

AIR WATER Releases the Investigation Report of the Special Investigating Committee, Revised Financial Forecast, Etc.– Limited Impact on the Rating, but Future Developments to Be Closely Watched

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the announcement by AIR WATER INC. (security code: 4088) on the results of the Special Investigating Committee's investigation, financial results for the six months ended September 2025 and the revision of the full-year financial forecast.

- (1) AIR WATER INC. (the "Company") released on February 13 the investigation report (as of February 9, 2026) of a Special Investigating Committee composed of external experts (the "Committee"). The report details the findings of the investigation conducted by the Committee, which was established on October 9, 2025 following the successive uncovering of inappropriate accounting practices at the Company and several consolidated subsidiaries since July 2025. According to the report and other sources, the Committee identified inappropriate practices, including the overstatement of inventory and deferral of asset impairment losses at the Company and 36 group companies, as well as the overstatement of revenue and operating profit by 66.7 billion yen and 20.9 billion yen, respectively, over the six years from the fiscal year ended March 2020 (FY2019) to FY2024. In response, the Company has revised equity attributable to owners of parent as of the end of FY2024 to 472.9 billion yen from 517.1 billion yen. Moreover, financial results for the six months ended September 2025, which were released on the same date, include an operating loss of 5.4 billion yen, turning negative from an operating profit of 27.6 billion yen a year before due to such factors as the impairment of property, plant and equipment and goodwill (not attributable to improper accounting practices), business withdrawal and recognition of investigation-related costs; and interim losses attributable to owners of the parent of 21.2 billion yen, as opposed to 17.2 billion yen in profit a year before.
- (2) As regards inappropriate accounting practices, the involvement of top management and members of the management team, including former chairman and CEO, was recognized, and "a corporate culture prioritizing the achievement of performance targets above all else and top-down organizational management," "underdeveloped accounting and administrative functions coupled with ineffective internal control systems" and "low accounting literacy and a lack of the ethical standards required for a listed corporate group" were cited as the causes of such practices. To prevent recurrence, the Company intends to take such measures as the reform of corporate culture and governance enhancement, and JCR will watch their implementation and effectiveness. As financial impacts, the decrease in equity capital, i.e. the amount of cumulative impact from retrospective adjustments for prior years, is insignificant, and the Company's actual earnings capacity remains largely unchanged when excluding one-off factors such as inventory valuation losses and impairment of fixed assets, etc. Hence, JCR has concluded that there is no immediate need to revise the rating. On a separate note, the Committee's investigation is incomplete in some areas, and thus there is a possibility that the Company will incur additional losses and/or revise financial figures for prior years. JCR will pay close attention to the Committee's final report and trends in financial results for the third quarter of FY2025 and beyond.

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<Reference>

Issuer: AIR WATER INC.

Long-term Issuer Rating: AA- Outlook: Stable



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