consumption and long life. The extensive lineup can be applied to a wide variety of needs, and they contribute to reducing the environmental burden.

C Medical institutions



Fluorocarbon resin skived tape

These products use advanced technology to cut fluorocarbon resin. Exceptionally airtight and slidable, they are used for coating syringe pistons, etc.

D Automobiles



Gasket for automatic transmission (AT)

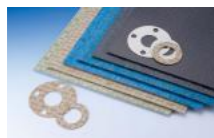
These are the gaskets used in the hydraulic control device (valve body) that controls the AT. By sealing the oil within the device, they make possible smooth, responsive gear changes.

E Ships and vessels



Gland packing

These are products that prevent leakage from around the working axis, and they are used mainly in rotary pumps and valves that fulfill the function of conveying fluids or blocking their flow.



Joint sheet gasket

All-purpose gaskets with performance that can accommodate a wide range of fluids. They play an active role in ships, vessels, and plants as well as all sorts of other scenes, such as housing facilities.

F Steel production plants

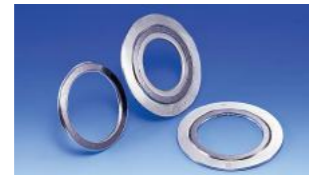
High performance sheet gasket

With far better performance than conventional products, these sheet gaskets are widely used, particularly in plants that require high temperature resistance.



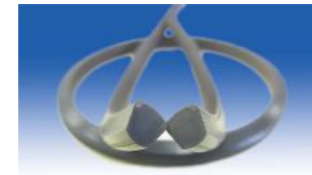
Spiral wound gasket

These metal-reinforced products support safety operations in plants operated at high temperature and pressure.



Low friction seal (LFR SEAL®)

This seal material has outstanding slidability and was developed for use in the rotating and oscillating parts of various kinds of production equipment.



Fluorocarbon resin lined ball valve

Adoption of highly chemical-resistant fluorocarbon resin in all parts that come into contact with fluids gives these valves broad applicability to fluid control.



G Chemical plants

Fluorocarbon resin lined product

These pipes use the characteristics of fluorocarbon resins – chemical resistance and surface smoothness – to ensure the purity of the fluids that pass through them.



Fluorocarbon resin envelop gaskets

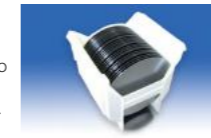
Made of highly chemical resistant material, these gaskets prevent liquid chemicals and gasses from leaking through the joints of piping and equipment.



M Semiconductor plants

Recycled silicon wafer

VALQUA is contributing to reduction of the environmental burden by using proprietary knowhow to clean and polish silicon wafers for checking the operation of semiconductor manufacturing equipment. The recycled wafers are as good as new.



Fluorocarbon resin lined tank

Liquid chemical tanks with inner linings consisting of fluorocarbon resin sheets are indispensable in the storage and transport of the ultra-high purity chemicals used in semiconductor manufacture.



High-performance elastomer

Products surface-treated with a special low-impurity rubber maintain the clean environment that is indispensable to semiconductor manufacture.



Bonded gate seal

These are high performance elastomer and metal seals with a unitary structure. With high sealability, they are used in transfer gate valves for silicon wafers.



L Mobile phone base stations and vehicles

Fluorocarbon resin material

Substrate material with the outstanding electrical characteristics and weather resistance of polytetrafluoroethylene (PTFE) contributes to safe, rapid, high-capacity data communication in antennas and self-driving vehicles.



K Solar power generation

Photovoltaic power generation business

The Mega Solar power generation facility on the premises of KYUSHU VALQUA produces clean energy daily and contributes to the community and the preservation of the global environment.



J Construction machinery

O-ring

These are typical static and dynamic seal products. They accommodate a wide range of industrial needs thanks to the use of rubber material well suited to the application.



Thrust plate

When inserted into the gap in hinged moving parts of excavators, etc., thrust plates play the roles such as adjusting the gap, preventing squeaking, and preventing galling.



I Portable media

Fluorocarbon resin tape

With high electrical insulation and outstanding processability, this tape contributes to miniaturization and the improvement of performance in telecommunications equipment.



H Seal engineering services

Seal Training Center (STC)

STC share VALQUA's seal engineering technology with customers, connecting it to safe plant operation and reliable equipment operation. STC also provide a venue for human resources development, with classroom lectures on the selection of seal materials and appropriate methods of use, as well as experience-based training facilities for practical training using a simulation of pipe flanges in actual factory settings.

H&S Demo Car

Demonstrations and hands-on experience introduce customers to products and services that we have newly begun to develop or handle.





Special Feature 1

Promoting human resources diversity

>> SDGs to which this contributes:



VALQUA VIETNAM

Phung Van Duc
Vice-President

Joined VALQUA VIETNAM in August of 2008, soon after its establishment. Along with the new employees, he was involved in the creation of the company's foundation, starting with preparation for starting up the factory. After serving in multiple positions in quality control and manufacturing, he was chosen to be manager of the Hanoi Branch. He confronted various issues in connection with the growth of the base, but he faced each one with the spirit of challenge and unflagging efforts for which he was appointed Vice-President of VALQUA VIETNAM in October of 2019. As a local top executive, he has made efforts to strengthen the organization system and business foundation.



Local human resources growing along with VALQUA VIETNAM

The business philosophy we call "THE VALQUA WAY" includes "For the Benefit of Society" and "Run a business that contributes to society".

Under "THE VALQUA WAY", we have grown into a corporation that does business in Japan, China, South Korea, Taiwan, the United States, Thailand, Vietnam, and Singapore together with our diverse human resources.

In the future, we will continue to contribute to the SDGs through the practice of "THE VALQUA WAY" while developing truly global human resources, including executives chosen from the local community.

(This section is based on one written by Mr. Phung Van Duc in Japanese, with modifications.)

Joined Japanese company VALQUA to make the most of my experience

Back when I graduated from the National Economics University in Hanoi, there were very few foreign capital affiliated corporations in Vietnam, and most were associated with the Vietnamese government. To accumulate linguistic and business experience, I moved to Japan in 1999 and got a job with a maker of plastic parts for automobiles. Over the course of about 9 years of working in Japan, I was deeply impressed with Japanese culture, so I decided to get a job with a Japanese company in Vietnam after returning home. When I returned to Vietnam in 2008, I joined VALQUA VIETNAM with that aspiration, and I was able to participate in the launch of the company.

Since I only had knowledge and experience with injection molding at the time, I knew almost nothing about the gaskets and packing that my company made. Together with about 20 new employees, I was involved in the creation of the foundation of the company, including the establishment of rules of employment, manufacturing procedures, and testing standards and the introduction of product management systems, and in the course of this, as well as after, I gained broad experience working in the Manufacturing Section, Quality Control Section, Management Section, and others. This gave me an understanding and fondness for seal products, and it also deepened my understanding of the customers. I was deeply grateful for having been given such an opportunity to "Learn and grow in the spirit of challenge".

Scene from VALQUA VIETNAM at the time I joined the company



Guided by the Corporate Philosophy during my difficult Branch Manager period

In the autumn of 2014, when Chief Executive Officer (CEO) Takisawa of VALQUA, LTD. visited Vietnam, he asked me, "What kind of human resource are you aiming to be?" I answered, "I want to become the president of VALQUA VIETNAM, but I think I first must learn about management." When the Hanoi Branch was established in 2015, I was appointed Branch Manager. At the time, I was one of only 2 non-Japanese VALQUA base managers. I was surprised and happy but also anxious about meeting their expectations.

After the Hanoi Branch was launched, I spent lonely days as the person responsible for operations. There were problems with employee resistance and complaints reflecting cultural and value differences between Vietnam and Japan. As the person in the middle, I experienced anguish and often wondered if I should quit the company. However, my thoughts repeatedly returned to "THE VALQUA WAY", the spirit of challenge, CEO Takisawa's expectations, and what inspired me to join the company in the first place. I thought that if I quit then, I would regret it for the rest of my life. So I decided to make reconciling the value systems of Japan and Vietnam my role. This led to opportunities to deepen my understanding of "THE VALQUA WAY". Through my 3 years of work at the branch, I realized anew that VALQUA is not a



In my days as Hanoi Branch Manager

corporation that only pursues profits. It shares the Corporate Philosophy of "THE VALQUA WAY" with all of its employees. I saw that the foundation already existed for realizing the "WAY" by freely discussing it with the employees and exchanging ideas.

Returning to the front lines after about 3 years, I noticed new issues

In the summer of 2017, I was transferred to the Production Plant Management Department and returned to the factory, where my mission was to manage, motivate, and strengthen risk management.

The factory had expanded to twice the size in the 3 years I was away, but I could see a decline in the quality of human resources and the atmosphere on the front lines of production. There were now numerous compliance-related problems such as kickbacks, power harassment, traffic violations, and gambling.

All of this was diametrically opposed to "THE VALQUA WAY", and it gave me a strong sense of crisis. Not only could VALQUA VIETNAM not achieve sustained growth this way, but its very survival was threatened. I established a "Rehabilitation Committee" to restore VALQUA VIETNAM to health. Enlisting the help of the local executives, I tried desperately to spread an understanding of "THE VALQUA WAY" among the employees. I strove to improve awareness of compliance, reward service, punish transgressions, and communicate fully through reporting, contact, consultation, and appreciation. I also introduced Vietnamese types of motivation, such as inviting employees' families to company events and scheduling surprises on "International Women's Day".

Special Feature 1 Promoting human resources diversity

By returning to the point of origin, we got one step closer to realizing our "dream"

In the spring of 2018, when we were seeing signs of improvement, I reached another turning point in my career.

I was now to spend a year undergoing training overseas. CEO Takisawa told me, "In order to get involved in management, you will need to understand the Group's philosophy, policies, and ideals. You must develop the strong will and resolve to manage a subsidiary and increase loyalty."

In Japan, I served in Production Management, General Affairs and Human Resources, Business Management, deepening my understanding while shaping my thought and ideals along the lines of the Group's philosophy and policies. The second half of my year abroad I spent in South Korea, deepening my knowledge of business management.

Through this experience, I realized that I would first need to reform my own consciousness and actions and those of the managers that directly influence the employees if the employees were to think and act independently.



After training with CEO Takisawa in 2019

After overseas training, to Vice-President of VALQUA VIETNAM

In June of 2019, I returned to Vietnam as the head of the Management Department of VALQUA VIETNAM. After making a presentation to CEO Takisawa at the time of his visit, I was appointed Vice-President of VALQUA VIETNAM as of October 1.

I was grateful to CEO Takisawa for patiently giving me opportunities to grow but also anxious about fulfilling a position of responsibility and authority like Vice-President. However, I thought I would need to believe in myself in order to transform the organization into one that could rapidly sense sudden changes in the environment and flexibly adapt to them. I would have to draw upon my experience to strengthen the company's business foundation by educating the local managers and improving the organization. That would be a way of repaying the company for everything it had done for me.

VALQUA VIETNAM is still far from being the "challenge-ready" corporation that proactively takes on the future and the unknown" that is the ideal for the VALQUA GROUP on its 100th anniversary, but I am working toward reforming our corporate culture into the kind of "Why? culture", "culture of trust", and "culture that values emotions" that is espoused by CEO Takisawa, and I aim to become the top local executive (company president) of VALQUA VIETNAM, which is now a company with about 300 employees.

VALQUA VIETNAM

With over 300 employees, VALQUA VIETNAM has the most employees of any Group subsidiary. It mainly manufactures seal products (fluorine-based high performance sheets, spiral wound gaskets, TOUGHRETHANE packing), supplying petrochemical companies and others through the Group's sales companies. VALQUA VIETNAM also distributes products through the Hanoi Branch.

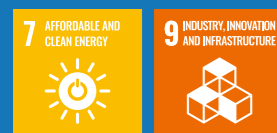




Special Feature 2

Efforts to be an H&S company

>> SDGs to which this contributes:



H&S company

This is the ideal form of company that the VALQUA GROUP aims for. It is a proposal that fuses sales of product (hardware or “H”) with service (“S”), and it contributes to the solution of customers’ problems. We are promoting collaboration that not only addresses manifest problems but also uncovers unmet needs together with the customers so that we can provide a true solution in which our unique technology is reflected in both the products and the service.

Solving bottlenecks to the practical application of hydrogen energy

Although there are great expectations for the potential of hydrogen energy, technical problems with the storage of hydrogen at high pressure and low temperature remain.

The VALQUA GROUP is contributing to the realization of a hydrogen society by developing seal materials that solve this problem.

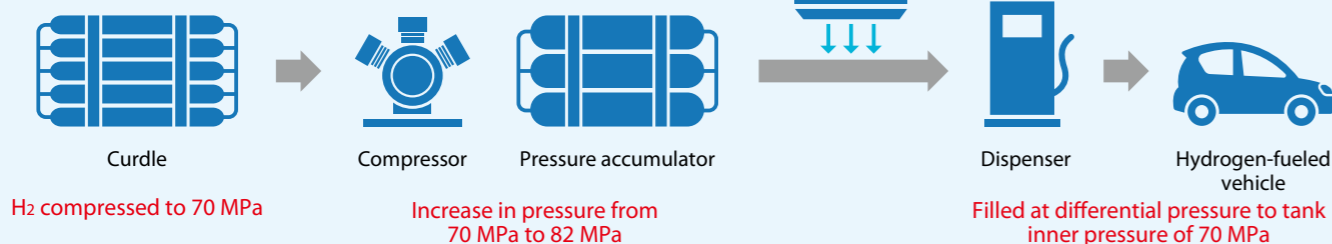
The power to develop technologies is the strength of the VALQUA GROUP

As a pioneer in seal engineering, VALQUA develops and supplies seal products and peripherals that support all industries. This spirit of development is rooted in the “Value & Quality” from which our company name is derived. We have a corporate culture infused with the enthusiasm to continue to meet challenges without fearing failure and we are careful not to overlook the buds of success that can be found in all sorts of places. In recent years, under the concept of H&S, we have been striving to expand and transform our business by providing technical training on product maintenance along with support tools and systems.

The basis of the VALQUA GROUP’s development technology lies in adopting a broad perspective in various product groups. While developers need to be highly specialized, innovations require a broad perspective. VALQUA has built its unique proprietary technology on a flexible way of thinking that anticipates customers’ needs, together with proactive incorporation of technologies used in other industries.

Application of high-pressure hydrogen gas seal (Example)

There is demand for seals that can withstand repeated changes in pressure from high pressure to normal pressure and can be used even at low temperatures.



Product development rooted in “THE VALQUA WAY”

The VALQUA GROUP always aims to delight and inspire the customer in its product development. To that end, we first give maximum consideration to the customer’s safety and peace of mind, and we then share the problem points with the customers and consider how we can do everything in our power to find the true cause and provide a solution by proposing development and design of peripheral structures that meet the customer’s needs in addition to proposing methods of evaluation and verification.

In the area of product development, there is a tendency for companies to specialize in improving the performance of products as parts. However, the VALQUA GROUP never overlooks the safety of the customer or the people who are involved in product development and manufacture, and we strive to develop overall solutions that can contribute to maximizing the performance of the customer’s products and processes while giving maximum consideration to safety. In order to make it possible to provide more solutions, we are striving to improve the development technology capabilities of the entire Group through technical cooperation with the National Institute of Advanced Industrial Science and Technology and other external research institutions, and by proactively expanding our platform through open innovation.

In these efforts, we ascribe importance to the fact that this is proprietary technology, and whoever our customer is, we strive to manufacture “one of a kind” products that satisfy all requirements.

Aiming for realization of a hydrogen society from the standpoint of seal materials

A switch to hydrogen energy would have the advantage of solving many environmental problems, and this is expected to be realized in the future. At the same time, many problems are involved, including creation of the infrastructure for handling, storing, and transporting high-pressure hydrogen gas. There are also technical issues with respect to seal materials, and the switch to hydrogen energy has not gone smoothly thus far.

In recent years, the movement to solve environmental problems has become active worldwide, and the improvement effect that switching to a hydrogen society could be expected to yield in terms of large-scale reduction in CO₂ has been recognized anew. Even China, which published “White Paper on China’s Hydrogen Energy and Fuel Cell Industry” in June of 2019, has created a roadmap for achieving hydrogen energy and fuel cells, and the flow toward a hydrogen society is expected to rapidly gather force globally in the years to come.

Technological innovation that makes it possible to use hydrogen energy safely and efficiently will become increasingly important to promoting a switch to a hydrogen society.

The ability to store hydrogen at high pressure and to store it at low temperatures will both be important, and safe and effective use of hydrogen will mean very high expectations for seal materials that can accommodate both of these requirements. Actually, in storage at low temperatures, it is essential to seal high-pressure hydrogen in a low-temperature environment, and although this was achieved with metal seals, their usability is not considered adequate in the market because they cannot be used repeatedly, etc. As an alternative to metal, there are rubber materials that make seals with good usability, but they cannot



As a third-party evaluator of materials under development, HyTrEC evaluates the performance and reliability of hydrogen-related products.

stand up to the harsh conditions of use in ultra-high-pressure and ultra-low-temperature environments. The level of technical difficulty is thus extremely high, but the VALQUA GROUP succeeded in developing a product that has sufficient seal properties at temperatures below minus 40°C. This has solved the problems of a wide range of customers, and we expect it to contribute to the realization of a hydrogen society.

Toward the realization of a sustainable society

In the VALQUA GROUP, we contribute to the realization of Sustainable Development Goals (SDGs) through the development of commercial products. The accumulation of these efforts is VALQUA’s reason for existence, and we are convinced that it leads to sustainable growth. The contributions to the realization of a hydrogen society that have been introduced here are positioned as part of these efforts. People throughout the world will need to cooperate and pool their technological capabilities to promote the realization and spread of clean energy. Determined to do our part to make this happen, we are promoting development of compatible products.

In the future, in addition to proactively utilizing external technologies and resources, the VALQUA GROUP will continue to fulfill its responsibility to society through a broad perspective, flexible thought, and the proprietary technology that is its strength.

Comment from a customer

Mr. Hirofumi Iwasaki, Development Coordination Office Manager, IHARA SCIENCE CORPORATION

A seal in which a single rubber material can cover highly permeable compressed hydrogen gas under high pressure and at both low and high temperatures is extremely attractive. When it is used in joints, this material is easy to handle and also has desirable characteristics that are not found in metal seals. I was able to get involved in research and development in cooperation with VALQUA, and I feel very honored to have produced something that did not exist before. I would like to go on contributing to the improvement of people’s lives in the future.



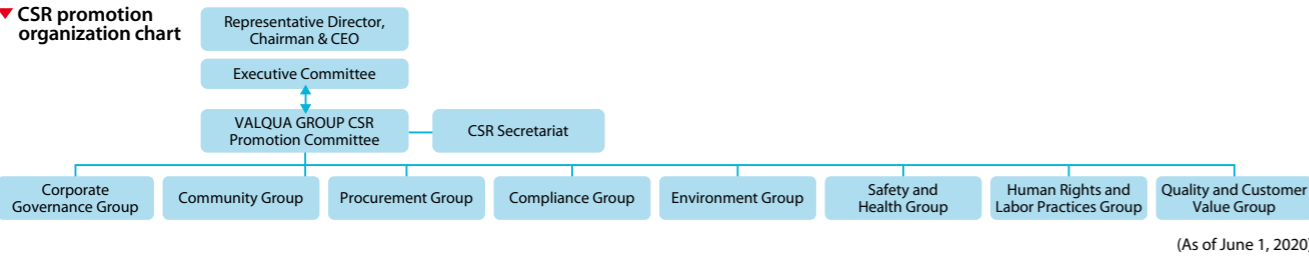
CSR Management

For a sustainable society

Under the Corporate Philosophy of “THE VALQUA WAY”, the VALQUA GROUP continues to meet challenges every day as it aims for unflagging growth. Moreover, we are placing more emphasis on SDGs in order to contribute to a sustainable society by continuing to create and provide value that leads to the solution of customers’ problems through the technologies and services that we have cultivated since our founding.

Organization for promoting CSR

In order to strengthen cooperation in CSR activities from a business perspective under our Corporate Philosophy of “THE VALQUA WAY”, the “CSR Council” was changed into the “VALQUA GROUP CSR Promotion Committee” in fiscal year FY 2019. In the VALQUA GROUP CSR Promotion Committee, we strengthen cooperation within the Group through reports on the progress of the CSR activities promoted by each division, and the exchange of opinions, etc. The results are reported in the meeting of the Executive Committee every half-year.



Important challenges in CSR activities

Activity theme	Why? For what purpose?	Basic policy
01. Spread of the Corporate Philosophy	To aim for sound and sustained growth through visionary management with the Corporate Philosophy of “THE VALQUA WAY” at its center	Make “THE VALQUA WAY” the basis of our daily activities
02. Strengthening of corporate governance	Because it is important to have an effective decision-making mechanism for fulfilling our social responsibilities	Construct a management system based on “THE VALQUA WAY” and strive to perfect it
03. Promotion of Group’s global activities	Because the Group needs to make concerted efforts to solve global problems	Make a concerted effort as the VALQUA GROUP to solve problems by implementing the Corporate Principle of “For Stakeholders Worldwide”
04. Dialog with stakeholders	To deepen mutual understanding through dialog and work toward the solution of common social problems	Promote the CSR Concept of “Collaboration with Stakeholders” to lead to the solution of global problems
05. CSR procurement (handling of conflict minerals)	To solve problems that have become more complex with the globalization of the supply chain	Conduct business on the basis of the “Basic Procurement Policy”
06. Prevention of corruption and bribery	To prevent not only bribery but also actions that raise suspicions	Conduct business on the basis of the “Compliance Manual” under the Action Principle of “Respect compliance and work with full honesty”
07. Compliance with environment-related laws and ordinances	To avoid our business activities being influenced by violation of increasingly strict laws to prevent environmental pollution	Conduct business on the basis of the “Compliance Manual” under the Action Principle of “Respect compliance and work with full honesty”
08. Legal compliance	To promote thorough compliance management in order to fulfill our social responsibility and meet expectations	Conduct business on the basis of the “Compliance Manual” under the Action Principle of “Respect compliance and work with full honesty”
09. Prevention and reduction of leakage of environmentally hazardous substances	To use advanced technology to contribute to the realization of a low-carbon society through products and services that lead to reduction of environmentally hazardous substances	In line with the CSR Concept of “Superior Quality”, improve technology and provide products and technology that contribute to the solution of problems
10. Reduction of environmentally hazardous substances in business	To engage in business activities that minimize deleterious effects on the environment, in order to fulfill our social responsibilities as a manufacturing company	Give consideration to environmental assets in our activities under the Action Principle of “Conserve and utilize resources effectively”
11. Occupational health and safety	To lead to employee happiness and the development of business by creating an environment that considers health and safety and is easy to work in	Create an environment that is easy to work in under the Action Principle of “Always treat health and safety with top priority”
12. Ensuring of the diversity of human resources (human resources development)	To lead to sound and sustained growth by creating an environment that makes the most of the individuality of diverse human resources and allows them to grow while increasing their own value	Each individual puts the Action Principle of “Learn and grow” with a spirit to face challenges” into practice in his or her work
13. Respect for human rights	To give full consideration to human rights through enlightenment activities based on the Action Principle of “Hold respect for individuality and personality”	Conduct business activities in line with the “VALQUA GROUP Basic Policy on Human Rights”
14. Improvement of quality and customers’ safety and peace of mind	To provide peace of mind and satisfaction by solving safety-related problems for customers in Japan and overseas together	Promote safety and health not only for those within our own company but also for customers in Japan and overseas under the Action Principle of “Always treat health and safety with top priority”
15. Community (promotion and support of sports, coexistence with local community)	To contribute to the creation of a safe, affluent society where people can have peace of mind through the promotion and support of sports and CSR activities rooted in the community	Promote and support sports and make social contributions rooted in the community under the Action Principle of “Exist with harmony to the community”



Corporate Governance

01 >> Spread of the Corporate Philosophy

Activities to promote understanding of “THE VALQUA WAY” and put it into practice

The VALQUA GROUP engages in its daily business with the Corporate Philosophy common to the entire Group – “THE VALQUA WAY” – as its compass. Each employee throughout the Group (VALQUA and 19 consolidated subsidiaries in 8 countries and regions) brings problem consciousness to bear upon his or her present work in order to make reforms and improvements, and strives to deepen understanding of this philosophy so as to apply it to his or her own work and put it into practice as “MY VALQUA WAY”.

Moreover, we hold Best Presentation Competitions as forums for sharing the content of these activities. Participants make presentations describing how they understand “THE VALQUA WAY” and have been able to put it into practice in their work. Preliminary competitions are held in each country and at each level, and a company-wide competition of representatives who were chosen in the preliminary competitions is held on the anniversary of the company’s founding on January 21 of each year. The 12th such competition was held in fiscal year 2019.

Also in FY 2019, the “Committee for Promoting the Spread of THE VALQUA WAY” was newly established to ensure the sound and sustained growth of the VALQUA GROUP. The CEO himself makes the round of affiliates and each business office in Japan and overseas as Committee Chairperson to deeply imbue employees of the Group in Japan and overseas with “THE VALQUA WAY”. These efforts aim to increase the unifying power of each employee and improve quality in every area.



A presentation at the company-wide competition
Ms. Pham Thi Phuong Minh of VALQUA VIETNAM
1st Place in General Employee Division



CEO Takisawa and President Hombo with 4 awardees from
the J-Class Division and the General Employee Division at
the company-wide competition



Scene from preliminary competition in China (Shanghai) bloc
(Giving an explanation facing the projector)



Scene of a presentation at the Executive Competition
(Participating in a teleconference from VALQUA KOREA)
1st Place, Ms. Chunka Nam of VALQUA KOREA



02 >> Strengthening of corporate governance

Corporate Governance

■ Basic philosophy

As a pioneer in seal engineering, the VALQUA GROUP has constructed a management system for transparent, fair, rapid, and bold decision-making in order to increase its corporate value through sustained growth of the corporation under the Corporate Philosophy of “THE VALQUA WAY”, and it continually pursues optimal corporate governance and strives to perfect it.

■ Status of corporate governance

In order to respond rapidly and unerringly to sudden changes in the business environment, we have established an agile group management organization that introduces an executive officer system and separates the roles of directors from those of executive officers. Moreover by having auditors, including one certified public accountant and one attorney, audit the execution of business by the directors and executive officers, supervisory and auditing functions highly specialized to management are fulfilled.

■ Internal Audit Division

An Internal Audit Division independent of the operating divisions under the direct jurisdiction of the Board of Directors has been established to perform internal audits of all of the Group's business activities. Based on the annual auditing plan, the Internal Audit Division conducts audits from a broad range of perspectives, including internal control, compliance, and risk management, and performs evaluations and makes proposals.

Internal Control System

■ Ensuring the transparency and reliability of business

We are striving to improve and promote our internal control system by constructing highly transparent business processes and an appropriate risk management system. A “Basic Philosophy regarding the Internal Control System” based on the Companies Act, etc., was adopted by the Board of Directors, and the content is reviewed as necessary in order to respond to changes in the external environment and internal environment. Moreover, to comply with the

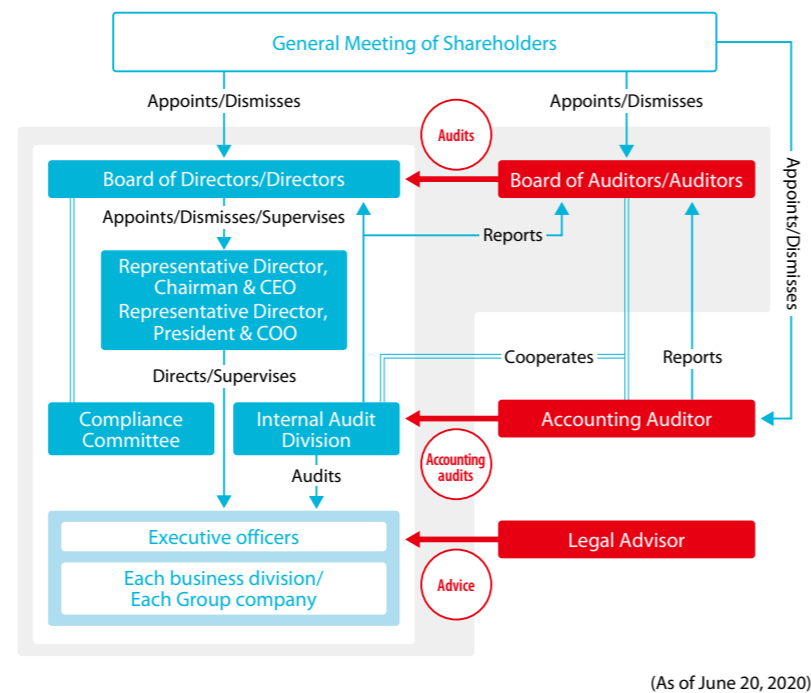
internal control reporting system for making financial reports based on the Financial Instruments and Exchange Act, we have constructed an internal control system and maintain, evaluate, and improve internal rules and regulations and business processes.

As part of this, our financial reports are disclosed after receiving the unqualified opinion of an auditing corporation on the internal control system reports describing the validity of the financial reports, and we are continuing to make efforts to ensure the reliability of the financial reports.

▼ Composition of Board of Directors and Board of Auditors (as of June 20, 2020)

Directors	7 (5 men and 2 women) Including 3 outside directors (1 man and 2 women)
Auditors	3 (3 men) Including 2 outside auditors (2 men)

▼ Corporate governance organization chart



FY 2020 Action Plan,
PDCA for SHE activities,
SHE promotion
organization chart
[http://www.valqua.co.jp/
social/safety_health_
environment/](http://www.valqua.co.jp/social/safety_health_environment/)

03 >> Promotion of Group's global activities

Promotion of Group's global activities

■ VALQUA GROUP's concerted promotion of CSR activities

The VALQUA GROUP has a history of concerted action on the part of Group companies in Japan and overseas to promote “activities revolving around the concept of an H&S business”, “support for ballroom dancing”, “Local Community Thanksgiving Day”, and other activities based on the Corporate Philosophy of “THE VALQUA WAY”.

In FY 2019, the CSR promotion system was reviewed, and the “CSR Council” was changed into the “VALQUA GROUP CSR Promotion Committee” in order to meet the expectations of stakeholders. The “VALQUA GROUP CSR Promotion Committee” strives to strengthen the Group's activities by promoting activities based on the newly established important challenges.

Moreover, in order to change to reporting based on the “GRI Standards”, which are international standards, preparation is being made to post a “GRI Content Index” on our company website after assessing and sorting out the current situation.

In the future, the Group will continue to work together as one to promote activities that will enable it to meet the expectations of the various stakeholders.

Promotion system for safety, health, and environment (SHE) related activities

■ Group SHE Committee

A Group SHE Committee has been organized in the VALQUA GROUP to centrally manage safety, health, and environment (SHE) related activities. The SHE Committee is composed of the Chief Executive Officer as Committee Chairperson, the Chief Operating Officer as Vice-Committee Chairperson, and the related executive officers appointed by the Committee Chairperson, and it is required to meet at least once a year. In this Committee, the “annual policy” and “plan of activities” for SHE activities are discussed and approved, the “status of execution” is confirmed, and deployment within the Group is planned.

■ SHE Teams

Within the VALQUA GROUP, SHE Teams are set up in every office or business unit to promote SHE activities. With presidents of affiliates or business office managers as general managers, each team breaks down the “annual policy” and “plan of activities” approved by the Group SHE Committee and formulates and executes an “annual policy” and “plan of activities” for their own team, giving consideration to actual management conditions, special cases, different legal regulations, and national characteristics.

04 >> Dialog with stakeholders

Relationships with shareholders

The VALQUA GROUP proactively engages in a constructive dialog with shareholders, investors, and other persons related to the stock market while disclosing information in a fair, appropriate, and timely manner. Management is appropriately provided with feedback on the opinions obtained from this two-way communication, and it is utilized in the realization of sustained improvements in corporate value.

Relationships with customers

As an H&S company, the VALQUA GROUP aims to

realize the maximization of customer value through true service solutions from the standpoint of the customer throughout the entire value chain, including development, procurement, production, and sales.

Relationships with employees

Under the Corporate Philosophy of “THE VALQUA WAY”, the VALQUA GROUP is striving to create a work environment that promotes individual growth and enables employees to exhibit their capabilities to the greatest possible extent, based on respect for human rights, the promotion of diversity, and assurance of safety and health.



Supply Chain Management

05 >> CSR procurement

Promotion of CSR procurement

■ CSR Procurement Guidelines

The VALQUA GROUP established the “CSR Procurement Guidelines” in 2016 to promote procurement activities that also give consideration to society, the environment, and human rights, etc. Based on the Corporate Philosophy of “THE VALQUA WAY” and the “CSR Concepts”, 5 items have been established as the “Basic Procurement Policy”. These guidelines minimize risk throughout the supply chain and promote sound procurement activities.

■ CSR procurement questionnaire

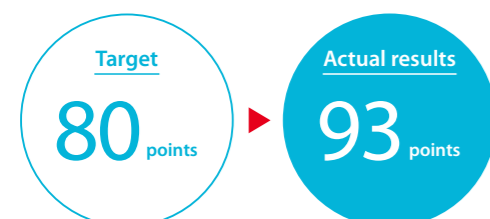
As one of the activities that promote CSR procurement throughout the entire supply chain, a self-evaluation questionnaire is conducted in order to confirm the status of CSR promotion at each supplier.

In FY 2019, the questionnaire was administered to the 21 main suppliers from which the VALQUA GROUP procures and purchases materials (Total amount of procurement from these 21 companies accounts for approximately 80 percent of the total amount of procurement by our company). The questionnaire consisted of sections organized along the lines of the Basic Procurement Policy (8 sections, 20 questions), and it confirmed the status of each supplier's efforts in the areas of legal compliance, fair trade, consideration for the environment, respect for human rights, safety and health, etc. The questionnaire recovery rate was 100%. The questionnaire helped us to strengthen collaboration with our suppliers, by sharing our recognition of the importance of CSR.

As a result of assigning scores on the basis of the questionnaire responses, it was found that 95% of suppliers surpassed the established targets, and

▼ Results of CSR procurement questionnaire

Average for FY 2019



Note: Survey of main suppliers (21 companies)

there was only one case in which guidance for reform was given. Each supplier is given feedback on the results of the survey to share information and request further promotion of CSR activities. We make continued efforts to collaborate with the suppliers and support them in order to realize CSR procurement. Suppliers who do not meet the targets receive guidance for reform and are provided with individualized educational materials so that we can continue to do business with them.

In the future, we will continue to refine the content of the questionnaire in order to further promote CSR activities, and we aim to firmly establish CSR procurement through individualized support for suppliers.

Handling of conflict minerals*

The VALQUA GROUP considers the proper handling of conflict minerals to be its corporate responsibility, and we have established a related policy in the CSR Procurement Guidelines and conduct investigations of procured items. In cooperation with our suppliers, we will redouble our efforts to avoid involvement in human rights violations.

Basic Procurement Policy,
VALQUA GROUP CSR
Procurement Guidelines
[http://www.valqua.co.jp/
social/csrprocurement/](http://www.valqua.co.jp/social/csrprocurement/)

*Conflict minerals: Minerals that
provide a source of funding for
armed groups that commit
human rights violations and
corrupt practices in conflict areas

▼ Matters confirmed by CSR procurement questionnaire

Section	Content of efforts
CSR promotion	<ul style="list-style-type: none">Construction of system for the early discovery of illegal acts and corrupt practicesFormulation of policy on compliance with laws and rules, education of employeesCSR promotion systemExtension to own company's suppliers
Fair trade	<ul style="list-style-type: none">Prevention of corruptionProhibition of abuse of superior bargaining position
Appropriate import/export	<ul style="list-style-type: none">Construction of system for management of imports/exports and appropriate imports/exports
Information/security	<ul style="list-style-type: none">Management and respect for intellectual propertyManagement of confidential information and personal information on customers, employees, etc.
Conflict minerals	<ul style="list-style-type: none">Proper handling of conflict minerals
Human rights/labor	<ul style="list-style-type: none">Respect for human rights, prevention of human rights violationsProhibition of inhumane labor practicesProhibition of discrimination in hiring, assignment, education, evaluation, and treatment of employees; education for employees
Environment	<ul style="list-style-type: none">Environmental protection, management of chemical substancesPromotion of green procurement
Safety and health	<ul style="list-style-type: none">Maintenance of a work environment in which employees can work in good healthConsideration for safety measures and physical burden on workers in arrangement of facilities and machinery, consideration for environmentEnsuring a stockpile of emergency supplies for emergency situations, including natural disastersAdvance agreement on who to contact outside of the company (surrounding residents, etc.) in the case of an emergency, disaster, or accidentMeasures for business continuity planning (BCP) in the event of a large-scale disaster, BCP system for emergencies



Compliance

06 >> Prevention of corruption and bribery

Risk management

■ Basic philosophy

In the mid-term business plan newly started in FY 2020 (NF2022), we have reconstructed our business foundation by increasing profits in existing business areas through selection and concentration and acquiring new business areas. Moreover, as the social demands on corporations increase, the quality of risk management is also being questioned.

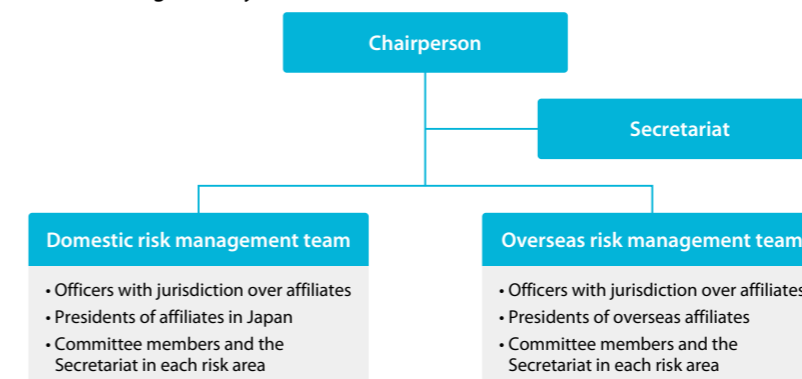
In order to maintain relationships of trust with stakeholders and stably continue to do business, the VALQUA GROUP is constructing a management system that can accurately assess and control diversifying risk and its impact.

■ Risk management system

Even in the previous mid-term business plan (NV-S8), the VALQUA GROUP took steps to strengthen risk management. The “Risk Management Committee” that was pivotal to these efforts was established for the central management of the risks that the Group incurs in the course of doing business, which are becoming more diverse with the rapid changes in the business environment in Japan and overseas and the expansion of the Group's business area.

With the Risk Management Committee at its core, the risk management system will flexibly and accurately respond to the changes in the environment that surrounds the VALQUA GROUP through the central management of the business risk that surrounds Group companies both in Japan and overseas.

▼ Risk management system



(As of June 1, 2020)

■ Management of intellectual property rights

With “Through Creative Technology” as one of its Corporate Principles, the VALQUA GROUP aims to be a “true solution provider” that integrates this creative technology with service. The Intellectual Property Division properly protects the value created through corporate activities and supports the provision of products and services that lead to solutions of the customer's problems. It also maintains internal rules and systems that respect the intellectual property rights of others, conducting exhaustive surveys at each stage of research and development to ensure that our company's products and services do not infringe upon the intellectual property rights of third parties. Under a system of cooperation between the Intellectual Property Division and the Research & Development Division, these surveys are conducted globally to ensure that intellectual property rights are respected not only in Japan but overseas as well.

■ Legal compliance in Group companies in Japan and overseas

In order to ensure legal compliance throughout the entire Group, we conduct surveys of related laws, not only within Japan, but also as they apply to our subsidiaries overseas, while receiving support from law offices, consultants, and services that provide legal information, so that our business practices will be in compliance with the law. The entire Group maintains complete readiness to comply with laws and ordinances that greatly differ in content in each country and region.

Prevention of corruption

■ Thorough prevention of bribery

In the VALQUA GROUP, we make sure that all employees are fully informed of the need to prevent bribery, and we review and revise our rules as necessary in order to appropriately accommodate regulations on bribery in Japan and overseas. Moreover, we take rigorous measures to prevent bribery by conducting audits of the entire Group, making no distinction between members in Japan and overseas.

07 >> Compliance with environment-related laws and ordinances

Environmental risk management

■ Framework for activity

Production-related companies in Japan and overseas implement environmental activities in accordance with the ISO 14001 system, and in particular, they perform operational level evaluations for legal management. We are strengthening our system for preventing violations from occurring by taking measures to discern weak points, make latent risk manifest, and prevent it.

In FY 2019, an effluent regulation violation was discovered at the Chinese office, and they received administrative guidance, but countermeasures were taken, and the situation has now improved. China's environmental regulations have become stricter in recent years, and administrative control is more frequently applied. We are promoting the construction of a system to prevent violations from occurring by constructing an internal auditing system for compliance with legal regulations at all production-related companies.

Moreover, there have been no complaints of foul odors or noise from neighbors of any of our offices.

Strengthening of risk management for chemical substances is being called for worldwide, and information on the chemical substances that our products contain is being appropriately provided downstream through chemSHERPA*.

■ Maintenance, operation, and auditing of legal compliance system for each production-related company

Production-related companies in Japan share a list of laws and ordinances specified by ISO 14001, and they continually engage in activity to prevent oversights and differences in interpretation between companies by verifying points of change monthly. Even with respect to laws specified by each of the overseas production companies, sharing of monthly points of change has begun within the Group as a whole.

Each company is proceeding to prepare a system for internal auditing of legal compliance based on this list of laws and ordinances, and operation of this system will begin in FY 2020 with the production companies in Japan as well as those in China, where there have been major changes in legal regulations.

*chemSHERPA: Name of a data entry support tool and information transfer files released in October 2015 at the initiative of the Ministry of Economy, Trade and Industry to promote the appropriate provision of information on the chemical substances contained in products to downstream companies from upstream companies throughout the supply chain

VALQUA GROUP's Environmental Philosophy

In accordance with VALQUA's Corporate Philosophy, with the realization that the preservation of global environment is most important common task facing mankind, VALQUA strives to preserve the global environment in its every aspect of cooperate activities, and aims to form a society where the sustainable growth of business enterprise is possible.

VALQUA GROUP's Environmental Policies

In compliance with the Environmental Principles, we set following policies and every individual within the company acts and fulfills the responsibility as a good global citizen.

- 1 Establish the environmental management system of entire VALQUA GROUP, endeavor to maintain and improve it, and we ensure its implementation.
- 2 In addition to abiding by laws, regulations, treaties, and agreements at home and abroad, we also set voluntary environmental standards and contribute to the preservation of environment further.
- 3 Working in cooperation with other industries and society, we strive to create and provide ecologically friendly products and services.
- 4 In all spheres of our cooperative activities, with vigorously pushing forward of 3R (Reduce, Reuse, Recycle), we strive to ensure the conservation of resources and energy, the reduction of waste and the avoidance of polluting risks.
- 5 We disclose our environmental information widely to the global society to say nothing of the local community, and endeavor to concert and cooperate with society.
- 6 Through the environmental-related education, we make efforts to have all individuals of VALQUA GROUP understand the Environmental Charter and enhance awareness of the environment.

08 >> Legal compliance

Compliance

■ Basic philosophy

In the VALQUA GROUP, "compliance" does not stop with legal compliance. We see compliance as striving to respond to the demands and trust of stakeholders and win the trust of society by proactively complying with business ethics that hold us to an even higher standard than laws and regulations and practicing corporate behavior that contributes to society and gives consideration to the environment, so as to set an example for other corporations. We firmly believe that understanding the importance of this kind of compliance and putting it into practice is something that promises constant growth and development for the VALQUA GROUP.

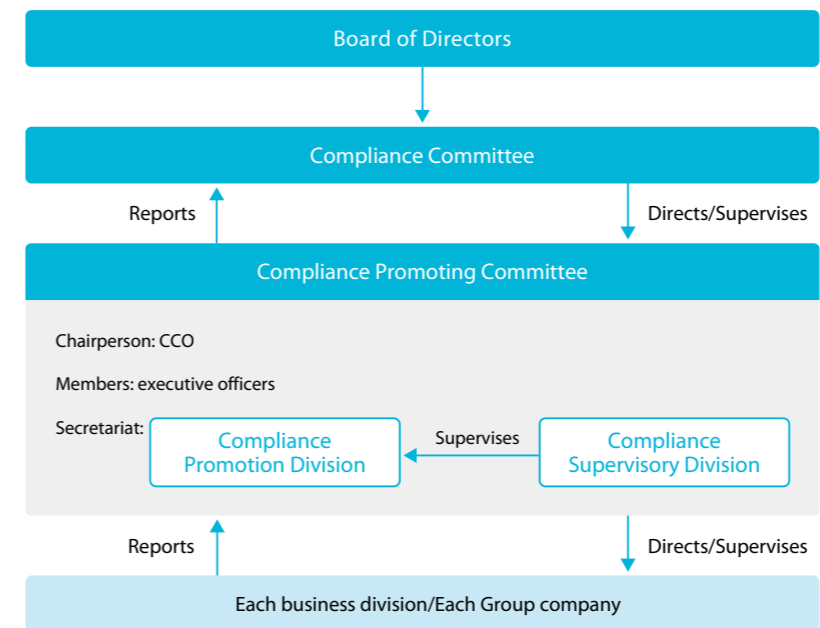
■ Compliance Manual

A Compliance Manual was established in 2003 to provide guidelines for all Group employees to follow in their work, and it has been translated into 6 languages (Japanese, English, simplified Chinese characters, Korean, Thai, and Vietnamese) and is shared by the Group.

Beginning with general matters such as law, environmental protection, information management, and antisocial forces, it describes

For efforts to prevent harassment: See p. 24

▼ Compliance system



(As of June 1, 2020)

compliance requirements as they pertain to sales activity, the work environment, and personal conduct (insider trading, conflicts of interest), and it is utilized as a manual that all employees must understand and comply with.

■ Compliance system

We have established a Compliance Committee and Compliance Promoting Committee, and we strive to maintain and improve the Group's compliance system with the Chief Compliance Officer (CCO) appointed as the highest-ranking person responsible for the promotion of compliance at its center.

With the basic policy of strengthening the Group's system for compliance and nurturing the legal mind, we established a Compliance Supervisory Division and Compliance Promotion Division under the control of the CCO in FY 2018, transforming it into a system that contributes to the creation of a foundation for healthy and sustained growth of the company through both promotion and supervision.

■ Reporting, consultation, and notification system

As a mechanism whereby Group employees can engage in reporting, consultation, and notification related to laws and internal rules and regulations, a system has been established for reporting, consultation, and notification through multiple external and internal liaisons.

This system is operated independently from the ordinary chain of command, and information is anonymized so that no employee will be placed at a disadvantage for making a report, consultation, or notification. The number of cases of reporting, consultation, or notification increased from 5 in FY 2017 to 19 in FY 2018, and 17 in FY 2019. Based on this system, we strive to handle reports, consultation, and notifications appropriately, and we are continually promoting utilization of the system.

External liaisons

- (1) External attorneys
- (2) Business ethics hotlines operated by external contract organizations
- (3) Internal liaison (Accommodating Japanese, English, simplified Chinese characters, traditional Chinese characters, Korean, Thai, and Vietnamese languages)
- (4) Opinion boxes
- (5) CEO Direct Line for direct communication with CEO



09 >> Prevention and reduction of leakage of environmentally hazardous substances

Efforts to prevent and reduce leakage

■ Introduction of new system to promote activities

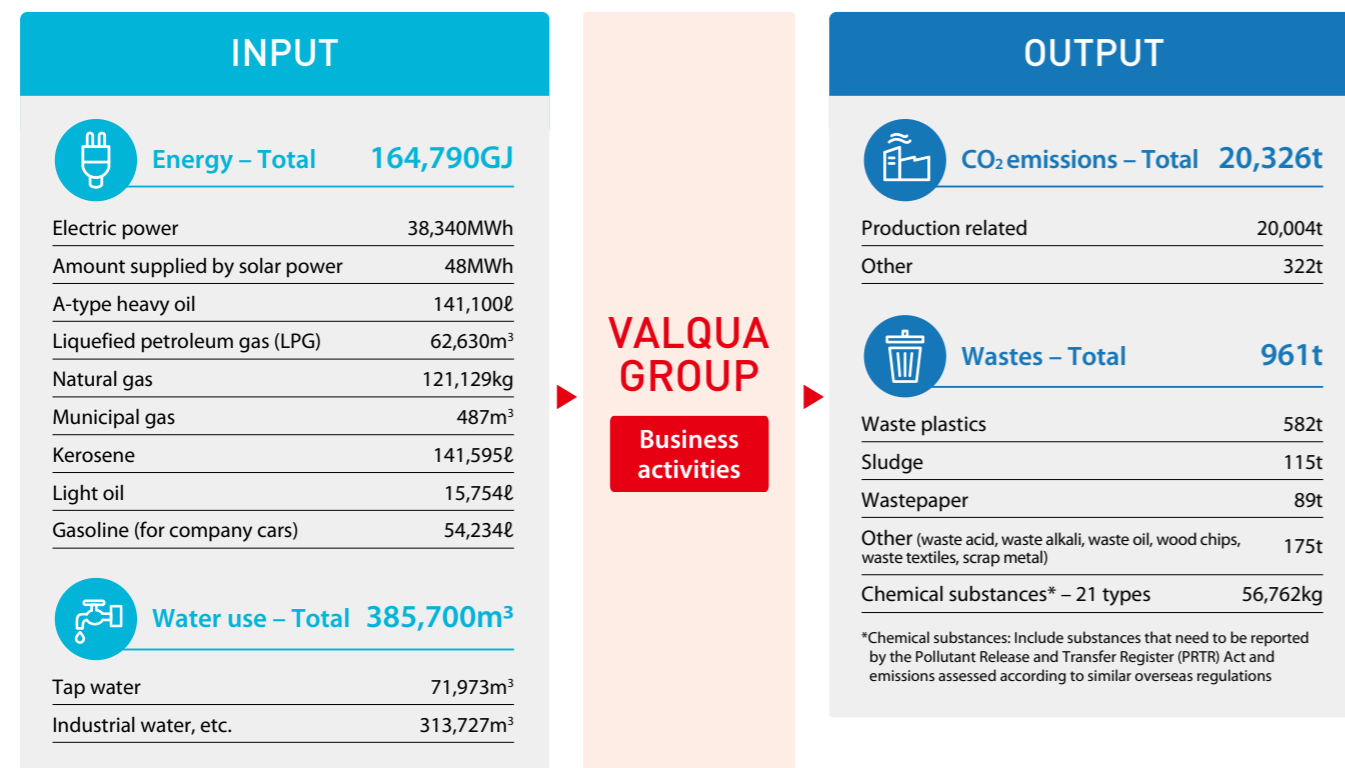
Against the background of increasing recognition of the importance of ESG, a CSR information collection system was introduced in FY 2019 for the accurate and rapid collection of mainly environment-related data from Group companies in Japan and overseas and its central management. We are promoting development of the system so that the collected data can be disclosed on the basis of GRI Standards.

Environmental burden accompanying business activities in FY 2019

In the VALQUA GROUP, we get an overall picture of the environmental burden of our business activities by grasping the INPUT such as the energy and water that goes into business activities and the OUTPUT, including CO₂ emissions from use of energy and the wastes that emerge from production process.

We combine this information with performance metrics (sales and the output of production companies) for use in the establishment of targets and the evaluation of levels of achievement.

▼ Material flow



Object: VALQUA GROUP business offices in Japan and overseas (excluding 30 bases with small scale, such as some regional sales offices, representative offices, and overseas sales companies)
Period of tabulation: April 2019 to March 2020

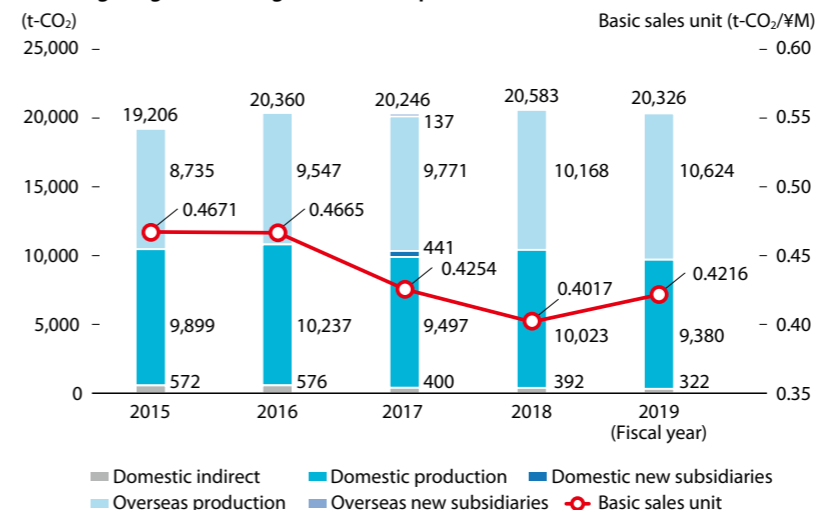
10 >> Reduction of environmentally hazardous substances in business

Change in main environmental load

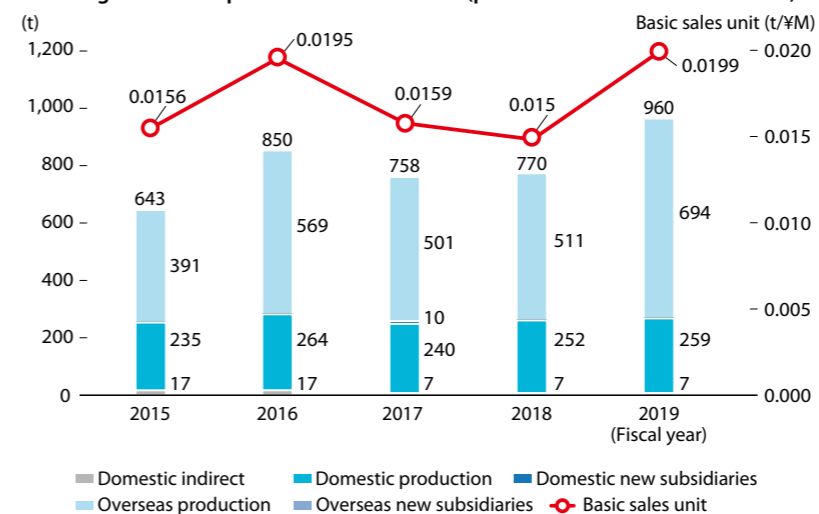
Although it was predicted that the amount of greenhouse gas emissions and the final disposal volume for wastes would increase owing to the effects of an increase in production, production has decreased because of various factors. We have promoted streamlining and cost reduction activities aiming for an improvement of 1% or more in the primary units of each, but because of the effect of production efficiency, etc., the result was worse in terms of primary units.

Scope 3
<http://www.valqua.co.jp/social/environment/>

▼ Change in greenhouse gas emissions (production units + indirect units)



▼ Change in final disposal volume for wastes (production units + indirect units)



■ Greenhouse gas emissions (Scope 1/2)

In FY 2019, the absolute amount of emissions decreased compared to FY 2018 by 257t. The breakdown was a 253t reduction owing to the effects of the reduction in production and a 216t reduction reflecting the effects of revising temperature control management through streamlining and cost reduction activities and updating superannuated facilities. Moreover, the effect of changing the electricity emission factor was great, resulting in a 919t reduction, but there was an increase of 1,131t owing to the effects of deterioration in efficiency from operation of a newly introduced local ventilation facility and a decrease in orders received, so there was a 5% increase in terms of the basic sales unit.

■ Greenhouse gas emissions (Scope 3)

Starting in FY 2014, we began to calculate greenhouse gas emissions for the entire supply chain, and we have now been doing so for 6 years. For details of Scope 3 and other environment-related data, please see our website.

■ Final disposal volume for wastes

In FY 2019, the absolute amount of waste discharge increased compared to FY 2018 by 190t. The breakdown was a 10t reduction owing to the effects of the reduction in production and a 15t reduction reflecting the effects of failure improvement through streamlining and cost reduction activities and improvement of yield, but there was an increase of 215t owing to the effects of deterioration in efficiency from trial manufacture accompanying a change in process due to an increase in lines, as well as from a decrease in orders received, so there was a 33% increase in terms of the basic sales unit.

Note: Greenhouse gas emissions are calculated by annually reconfirming the emission factors for each fuel and electric power in the greenhouse gas emission calculation, reporting, and announcement system based on the "Act on Promotion of Global Warming Countermeasures" (Global Warming Act). Scope 1 refers to direct greenhouse gas emissions from the business itself, Scope 2 refers to indirect emissions accompanying the use of electricity, heat, and/or steam supplied by another company, and Scope 3 refers to indirect emissions occurring from the procurement of raw materials through production, sale, and disposal, excluding Scope 1 and Scope 2. Since the emission factors for electric power are unclear at some overseas bases, a substitute value is uniformly applied. (FY 2015, 0.000579 t-CO₂/kWh; FY 2016, 0.000587 t-CO₂/kWh; FY 2017 to FY 2018, 0.000512 t-CO₂/kWh; FY 2019, 0.000488 t-CO₂/kWh)



Safety and Health

11 >> Occupational health and safety

Education and training of safety and health supervisors

■ (1) Eradicating legal violations through improvement of legal compliance management and level of supervision

By having external experts conduct health and safety audits of each factory and provide safety training, we are promoting activities that make employees more skilled at discovering dangers in advance.

■ (2) Eliminating risks through rule formulation and thorough education

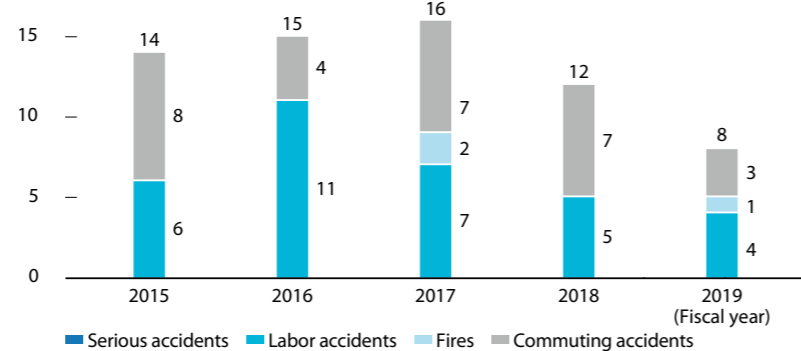
By promoting risk assessment for facilities, operations, chemical substances, etc., we are striving to eliminate the risks that accompany not only routine work and infrequent operations, but also transfer of production bases.

Safety and health promotion activities

■ VALQUA GROUP Safety and Health Day

The VALQUA GROUP has designated May 18 of every year as “VALQUA GROUP Safety and Health Day”, and Safety and Health Conventions are held at all Group bases, including those overseas.

▼ Incidence of accident occurrence (Cases)



■ Activities that proactively promote safety and health

As the VALQUA GROUP's business becomes more globalized, risks accompanying the differences in legal regulations and customs from country to country are becoming manifest. We are convinced that the Group's key principle of “Always treat health and safety with top priority” can be realized by meticulously taking action to accommodate the different legal regulations and customs in each country without delay. While devoting efforts to promoting employee health from the standpoint of health management, we are proactively promoting health guidance by industrial physicians and the creation of a happy, healthy workplace from the standpoint of both safety and hygiene.

Management of mental and physical health

<http://www.valqua.co.jp/social/safety-health/environment/>



Human Resources and Human Rights

12 >> Ensuring of the diversity of human resources (human resources development)

Creating a workplace environment and various systems

■ Creating an environment in which employees of various nationalities can be active

The VALQUA GROUP proactively hires foreign nationals and engages in human resources exchanges among Group companies. In order to promote the creation of an environment in which employees can be active globally, the Group provides advance training to employees who are to be posted overseas and supports foreign nationals working in Japan with Japanese language education. Many employees have been stimulated by cooperation that transcends language and cultural boundaries and have made new realizations.

System that supports flexible ways of working

- Career return system
- Shortened work hours for family care
- Flex time system (core time 13:00–15:00)
- Child-care leave (until child reaches age of 2 years and 6 months)
- Shortened work hours for child care (until child reaches 3rd year of elementary school)
- Special paid leave for child care
- Day off on child's birthday
- System for obtaining paid leave in 1-hour units
- Family care leave (continuous for maximum of 3 years)
- Newly established remote work system

(As of June 1, 2020)

■ Mechanism for goal management and personnel evaluations

In the VALQUA GROUP, goals for individual employees are established on the basis of the annual policy and the mission of the unit. Employees strive to follow “THE VALQUA WAY” and the “image of the ideal human resource” at each level of the organization.

Issues and points requiring improvement are clarified through close communication in periodic face-to-face meetings within the department. While maintaining a fairer personnel evaluation system, we connect this to human resources education that promotes the sustained growth of the VALQUA GROUP. Moreover, training combined with actual practice is provided to managers that perform assessment of employee performance.

■ Employee education through events

In the “VALQUA CUP All Japan Dance Championships” which are held as part of the Group's activities to support sports, over 100 officers and employees participate in an event held in cooperation with the hosting organization. This is one way of practicing CSR activities with the background of “THE VALQUA WAY”, and at the same time, we consider it a valuable learning opportunity in a world that is completely different from our usual work. Moreover, through this project, the spirit of hospitality is further fostered in our employees.

■ Education of next-general management candidates

The VALQUA GROUP provides selected mid-level employees with management candidate education based on a long-term plan. Step-up stages are established every few years, and we aim to educate human resources with the mentality and skills suitable for managers in charge of the rapidly changing next generation.

■ Human resources education at Chinese bases

In 2007, the VALQUA GROUP established a China Human Resources Development Center in Shanghai, China. Shanghai is the Group's largest production base, and we are aiming to construct an educational system well suited to local characteristics so as to accelerate localization in China. We continuously provide “China Management Training” to nurture the human resources to take charge of management at the local bases, and while *raising the standards* of knowledge and abilities, we *select* the most outstanding human resources. A “China Human Resources Development Committee” was established in 2018 to foster consciousness of human resources development, and a system has been set in place for independent local cultivation and education of human resources.

■ In-house language classes

The VALQUA GROUP is making efforts to improve the linguistic ability of its employees. In-house instructors teach Chinese and Korean language classes, and the attendees can choose introductory courses or qualification courses depending on their own level. Moreover, employees can engage in online English conversation as part of the language learning support system.

Certification under international occupational health and safety management system ISO 45001



Certification updated in March of 2019

■ Activities in VALQUA INDUSTRIES SINGAPORE

Appropriate selection and execution of seals are indispensable to preventing accidents at plants, which have been occurring frequently in recent years. The VALQUA GROUP is drawing upon all of its resources to serve as an H&S business that works together with customers to solve such problems while creating new corporate value.

As part of this, VALQUA INDUSTRIES SINGAPORE (the former Singapore Branch of VALQUA INDUSTRIES (THAILAND)) obtained certification under occupational health and safety management system “OHSAS 18001” in 2016. This was done to make it possible to collaborate with local corporations. In March of 2019, the succeeding “ISO 45001” certification was obtained, and every effort is made to ensure that the management systems we construct are the most up to date, so as to prevent accidents at customers' plants.

And the VALQUA GROUP's 10 Action Principles include “Always treat health and safety with top priority”. In the future, we will go on contributing to the realization of occupational health and safety, not only in our own workplaces but also at the customer's facilities.



13 >> Respect for human rights

■ Creating an environment in which employees can be active regardless of gender

We promote further innovation by incorporating diverse viewpoints irrespective of gender. In particular, we set targets for the percentage of women in management positions and proactively appoint women to these positions to support women's career development and growth.

■ Promoting employment of persons with disabilities

Aiming for harmonious coexistence with the community, the VALQUA GROUP proactively accepts interns with disabilities from special education schools in the community. While communicating the joy and significance of working to persons with disabilities, we support job retention and independence after joining the company.

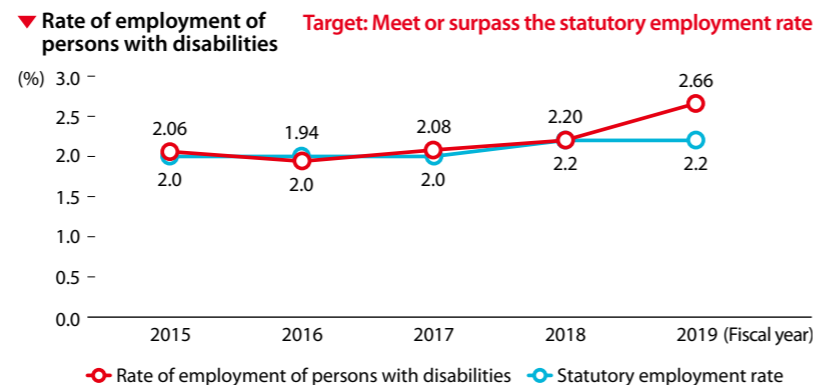
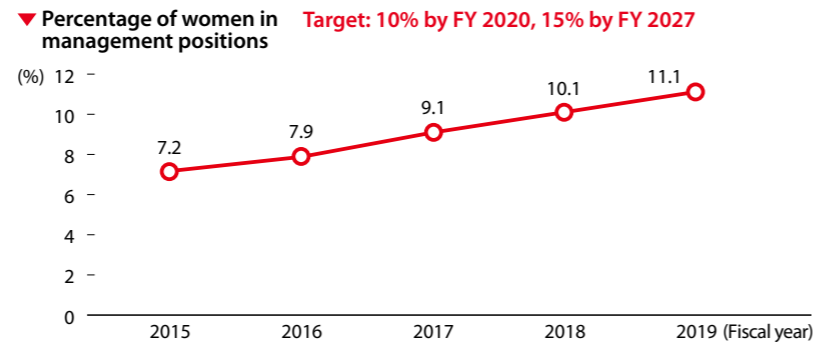
Respect for human rights

The VALQUA GROUP established the "VALQUA GROUP Basic Policy on Human Rights" in March of 2017. This policy was developed on the basis of the United Nations Global Compact. Each company in the Group disseminates information on the Basic Policy on Human Rights, confirms understanding, and conducts assessments of the status of progress on diversity. By analyzing the results and making improvements, we are raising awareness of human rights and further promoting diversity.

Efforts to prevent harassment

■ Reforming ways of thinking within the company

Efforts to prevent harassment are indispensable to promoting respect for human rights in the workplace. To this end, we promote educational activities through the compliance seminars that are held continually. Instructors make the rounds of all bases in Japan and overseas to lead discussion of cases, provide training, and reconfirm proper workplace behavior.



■ DVD-based training to prevent harassment

In not a few cases, the person who engages in harassment is not aware of it. In the VALQUA GROUP, we have been providing DVD-based training on the theme of preventing harassment to Group employees in Japan and overseas since FY 2018. At present, this is provided only in the Japanese language, but the exchange of opinions after watching the DVD provides employees with an opportunity to say what they think and listen to the opinions of others, prompting reflection on their own words and actions. Moreover, all employees are asked to state their impressions after viewing the DVD, and we strive to connect this feedback to harassment prevention that is geared to the tendencies of individual offices.

VALQUA GROUP Basic Policy on Human Rights
http://www.valqua.co.jp/social/human_resources/



Customer Satisfaction

14 >> Improvement of quality and customers' safety and peace of mind

Quality assurance system and policy

In the VALQUA GROUP, we have organized a "Group Quality Assurance Committee" to construct a global quality system integrating the entire Group. It consists of responsible persons from each unit that is involved in research and development and human resources development, beginning with the business divisions and groups that exercise control over the production-related companies and sales-related companies in Japan and overseas. The Committee increases the effectiveness of the entire Group by issuing instructions for the concrete deployment of its decisions at the same time that it takes responsibility for their daily execution.

Moreover, the organization, as well as each employee of the company, engages in quality improvement activities by establishing concrete goals on the basis of the "Quality Policy". This provides the basis for complying with related legal regulations and providing safe products and services with the assurance that quality will meet the demands of the customers.

Promoting the development and spread of services for the benefit of customer safety

The VALQUA GROUP not only manufactures and sells seal products but also provides educational

support for technicians to corporations related to plant engineering in order to reduce leakage trouble caused by improper selection of seal materials or defective construction, which is a cause of accidents at plants.

In 2014, "Seal Training Centers (STC)" were established in 2 places in Japan and 5 places overseas (China, South Korea, Taiwan, Thailand, and Vietnam) as forums for learning procedures for working with seal materials. We also provide on-site teaching and assembly-type training modules so that customers can experience this training in their own companies.

Evaluation technology

The use environments of seal products are diverse, and in actual practice it is difficult to perform evaluation and verification for all customers. At the VALQUA GROUP, we are addressing this issue by using finite element analysis (FEA) to develop next-generation evaluation technology for reproducing and verifying use environments on computers.

These efforts have made it possible to perform verification for large-diameter devices and under conditions of high temperature and high pressure, where it was previously difficult. We also investigate the cause of seal product defects such as leakage and failure and propose designs that can prevent recurrence. In the future, we will go on contributing to the safety and peace of mind of all customers by proactively engaging in such research and development.

Quality Policy, Quality Management System
http://www.valqua.co.jp/social/safety_quality/

Seal Quick Searcher
 The "Seal Quick Searcher" is a website that makes it possible to search for the seal product that is recommended based on the use environment in order to prevent leakage trouble owing to selection or application of a seal product. Users can also confirm the clamping force of the seal product they select.
<http://www.seal.valqua.co.jp/seal/>

New Gaskets and Gasketing Technology
 The industry's first "gasket manual", which provides easy-to-understand explanations of the technological basics of gaskets, bolting, and flange joints
<http://www.valqua.co.jp/technical/gasket-introduction/>

VALQUA technical journal "VALQUA Technology News"
<http://www.valqua.co.jp/tech/technical/>

VALQUA Seal Course

As a safe operation measure for chemical plants, etc., the VALQUA GROUP holds the "VALQUA Seal Course" together with China Petroleum and Chemical Industry Federation. This course has been held in China every year since 2003, and it was held for the 14th time in FY 2018. Unfortunately, the FY 2019 session was cancelled because of the effects of the novel coronavirus, but over 100 technicians take part in the course every year. This course is promoting safe operation through technical lectures on the proper handling of seal materials and the various products.



Scene of FY 2018 course



15 >> Community

Promotion and support of sports

■ Encouraging “ballroom dance” and moving experiences

For long years, the VALQUA GROUP has been involved in promoting and supporting sports to promote health and enrich people’s lives. Since 2014, we have been supporting the spread and development of ballroom dancing, which has transgenerational appeal and is loved by persons with disabilities as well, with leagues in 92 countries and regions throughout the world.

In 2019, the VALQUA GROUP supported competitions such as the “VALQUA CUP All Japan Dance Championships”, Japan’s top pro dance

competition; “All Japan Championships for Primary, Junior and Senior High School Students”, the national competition for the junior youth generation; and “Japan Blind Dance Championships”, the national competition for visually impaired persons.

Among these, we have particularly supported the “VALQUA CUP” by collaborating with the host organization to plan and execute the competition with about 100 of our employees participating as staff. This is one way of practicing CSR activities based on the Corporate Philosophy of “THE VALQUA WAY”, and it leads to experiences such as “Run a business that contributes to society” and “Be an inspiration to the customers”.

▼ Achievements in FY 2019

Support for ballroom dance
Promoting the watching of
ballroom dance,
collaborating in the
operation of competitions
Total number of
participants:

285 persons



At the “Japan Blind Dance Championships”, many pairs teaming a visually impaired person with a sighted person participate



“All Japan Championships for Primary, Junior and Senior High School Students”, where a total of 338 pairs of junior athletes participated



“VALQUA CUP All Japan Dance Championships” is gaining in regard both in Japan and overseas

■ Contributing to the development of the Japanese dance world

The VALQUA GROUP’s six years of support for ballroom dance have been recognized in the awarding of the “Imperial Highness Prince Mikasa Award” to CEO Toshikazu Takisawa in September of 2019 as the person who has contributed most to the development of the Japan’s ballroom dance world.



Achievement award trophy

Coexistence with the local community

■ Local Community Thanksgiving Day

What can we do to build a bountiful future with people throughout the world? One answer to this question is the “Local Community Thanksgiving Day” that we hold every year.

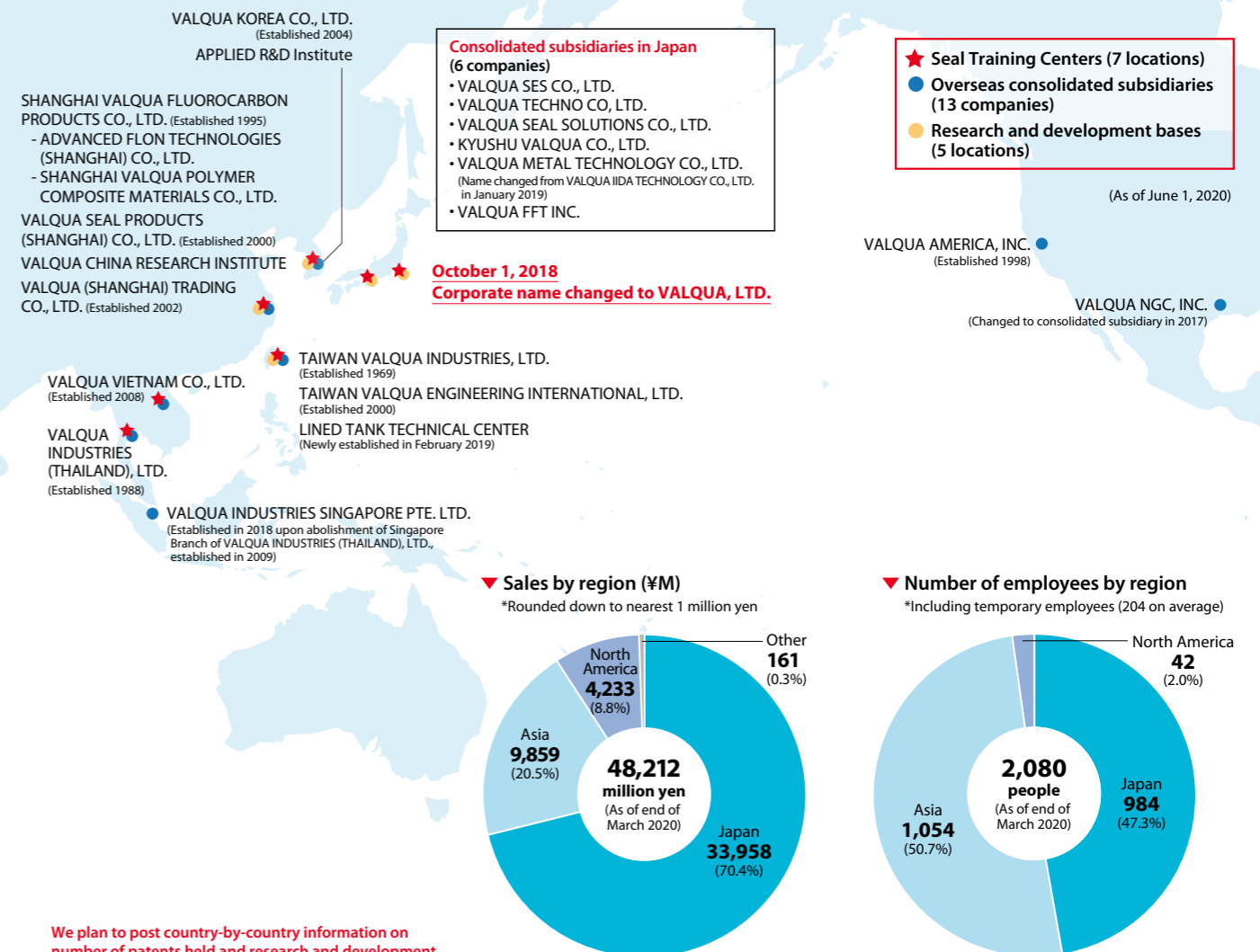
At the business offices, sales bases, and factories of VALQUA GROUP companies throughout the world, we conduct volunteer activities rooted in the local community. In FY 2019, a total of 1,508 employees and their family members participated in these activities in 46 places around the world. The activities included picking up trash along shorelines and roads, planting flower beds, and providing support to nursing care institutions.

Support for activities of groups
that contribute to society,
Support for refugees

http://www.valqua.co.jp/social/action_program/

Aiming to become a truly global corporation
Company Overview and Map of Bases

On October 1, 2018, we changed our corporate name to “VALQUA, LTD.” to mark the “second founding” of our company. VALQUA will celebrate its 100th year in business in 2027. We will continue to take on challenges with the world as our stage in order to draw closer to our stakeholders and meet their expectations.



We plan to post country-by-country information on number of patents held and research and development expenditures separately on the CSR page of our website.
<http://www.valqua.co.jp/social/>

Company Overview

VALQUA, LTD.

Head Office: ThinkPark Tower 24F, 2-1-1 Osaki, Shinagawa-ku, Tokyo 141-6024 JAPAN

Founded: January 21, 1927
Established: April 8, 1932
Capital: 13,957 million yen

Listed: On the first section of the Tokyo Stock Exchange
Employees: 438 (Group employees: 1,876, as of March 31, 2020)
Business: Design, manufacturing, processing, and sale of products made from fibers, fluorocarbon resin, high performance rubber, and other materials to meet the needs of all industries, including industrial equipment, chemicals, machinery, energy, communication equipment, semiconductors, automobiles, and aerospace



Value & Quality

VALQUA GROUP

About the cover

The VALQUA GROUP used photographs of children on the cover of this Sustainability Report to reflect our wish to contribute to the “Creation of a Bright Future” through business that provides customers with safety, peace of mind, and prosperity, and through CSR activities such as support for ballroom dance. We would like to see a future in which all children can be active and succeed in safety and peace of mind. The smiling faces of children that grace the cover are photographs of VALQUA GROUP employees’ children submitted in response to our invitation for photo contributions.

Address inquiries to VALQUA, LTD.

General Affairs and Human Resources Group

ThinkPark Tower 24F, 2-1-1 Osaki, Shinagawa-ku, Tokyo 141-6024 JAPAN

<http://www.valqua.co.jp>

