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Matters to Be Provided in Electronic Format at the  
Time When Giving Notice of the 125th Annual General  
Meeting of Shareholders  
(Matters Excluded From Paper-Based Documents  
Delivered Upon Request)

(Business Report)

System for ensuring the appropriateness of  
operations and overview of the operational  
status of said system

(from April 1, 2024 to March 31, 2025)

VALQUA, LTD.

In accordance with the provisions of laws and regulations and Article 16 of the Company's Articles of Incorporation, the above matters are excluded from the paper-based documents delivered to shareholders who have made a request for delivery of documents stating matters to be provided in electronic format.

## **System for ensuring the appropriateness of operations and overview of the operational status of said system**

### **(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 important meetings including Board of Directors meeting, Managing Director meeting, and Executive Officer meeting, 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

Compliance training and training on other topics were continuously conducted for the Group's employees to raise their awareness of compliance issues. In addition, the Company rolled out to all Group employees and made them aware of the "Compliance Handbook" that is translated into five languages including English, in addition to being available in Japanese. 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.

In response to misconduct by former Executive Officer and employee uncovered during the fiscal year under review, the Company established measures to prevent recurrence on November 27, 2024, and has since provided regular progress reports on each measure to the Board of Directors.

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. The Group also established the Information Security Committee and adopted security system based on a vulnerability evaluation implemented by a third party from the standpoint of information security while strengthening security measures including its educations and improvements of its rules.

3) Initiative concerning the management of exposure to loss

The Group practices risk management based on the crisis management regulations. Regarding the operation of an emergency contact system in a crisis situation, the Group conducted periodic trainings, with a help of external experts, and verified the effectiveness of the “Business Continuity Plan (BCP) Manual.” The Risk Management Committee periodically identified various risks surrounding the Group including geopolitical risks, and tracked the progress of measures to avoid and reduce risks and reported the status thereof to the Managing Director meeting and the Board of Directors meeting.

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 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 centrally manage funds, and also to manage the optimization of the Group finance, including the Company-led unified management of funds to strengthen cash flows and mitigate foreign exchange risks.

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, make inquiries or give instructions, 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 Audit Division about the results of internal control evaluations, receives result explanations, and verifies that the appropriateness and credibility of financial reports is being ensured.