

# TSE Urgent Notice



Apr. 30, 2026  
Listing Department  
Tokyo Stock Exchange, Inc.

## Designation of Security on Special Alert and Imposition of Listing Agreement Violation Penalty

TSE has designated the stock as a Security on Special Alert and imposed a listing agreement violation penalty as follows.

\* This decision is based on the results of the examination by Japan Exchange Regulation.

- |            |  |
|------------|--|
| Issue Name | AIR WATER INC. stock<br>(Code: 4088, Market Segment: Prime Market) |
|------------|--|
- |  |   |
|--|---|
| Date of Designation of Security on Special Alert | May 1, 2026 (Fri.)  |
| Reason (Related Clause)                          | Due to falling under a case where TSE deems that the listed company has violated the provisions of the matters to be observed in the Code of Corporate Conduct (Development of System and Structure Necessary to Ensure Appropriateness of Business) and that the improvement of the internal management system of such listed company is highly necessary<br>(Securities Listing Regulations, Rule 503, Paragraph 1, Item (4)) |
- |   |   |
|---|---|
| Listing Agreement Violation Penalty Total | JPY 91.2 million  |
| Reason (Related Clause)                   | Due to falling under a case where TSE deems that the listed company has violated the provisions of the matters to be observed in the Code of Corporate Conduct (Development of System and Structure Necessary to Ensure Appropriateness of Business) and has undermined the confidence of shareholders and investors in the TSE market<br>(Securities Listing Regulations, Rule 509, Paragraph 1, Item (2)) |
- |                   |  |
|-------------------|--|
| Details of Reason | On Apr. 3, 2026, AIR WATER INC. (hereinafter "the Company") disclosed a special investigation committee's report regarding the Company's inappropriate accounting processing.<br>The disclosure revealed that the Company and several of its consolidated subsidiaries, with the involvement of the top executive and some of the members of the companies' management, had been adjusting their profits and losses through such |
|-------------------|--|

practices as overstating their inventories and deferring valuation losses, overstating and prematurely recording sales, not recording allowances, and recording expenditures with no asset value as assets. Furthermore, it revealed that the internal controls at the Company and several of its consolidated subsidiaries had been essentially disabled because the top executive tolerated the inappropriate accounting processing, and the members of management and the administrative division manager catered to the top executive's wishes by participating in and silently approving of it.

In addition, investigations by the Company's self-inspection team revealed further issues, such as overstatement of sales through duplicate recording and round-tripping, overstatement of inventories, failure to record impairment losses on fixed assets and goodwill, and failure to record allowances.

Consequently, it was found that the Company had been falsifying its financial results, including the overstatement of sales revenue by JPY 66.9 billion (planned cumulative amount) and operating profit by JPY 33.5 billion (planned cumulative amount) in its consolidated financial statements from the fiscal years ended Mar. 2020 to the fiscal year ended Mar. 2025.

For the most part, the following points were identified as the context for these events at the Company.

- Under intense pressure to meet excessive sales and profit targets, the Company's management was found to have instructed, tolerated, and silently approved of the inappropriate accounting processing, and internal controls had not been functioning effectively in the Company's business, administrative, and internal auditing divisions.
- Authority over personnel and compensation was essentially centralized in the top executive, and the Company's board of directors, board of company auditors, and nomination and compensation committees operated merely as a formality. This led to an environment where the top executive's inappropriate decisions and actions could not be corrected or contained.
- While the Company aggressively pursued M&As to expand its group rapidly, it did not adequately integrate and manage its subsidiaries or develop and implement rules and procedures after acquiring them. In addition, the group's consolidated management and internal auditing systems were extremely flimsy relative to its size. As a result, the systems to control and manage the entire group did not function and were limited to routine checks that did not sufficiently verify the group's actual business conditions or whether the group's accounting processing was actually appropriate.
- A culture had developed at the Company in which the inappropriate accounting processing was justified as a means of achieving performance targets, which led the people there to make false statements to the audit firm and special investigation committee, falsify documents and data, and obstruct the investigation. As a result, an awareness had not sufficiently spread throughout the Company that it was responsible for preparing proper financial statements and explaining them to investors.

After comprehensively considering the above points, TSE has decided to designate the Company's stock as a Security on Special Alert for the following reasons. First, TSE deems that the Company violated a matter to be observed in the Code of Corporate Conduct because the system that was necessary to ensure the appropriateness of the Company's business was not adequately constructed or operating. As a result, inappropriate accounting processing took place at the Company and its consolidated subsidiaries multiple times over an extended period under the involvement of some of the members of the companies' management, who were under intense pressure by the top executive to achieve results. Second, while the Company made a disclosure on Apr. 3, 2026 regarding its measures to prevent the recurrence of such an incident, TSE deems it highly necessary for the Company to make improvements to its internal management system and related areas.

In addition, since TSE deems that the Company has undermined the confidence of

shareholders and investors in TSE's markets, it will impose a listing agreement violation penalty on the Company for the following reasons. First, even though companies that are listed on the Prime Market are expected to have highly effective internal management systems, the Company's board of directors, its board of company auditors, and its business, administrative, and internal auditing divisions did not function appropriately. Second, while the Company aggressively pursued M&As to expand its group rapidly, the systems to control and manage the entire group did not function adequately, and extremely serious deficiencies in the Company's internal management system persisted over an extended period.

DISCLAIMER: This translation may be used for reference purposes only. This English version is not an official translation of the original Japanese document. In cases where any differences occur between the English version and the original Japanese version, the Japanese version shall prevail. This translation is subject to change without notice. Tokyo Stock Exchange, Inc. and/or Japan Exchange Regulation shall individually or jointly accept no responsibility or liability for damage or loss caused by any error, inaccuracy, misunderstanding, or changes with regard to this translation.