AIR WATER INC.

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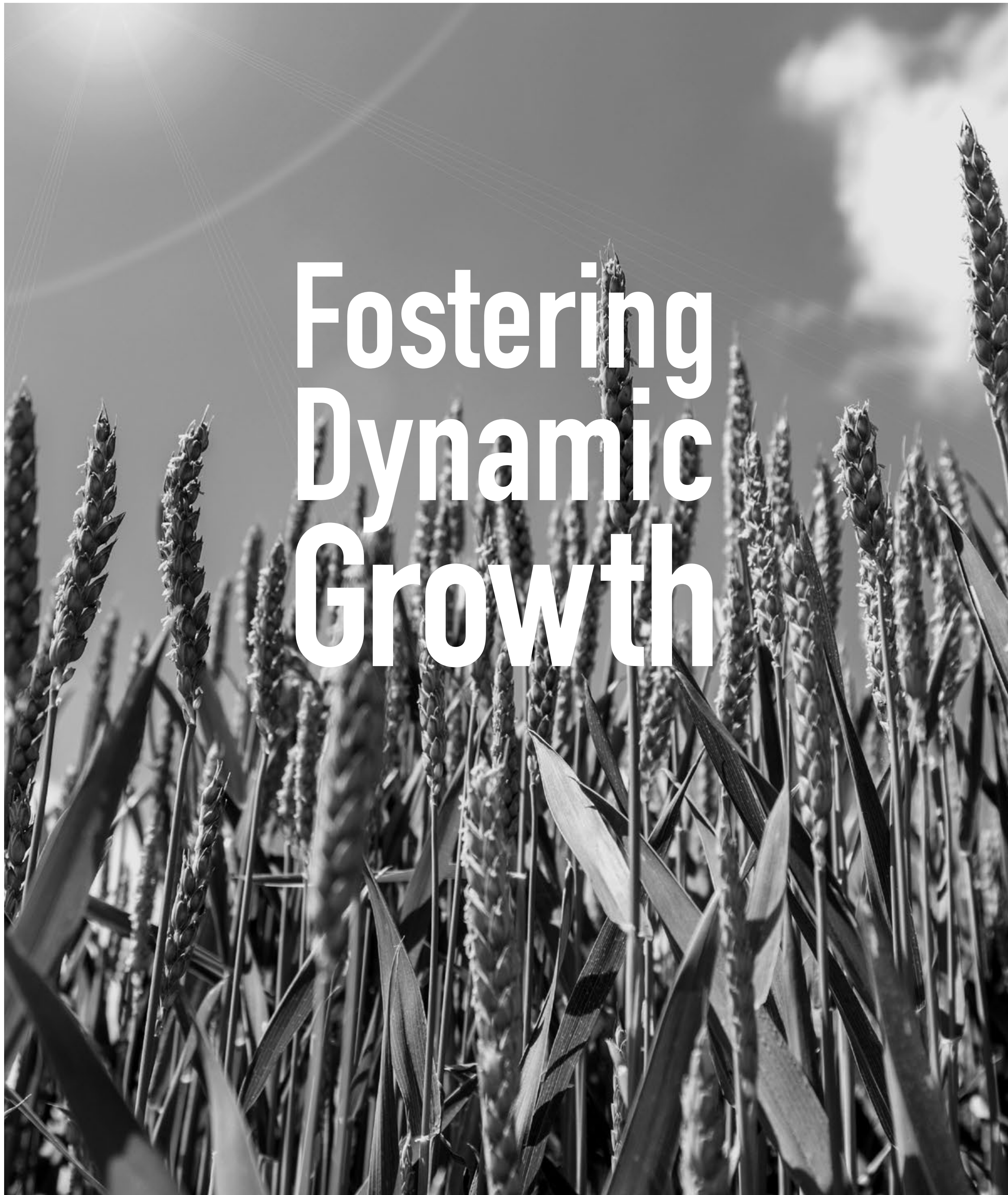
ANNUAL REPORT 2016

Year Ended March 31, 2016

Financial Section

Fostering Dynamic Growth



1. Business Overview

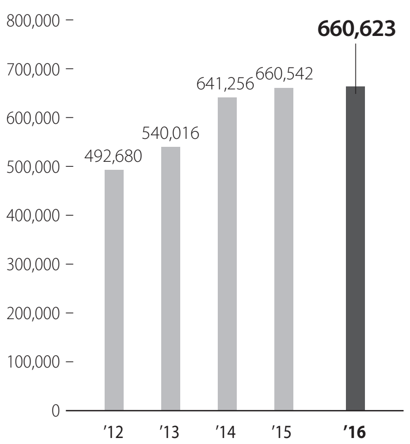
The business environment surrounding the Air Water Group saw the economies of China and other emerging countries slow down, and the Japanese economy affected considerably as well. Up until the second half of the fiscal year, capital investment in the manufacturing industry—which is a driver of economic recovery—failed to rise. Meanwhile, high levels of inventory for basic industrial materials were notable, and the feeling of stagnation in the overall economy intensified.

Within this context, despite the supply of gas to blast furnaces decreasing more than expected, the Industrial Gas Business produced significantly better results owing to notable progress in attracting new customers, the subsiding effects of electricity cost hikes and other factors. The Medical Business made major accomplishments in the launch of new products for home healthcare and in initiatives such as those targeting major hospitals, resulting in better year-on-year performance for all five major businesses. The Energy Business faced a harsh business environment due to the low price of crude oil; however, measures to increase volume were thoroughly promoted. In the Agriculture and Food Products Business, operations were reinforced and business expanded through proactive M&A activity, such as the acquisition of nationwide fruit and vegetable retail chains and fruit and vegetable wholesalers, laying the foundation for creating Group synergy. Furthermore, businesses such as Seawater and Logistics, which support the Air Water Group's Order Rodentia Style of Business, significantly contributed to the Group's overall performance through the steady execution of their respective growth strategies.

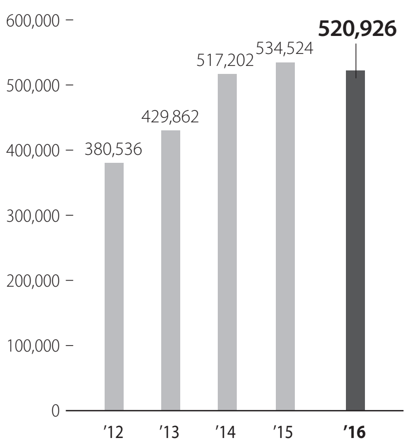
Meanwhile, the Chemical Business contended with harsh conditions, particularly in regard to the tar distillation business, due to the effects of a deteriorating market in line with the drop in crude oil prices and the slowing of the Chinese economy. At companies accounted for by the equity method, investment profits took a turn for the worse with the addition of impairment losses declared by a Chinese subsidiary. This had a significant impact on the ordinary income of the overall Group.

As a result, for the term ending March 31, 2016, sales were ¥660,623 million (100.0% compared to the previous term), operating income was ¥39,524 million (109.4%), ordinary income was ¥35,075 million (91.9%), and profit attributable to owners of parent was ¥20,139 million (97.3%).

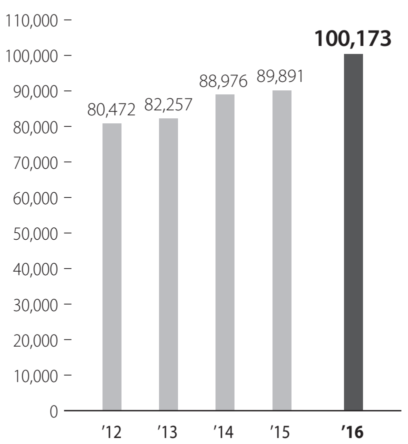
Net Sales (million JPY)



Cost of Sales (million JPY)



Selling, General and Administrative Expenses (million JPY)



2. Analysis of Financial Condition

(Assets)

Current assets increased by ¥16,778 million from the end of the previous consolidated fiscal year, totaling ¥242,143 million, partly as the result of an increase in notes and accounts receivable.

Fixed assets are also up ¥11,411 million from the end of the previous consolidated fiscal year, reaching ¥333,689 million, primarily as the result of an increase in property, plants and equipment.

These changes resulted in total assets of ¥575,832 million, an increase of ¥28,189 million from the end of the previous consolidated fiscal year.

(Liabilities)

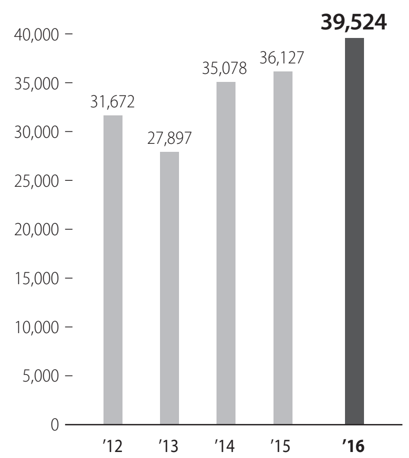
Total liabilities were ¥319,652 million, an increase of ¥12,164 million from the end of the previous consolidated fiscal year. This was due in part to an increase in debt.

(Net Assets)

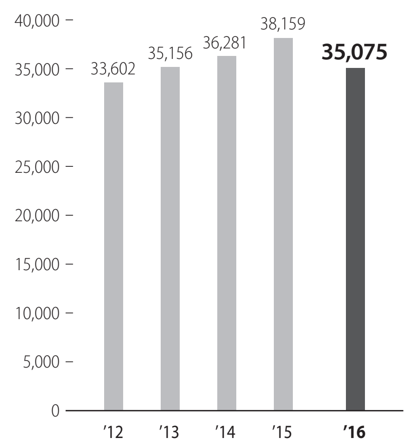
Net assets totaled ¥256,179 million, an increase of ¥16,025 million from the end of the previous consolidated fiscal year. This was the result of increasing profit attributable to owners of parent and an increase in non-controlling interests, among other factors.

Net assets per share grew to ¥1,196.92 from ¥1,155.80 at the end of the previous consolidated fiscal year, and the equity ratio changed to 40.8% from 41.3% at the end of the previous fiscal year.

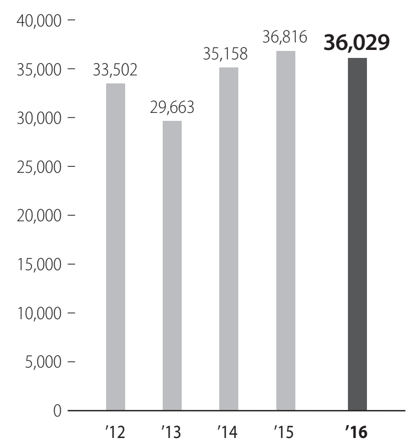
Operating Income (million JPY)



Ordinary Income (million JPY)



Income before Income Taxes and Minority Interests (million JPY)



3. Analysis of Cash Flows

Deposits of cash and cash equivalents at the end of the consolidated fiscal year were ¥23,595 million, a decrease of ¥5,167 million compared to the end of the previous consolidated fiscal year.

(Cash flow from operating activities)
Cash flow from operating activities decreased by ¥7,559 million compared to the previous consolidated fiscal year as a result of deductions in corporate taxes, etc. arising from income before taxes, other adjustments and depreciation costs. The result was a net positive cash flow of ¥43,512 million.

(Cash flow from investing activities)
Cash flow from investing activities in the fiscal year was an outflow of ¥40,647 million, an increase of ¥5,163 million in expenditures compared to the previous consolidated fiscal year. This was primarily the result of an increase in the acquisition of property, plants and equipment. Free cash flow was therefore ¥2,864 million, a decrease of ¥12,723 million from the previous consolidated fiscal year.

(Cash flow from financing activities)
Cash flow from financing activities in the fiscal year was an outflow of ¥8,115 million, an increase of ¥174 million compared to the previous consolidated fiscal year. This was primarily due an outflow following the additional acquisition of subsidiary shares despite procuring working capital.

[Risk Factors]
The following are the primary risk factors that could influence the operations of the Air Water Group, and thereby bring about fluctuations in areas such as business or accounting, or have a significant influence on judgments made by investors.

Forward-looking statements in the following are assumptions based on the consolidated results of the fiscal year ending March 31, 2016.

(1) Market
The oxygen, nitrogen and other industrial gases produced and sold by the Air Water Group are used by major customers in the steel, electronics, automobile and shipbuilding industries. Consequently, industrial gas sales can be affected by demand in these sectors.

If electricity costs rise as a result of higher crude oil prices or other factors, the cost of oxygen, nitrogen and other industrial gases produced and sold by the Air Water Group increases. If such increases in cost cannot be passed on to the customer, profits from the sales of industrial gases may be affected.

The LP gas and kerosene sold by the Air Water Group may be affected by factors such as contract prices and crude oil price as well. If the fluctuation in supply costs cannot be quickly passed on to the customer, profits from the sales of LP gas and kerosene may be affected.

(2) Rising Fuel Costs
If the price of crude oil increases, shipping expenses, including the cost of light oil, fuel oil, ocean freight and air freight, will increase. If such increases in cost cannot be passed on to the customer, profits may be affected.

(3) Drug Pricing System
The Air Water Group supplies gases for medical treatment and provides services to medical institutions. Therefore, depending on the contents in the revisions of drug prices, there may be an influence on the cost of gases used for medical treatment and medical services.

(4) Safety and Quality
The Air Water Group produces and sells high-pressure gases and other products in compliance with the Japanese government's High-Pressure Gas Safety Act and Liquid Petroleum Gas Act.

Accordingly, the Group's business performance or financial conditions could be affected in the event of an industrial accident or similar event. The Group produces, imports and sells gases for medical treatments and medical equipment in compliance with the Pharmaceutical Affairs Act. Therefore, business performance or financial conditions could be affected in the event of a product defect resulting in a recall or liability compensation. The Group also produces and sells frozen foods, ham and delicatessen products in compliance with the Food Sanitation Act, the Japan Agricultural Standards (JAS) Act for proper labeling, and other relevant laws and regulations. Accordingly, Group business performance or financial conditions could be affected by the loss of consumer confidence in the event of problems related to quality.

(5) Business Investment
The Air Water Group has been actively expanding its business in recent years through mergers and acquisitions. Accordingly, Group business performance and financial conditions could be affected in the event that such investments do not perform as anticipated.

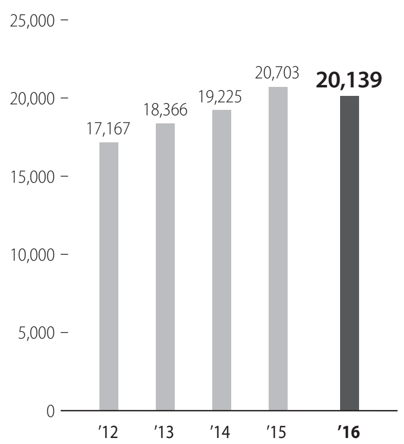
(6) Competitor Companies
Each business field in the Air Water Group competes with a variety of other companies, and there is also the potential of competition from new companies entering the same markets. Consequently, Group business performance and financial conditions could be affected if measures such as business expansion or cost reductions are not implemented in a timely manner in response to such competition.

(7) Environmental Regulations
The operations of the Air Water Group are subject to environmental laws and regulations in Japan and other countries. While all operations are conducted in full compliance with such laws and regulations, in the event that stricter requirements are introduced as a result of revised or new environmental laws and regulations, Group business performance or financial conditions may be affected due to the increasing cost of compliance.

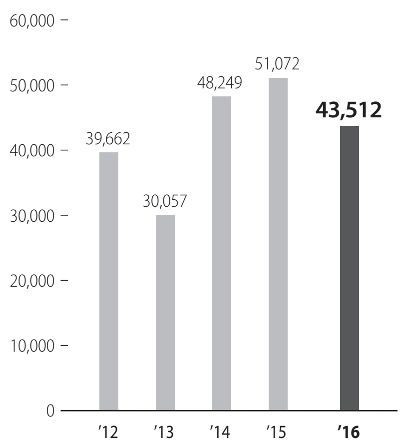
(8) Natural Disasters
In the event that a natural disaster such as an earthquake causes substantial damage to production facilities of the Air Water Group and results in a significant loss of production capacity or delays in production, Group business performance or financial conditions may be affected.

(9) Litigation, Measures Taken by Regulatory Authorities and Other Legal Procedures
The execution of Air Water Group business involves inherent risks related to litigation, measures taken by regulatory authorities, and other legal procedures. Such procedures may lead to claims for compensation against the Group, monetary levies imposed upon the Group by regulatory authorities, or constraints on business operations. Such measures or legal procedures could affect Group business, business performance or financial conditions.

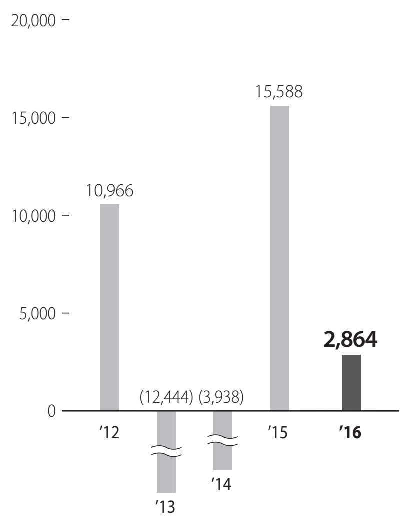
Profit attributable to owners of parent (million JPY)



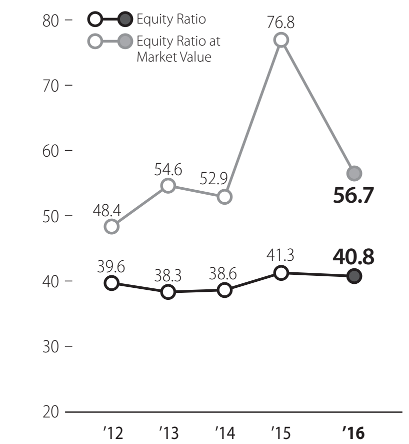
Cash Flow from Operating Activities (million JPY)



Free Cash Flow (million JPY)

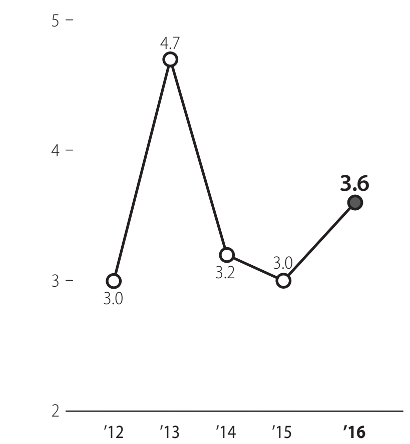


Equity Ratio & Equity Ratio at Market Value (%)

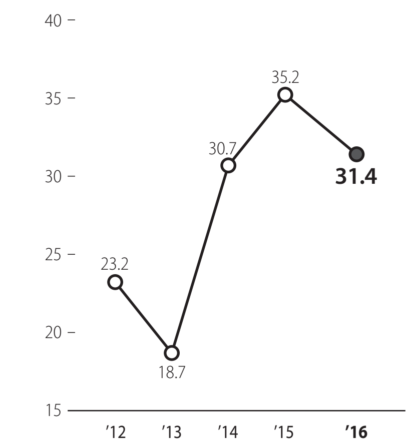


Equity Ratio : Shareholders equity/total assets
Equity Ratio at Market Value : Market capitalization/total assets

Debt Repayment Period (Years)
Interest bearing loans/operating cash flow



Interest Coverage Ratio (Times)
Operating cash flow/interest payments



Consolidated Balance Sheets

AIR WATER INC.
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
ASSETS			
Current assets:			
Cash and deposits (Note 3 and 7)	¥ 23,853	¥ 24,506	$ 211,688
Notes and accounts receivable - trade	149,037	141,020	1,322,657
Inventories (Note 4)	43,959	39,159	390,123
Short-term loans receivable	3,402	3,904	30,192
Deferred tax assets (Note 9)	3,979	3,545	35,312
Other current assets (Note 3)	19,103	15,154	169,533
Allowance for doubtful accounts	(1,190)	(1,923)	(10,561)
Total current assets	242,143	225,365	2,148,944
Property, plant and equipment (Note 7):			
Land (Note 6)	65,158	55,503	578,257
Buildings and structures	132,087	121,450	1,172,231
Machinery, equipment and vehicles	274,249	238,183	2,433,875
Lease assets	27,990	28,047	248,402
Construction in progress	11,614	15,651	103,071
Other	35,655	32,298	316,427
	546,753	491,132	4,852,263
Less accumulated depreciation	316,988	282,863	2,813,170
Total property, plant and equipment	229,765	208,269	2,039,093
Investments and other assets:			
Investment securities (Note 5 and 7)	57,635	68,343	511,493
Investments in capital	2,386	4,150	21,175
Long-term loans receivable	10,099	11,116	89,626
Net defined benefit asset (Note 18)	4,310	4,911	38,250
Deferred tax assets (Note 9)	2,880	3,092	25,559
Deferred tax assets for land revaluation (Note 6 and 9)	85	50	754
Goodwill	14,881	13,966	132,064
Other assets (Note 7)	12,360	9,085	109,691
Allowance for doubtful accounts	(711)	(704)	(6,310)
Total investments and other assets	103,925	114,009	922,302
Total assets	¥ 575,833	¥ 547,643	$ 5,110,339

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
LIABILITIES			
Current liabilities:			
Notes and accounts payable:			
Trade	¥ 90,940	¥ 91,444	$ 807,064
Construction	9,142	4,200	81,133
Short-term borrowings, including current portion of long-term debt (Note 7)	45,911	54,562	407,446
Lease obligations (Note 7)	2,172	2,452	19,276
Accrued expenses	19,903	19,387	176,633
Income taxes payable (Note 9)	7,657	5,147	67,953
Provision for environmental measures	366	1,524	3,248
Provision for directors' bonuses	147	152	1,305
Other current liabilities	10,739	9,329	95,305
Total current liabilities	186,977	188,197	1,659,363
Noncurrent liabilities:			
Long-term debt (Note 7)	95,076	81,676	843,770
Lease obligations (Note 7)	14,636	16,174	129,890
Deferred tax liabilities (Note 9)	7,946	9,020	70,518
Deferred tax liabilities for land revaluation (Note 6 and 9)	921	1,028	8,174
Provision for directors' retirement benefits	1,020	850	9,052
Net defined benefit liability (Note 18)	7,869	6,322	69,835
Other noncurrent liabilities	5,208	4,222	46,219
Total noncurrent liabilities	132,676	119,292	1,177,458
Contingent liabilities (Note 12)			
Total liabilities	319,653	307,489	2,836,821
NET ASSETS (Note 10)			
Shareholders' equity:			
Capital stock			
Authorized – 480,000,000 shares			
Issued – 196,108,608 shares in 2016	32,264	32,264	286,333
195,859,967 shares in 2015			
Capital surplus	33,911	34,462	300,950
Retained earnings	174,392	159,868	1,547,675
Treasury stock, at cost	(2,712)	(2,931)	(24,068)
2,596,449 shares in 2016			
2,845,090 shares in 2015			
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	5,012	9,470	44,480
Deferred gains or losses on hedges	(291)	(208)	(2,583)
Revaluation reserve for land (Note 6)	(8,504)	(8,645)	(75,470)
Foreign currency translation adjustments	633	585	5,618
Remeasurements of defined benefit plans (Note 18)	21	1,510	186
Total accumulated other comprehensive income	(3,129)	2,712	(27,769)
Subscription rights to shares (Note 19)	422	387	3,745
Non-controlling interests	21,032	13,392	186,652
Total net assets	256,180	240,154	2,273,518
Total liabilities and net assets	¥ 575,833	¥ 547,643	$ 5,110,339

Consolidated Statements of Income

AIR WATER INC.
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net sales	**¥ 660,623**	¥ 660,542	**$ 5,862,824**
Cost of sales	**520,926**	534,524	**4,623,057**
Gross profit	**139,697**	126,018	**1,239,767**
Selling, general and administrative expenses	**100,173**	89,891	**889,004**
Operating income	**39,524**	36,127	**350,763**
Non-operating profit:			
Interest and dividend income	**1,203**	1,078	**10,676**
Share of profit of entities accounted for using equity method	**–**	881	**–**
Other - net	**3,066**	2,909	**27,210**
	4,269	4,868	**37,886**
Non-operating loss:			
Interest expense	**1,385**	1,453	**12,291**
Share of loss of entities accounted for using equity method	**5,440**	–	**48,278**
Other - net	**1,893**	1,383	**16,800**
	8,718	2,836	**77,369**
Ordinary income	**35,075**	38,159	**311,280**
Extraordinary income:			
Gain on sales of noncurrent assets	**147**	148	**1,305**
Return of surchage	**–**	2,911	**–**
Compensation income (Note 13)	**2,662**	1,530	**23,624**
Gain on bargain purchase	**2,863**	1,512	**25,408**
Other - net	**314**	405	**2,787**
	5,986	6,506	**53,124**
Extraordinary loss:			
Loss on sales and retirement of noncurrent assets	**1,444**	1,796	**12,815**
Loss on valuation of investment securities	**2,268**	53	**20,128**
Provision of allowance for investment loss	**–**	1,875	**–**
Other - net	**1,320**	4,125	**11,715**
	5,032	7,849	**44,658**
Income before income taxes	**36,029**	36,816	**319,746**
Income taxes (Note 9):			
Current	**13,776**	12,696	**122,258**
Deferred	**(77)**	1,539	**(684)**
	13,699	14,235	**121,574**
Net income	**22,330**	22,581	**198,172**
Net income attributable to non-controlling interests	**(2,191)**	(1,878)	**(19,445)**
Profit attributable to owners of parent	**¥ 20,139**	¥ 20,703	**$ 178,727**

	yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income - basic	**¥ 102.73**	¥ 105.75	**$ 0.91**
Net income - diluted	**102.49**	105.51	**0.91**
Cash dividends applicable to the year	**28.00**	28.00	**0.25**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income

AIR WATER INC.
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net income	**¥ 22,330**	¥ 22,581	**$ 198,172**
Other comprehensive income			
Valuation difference on available-for-sale securities	**(4,458)**	4,741	**(39,563)**
Deffered gains and losses on hedges	**(153)**	105	**(1,358)**
Revaluation reserve for land	**220**	98	**1,952**
Foreign currency translation adjustments	**(41)**	171	**(364)**
Remeasurements of defined benefit plans, net of tax	**(1,658)**	1,969	**(14,714)**
Share of other comprehensive income of associates accounted using equity method	**(39)**	81	**(346)**
Other comprehensive income (Note 15)	**(6,129)**	7,16	**(54,393)**
Comprehensive income	**16,201**	29,746	**143,779**
Comprehensive income attributable to			
Owners of the parent	**14,136**	27,642	**125,453**
Non-controlling interests	**2,065**	2,104	**18,326**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

AIR WATER INC.
Year ended March 31, 2015

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Shareholders' equity
Balance at April 1, 2014	**¥ 32,264**	**¥ 34,464**	**¥ 144,120**	**¥ (3,121)**	**¥ 207,727**
Cumulative effects of changes in accounting policies			198		198
Restated balance at April 1, 2014	**32,264**	**34,464**	**144,318**	**(3,121)**	**207,925**
Changes in items during the period					
Dividends from surplus			(5,295)		(5,295)
Reversal of revaluation reserve for land			12		12
Net income attributable to owners of parent			20,703		20,703
Change in scope of consolidation			130		130
Purchase of treasury stock				(88)	(88)
Disposal of treasury stock		(2)		278	276
Net changes in items other than shareholders' equity					–
Total changes in items during the period	**–**	**(2)**	**15,550**	**190**	**15,738**
Balance at March 31, 2015	**¥ 32,264**	**¥ 34,462**	**¥ 159,868**	**¥ (2,931)**	**¥ 223,663**

Millions of yen

	Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2014	**¥ 4,750**	**¥ (294)**	**¥ (8,732)**	**¥ 436**	**¥ (387)**	**¥ (4,227)**	**¥ 348**	**¥ 15,634**	**¥ 219,482**
Cumulative effects of changes in accounting policies								51	249
Restated balance at April 1, 2014	**4,750**	**(294)**	**(8,732)**	**436**	**(387)**	**(4,227)**	**348**	**15,685**	**219,731**
Changes in items during the period									
Dividends from surplus						–			(5,295)
Reversal of revaluation reserve for land						–			12
Net income attributable to owners of parent						–			20,703
Change in scope of consolidation						–			130
Purchase of treasury stock						–			(88)
Disposal of treasury stock						–			276
Net changes in items other than shareholders' equity	4,720	86	87	149	1,897	6,939	39	(2,293)	4,685
Total changes in items during the period	**4,720**	**86**	**87**	**149**	**1,897**	**6,939**	**39**	**(2,293)**	**20,423**
Balance at March 31, 2015	**¥ 9,470**	**¥ (208)**	**¥ (8,645)**	**¥ 585**	**¥ 1,510**	**¥ 2,712**	**¥ 387**	**¥ 13,392**	**¥ 240,154**

AIR WATER INC.
Year ended March 31, 2016

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Shareholders' equity
Balance at April 1, 2015	**¥ 32,264**	**¥ 34,462**	**¥159,868**	**¥ (2,931)**	**¥ 223,663**
Changes in items during the period					
Change in treasury shares of parent arising from transactions with non-controlling shareholders		**(554)**			**(554)**
Dividends from surplus			(5,803)		(5,803)
Reversal of revaluation reserve for land			79		79
Net income attributable to owners of parent			20,139		20,139
Change in scope of consolidation			75		75
Increase by merger		10	34		44
Purchase of treasury stock				(62)	(62)
Disposal of treasury stock		(7)		281	274
Net changes in items other than shareholders' equity					–
Total changes in items during the period	**–**	**(551)**	**14,524**	**219**	**14,192**
Balance at March 31, 2016	**¥ 32,264**	**¥ 33,911**	**¥ 174,392**	**¥ (2,712)**	**¥ 237,855**

Millions of yen

	Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2015	**¥ 9,470**	**¥ (208)**	**¥ (8,645)**	**¥ 585**	**¥ 1,510**	**¥ 2,712**	**¥ 387**	**¥ 13,392**	**¥ 240,154**
Changes in items during the period									
Change in treasury shares of parent arising from transactions with non-controlling shareholders						–			(554)
Dividends from surplus						–			(5,803)
Reversal of revaluation reserve for land						–			79
Net income attributable to owners of parent						–			20,139
Change in scope of consolidation						–			75
Increase by merger						–			44
Purchase of treasury stock						–			(62)
Disposal of treasury stock						–			274
Net changes in items other than shareholders' equity	(4,458)	(83)	141	48	(1,489)	(5,841)	35	7,640	1,834
Total changes in items during the period	**(4,458)**	**(83)**	**141**	**48**	**(1,489)**	**(5,841)**	**35**	**7,640**	**16,026**
Balance at March 31, 2016	**¥ 5,012**	**¥ (291)**	**¥ (8,504)**	**¥ 633**	**¥ 21**	**¥ (3,129)**	**¥ 422**	**¥ 21,032**	**¥ 256,180**

Consolidated Statements of Changes in Net Assets

AIR WATER INC.
Year ended March 31, 2016

	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Shareholders' equity
Balance at April 1, 2015	**$ 286,333**	**$ 305,840**	**$ 1,418,779**	**$ (26,012)**	**$ 1,984,940**
Changes in items during the period					
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(4,917)			(4,917)
Dividends from surplus			(51,500)		(51,500)
Reversal of revaluation reserve for land			701		701
Net income attributable to owners of parent			178,727		178,727
Change in scope of consolidation			666		666
Increase by merger		89	302		391
Purchase of treasury stock				(550)	(550)
Disposal of treasury stock		(62)		2,494	2,432
Net changes in items other than shareholders' equity					–
Total changes in items during the period	**–**	**(4,890)**	**128,896**	**1,944**	**125,950**
Balance at March 31, 2016	**$ 286,333**	**$ 300,950**	**$ 1,547,675**	**$ (24,068)**	**$ 2,110,890**

	Thousands of U.S. dollars								
	Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2015	**$84,043**	**$ (1,846)**	**$ (76,722)**	**$ 5,192**	**$ 13,401**	**$24,068**	**$ 3,434**	**$ 118,850**	**$2,131,292**
Changes in items during the period									
Change in treasury shares of parent arising from transactions with non-controlling shareholders						–			**(4,917)**
Dividends from surplus						–			**(51,500)**
Reversal of revaluation reserve for land						–			**701**
Net income attributable to owners of parent						–			**178,727**
Change in scope of consolidation						–			**666**
Increase by merger						–			**391**
Purchase of treasury stock						–			**(550)**
Disposal of treasury stock						–			**2,432**
Net changes in items other than shareholders' equity	**(39,563)**	**(737)**	**1,252**	**426**	**(13,215)**	**(51,837)**	**311**	**67,802**	**16,276**
Total changes in items during the period	**(39,563)**	**(737)**	**1,252**	**426**	**(13,215)**	**(51,837)**	**311**	**67,802**	**142,226**
Balance at March 31, 2016	**$44,480**	**$ (2,583)**	**$ (75,470)**	**$ 5,618**	**$ 186**	**$ (27,769)**	**$ 3,745**	**$ 186,652**	**$2,273,518**

Consolidated Statements of Cash Flows

AIR WATER INC.
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Cash flows from operating activities:			
Income before income taxes	**¥ 36,029**	¥ 36,816	**$ 319,746**
Depreciation and amortization	**26,620**	25,222	**236,244**
Amortization of goodwill	**2,286**	2,113	**20,287**
Gain on bargain purchase	**(2,863)**	(1,512)	**(25,408)**
Increase (decrease) in allowance for doubtful accounts	**(753)**	(757)	**(6,683)**
Increase (decrease) in provision for investment loss	**(1,875)**	1,875	**(16,640)**
Increase (decrease) in net defind benefit liability	**(709)**	(357)	**(6,292)**
Interest and dividend income	**(1,203)**	(1,078)	**(10,676)**
Interest expense	**1,385**	1,453	**12,291**
Share of (profits) loss of entities accounted for using equity method	**5,440**	(881)	**48,278**
Gain on sales of noncurrent assets	**(147)**	(148)	**(1,305)**
Loss on sales and retirement of noncurrent assets	**1,444**	1,796	**12,815**
Loss on valuation of investment securities	**2,268**	53	**20,128**
Environmental expenses	**–**	1,684	**–**
Compensation income	**(2,662)**	(1,530)	**(23,624)**
Return of surcharge	**–**	(2,911)	**–**
Decrease (increase) in notes and accounts receivable	**(894)**	4,145	**(7,934)**
Decrease (increase) in inventories	**(866)**	(2,644)	**(7,685)**
Increase (decrease) in notes and accounts payable	**(4,580)**	(5,171)	**(40,646)**
Other - net	**(3,077)**	2,840	**(27,307)**
Subtotal	**55,843**	61,008	**495,589**
Interest and dividends income received	**1,399**	1,485	**12,415**
Interest expense paid	**(1,386)**	(1,452)	**(12,300)**
Proceeds from compensation	**–**	2,391	**–**
Proceeds from return of surcharge	**–**	2,911	**–**
Income taxes paid	**(12,344)**	(15,271)	**(109,549)**
Net cash provided by (used in) operating activities	**¥ 43,512**	¥ 51,072	**$ 386,155**
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(34,830)**	(30,056)	**(309,105)**
Proceeds from sales of property, plant and equipment	**3,987**	808	**35,383**
Purchase of intangible assets	**(3,124)**	(1,748)	**(27,724)**
Purchase of investment securities	**(1,112)**	(5,804)	**(9,869)**
Proceeds from sales of investment securities	**195**	2,159	**1,731**
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	**(8,877)**	(1,489)	**(78,781)**
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	**–**	451	**–**
Payments of loans receivable	**(6,795)**	(16,302)	**(60,303)**
Collection of loans receivable	**10,738**	16,517	**95,296**
Other - net	**(830)**	(20)	**(7,366)**
Net cash provided by (used in) investing activities	**¥ (40,648)**	¥ (35,484)	**$ (360,738)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**4,741**	(2,742)	**42,075**
Proceeds from long-term debt	**15,304**	11,956	**135,818**
Repayment of long-term debt	**(17,125)**	(11,706)	**(151,979)**
Proceeds from issuance of bonds	**10,000**	–	**88,747**
Redemption of bonds	**(10,019)**	(38)	**(88,916)**
Additional purchase of investments in subsidiaries	**(2,679)**	–	**(23,775)**
Proceeds from sale-leaseback transactions	**365**	2,474	**3,239**
Repayment of lease obligations	**(2,631)**	(2,310)	**(23,349)**
Purchase of treasury stock	**(62)**	(88)	**(550)**
Proceeds from sales of treasury stock	**274**	276	**2,432**
Cash dividends paid	**(5,681)**	(5,297)	**(50,417)**
Cash dividends paid to minority shareholders	**(602)**	(466)	**(5,343)**
Net cash provided by (used in) financing activities	**¥ (8,115)**	¥ (7,941)	**$ (72,018)**
Effect of exchange rate changes on cash and cash equivalents	**(100)**	24	**(887)**
Net increase (decrease) in cash and cash equivalents	**(5,351)**	7,671	**(47,488)**
Cash and cash equivalents at beginning of year	**28,763**	20,751	**255,262**
Increase in cash and cash equivalents resulting from merger	**102**	–	**905**
Increase in cash and cash equivalents from newly consolidated subsidiary	**82**	341	**728**
Cash and cash equivalents at end of year (Note 3)	**¥ 23,596**	¥ 28,763	**$ 209,407**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of AIR WATER Inc. ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The financial statements of the Company's consolidated overseas subsidiaries for consolidation purposes have been prepared in conformity with IFRS or generally accepted accounting principles in the United States of America ("US GAAP") and partially reflect the adjustments which are necessary to conform with Japanese GAAP.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts was included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.68 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(1) Scope of Consolidation and application of equity method
The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (together "the Companies") over which the Company has power of control through majority voting rights or the existence of other conditions evidencing control by the Company. Investments in affiliates over which the Company has the ability to exercise significant influence on operating and financial policies are accounted for using the equity method and stated at cost adjusted for the equity in the undistributed earnings and losses from the date of acquisition.

There were 85 consolidated subsidiaries for the year ended March 31, 2016 (81 for the year ended March 31, 2015) and 15 companies accounted for using the equity method for the year ended March 31, 2016 (15 for the year ended March 31, 2015).

Changes in the scope of consolidation during the year ended March 31, 2016 were as follows:
(a) Due to new acquisitions, 7 subsidiaries became consolidated subsidiaries.
(b) Due to an increase in materiality, 1 subsidiary became a consolidated subsidiary.
(c) Due to dissolution and extinction because of merger, 4 subsidiaries was excluded from the scope of consolidation.

Changes in the scope of consolidation during the year ended March 31, 2015 were as follows:
(a) Due to new acquisitions, 4 subsidiaries became consolidated subsidiaries.
(b) Due to an increase in materiality, 1 subsidiary became a consolidated subsidiary.
(c) Due to establishment of a company, 2 subsidiaries became consolidated subsidiaries
(d) Due to dissolution and extinction because of merger, 1 subsidiary was excluded from the scope of consolidation.

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion attributable to minority interests has been recorded in minority interests.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

(2) Accounting changes
For the year 2016
(Application of accounting standards for business combination)
The Company has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013) and the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013) effective from the fiscal period ended March 31, 2016. Under the adopted accounting standards, changes in a parent's ownership interest in a subsidiary with continuing control are accounted for as capital surplus and acquisition related costs are accounted for as an expense in the consolidated fiscal year. Effective for business combinations occurring on or after the beginning of the fiscal period ended March 31, 2016, adjustments of provisional allocation of their acquisition costs are retrospectively reflected as if the accounting for the business combinations had been completed at the acquisition date. In addition, the presentation of net income and other items have been changed, and the presentation of minority interests has been changed to non-controlling interests. The consolidated financial statements for the previous fiscal year have been reclassified to reflect these changes in presentation.

In the Consolidated Statements of Cash Flows, cash flows relating to acquisition or sale of shares of subsidiaries that do not result in a change in the scope of consolidation are recorded as "cash flows from financing activities." Cash flows relating to acquisition related costs due to acquisition of shares of subsidiaries that result in a change in the scope of consolidation and cash flows relating to the costs arising from acquisition or sale of shares of subsidiaries that do not result in a change in the scope of consolidation are recorded as "cash flows from operating activities."

In accordance with the transitional treatment specified in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statement, and Article 57-4 (4) of the Accounting Standard for Business Divestiture, the aforementioned accounting standards have been applied from the beginning of the fiscal period ended March 31, 2016.

This change had no material impact on income.

The effect of this change on segment information was immaterial and the record of this effect was omitted.

The effects on per share information are stated in the relevant places.

(Additional Information)
The Company provides stock to the Employee Stock Ownership Group through the Employee Stock Ownership Trust for the purpose of employee welfare.

(a) Details of transactions
The Company introduced a trust-type Employee Stock Ownership Plan (hereafter "the ESOP") by resolution of the Board of Directors meeting held on May 14, 2010 to increase mid- and long-term corporate value and promote employee welfare. The ESOP is an incentive plan for all employees who belong to the Air Water group Employee Stock Ownership Group (hereafter "the Group"). The Employee Stock Ownership Trust (hereafter "the Trust"), which was set up for this incentive plan, borrows the funds necessary from a bank and acquires a substantial number of stocks that the Trust takes for five years after the establishment. Those stocks are acquired from the stock market during a fixed period of time and sold automatically and continuously to the Group. The Trust is to be terminated when all of the stocks with the Trust are sold. If profit accumulates from an increase in stock price, that profit is distributed to the members of the Group who are satisfied with the requirements to receive it. If losses accumulate with a fall in stock price and the obligations of the Trust cannot be fully performed, the Company performs on behalf of the Trust based on the contract with the bank concerning compensation for the borrowing of the Trust.

During the fiscal period ended March 31, 2016, the ESOP was terminated.

(b) The remaining stocks in the Trust
The Company records the remaining stocks in the Trust as treasury stock in net assets based on the book value of the Trust. Because of the termination of the ESOP, the Company did not have any remaining stocks in the Trust as of the fiscal year ended March 31, 2016.

(c) The book value of the borrowing recorded in gross price method
Because of the termination of the ESOP, the Company did not have the book value of the borrowing as of the fiscal year ended March 31, 2016.

For the year 2015
(Application of accounting standards for retirement benefits)
The Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, "Guidance No. 25")) effective from the year ended March 31, 2015, in accordance with the provisions stated in Article 35 of Statement No. 26 and Article 67 of Guidance No. 25. The method for calculating retirement benefit obligation and service cost have been revised in the following respects: The method for attributing projected benefits to periods has been changed from the straight-line basis to the benefit formula basis, and the method for determining the discount rate has been changed to use a single weighted-average discount rate that reflects the periods until the expected payment of retirement benefits and the amount of projected benefits in every such period.

In accordance with Article 37 of Statement No. 26, the effect of the change in method for calculating retirement benefit obligation and service cost was recognized by adjusting retained earnings at the beginning of the fiscal year ended March 31, 2015. As a result, net defined benefit asset decreased ¥262 million, net defined benefit liability decreased ¥647 million, minority interests increased ¥51 million, and retained earnings increased ¥197 million compared with the amounts that would have been reported without the change. This change had no material impact on income.

The effect of this change on segment information and per share information was immaterial and the record of this effect was omitted.

(Application of practical solution on transactions of delivering the company's own stock to employees, etc., through trusts)
The Company has applied the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts (Practice Issue Task Force No. 30, March 26, 2015) from this current fiscal year and records the liability of net amounts of the gain or loss for the Company's own stocks to that are sold to the employee's stock holding association from the trusts, dividends that the Company paid to the trusts and expenses accrued with regard to the trusts. The Company changed the accounting policy retrospectively and the comparative information of the consolidated balance sheet has been presented accordingly.

As a result, in the consolidated balance sheet as of the fiscal year ended March 31, 2014, other noncurrent liability increased ¥140 million, capital surplus decreased ¥96 million and retained earnings decreased ¥43 million compared with the amounts that would have been reported without the change. Due to the reflection of accumulated effects to the beginning balance of the net assets as of the fiscal year ended March 31, 2014, the beginning balance of capital surplus in the consolidated statements of changes in net asset increased ¥8 million and the beginning balance of retained earnings decreased ¥31 million. This change had no material impact on income.

The effect of this change on segment information and per share information was immaterial and the record of this effect was omitted.

(Additional Information)
The Company provides stock to the Employee Stock Ownership Group through the Employee Stock Ownership Trust for the purpose of employee welfare.

(a) Details of transactions
The Company introduced a trust-type Employee Stock Ownership Plan (hereafter "the ESOP") by resolution of the Board of Directors meeting held on May 14, 2010 to increase mid- and long-term corporate value and promote employee welfare. The ESOP is an incentive plan for all employees who belong to the Air Water group Employee Stock Ownership Group (hereafter "the Group"). The Employee Stock Ownership Trust (hereafter "the Trust"), which was set up for this incentive plan, borrows the funds necessary from a bank and acquires a substantial number of stocks that the Trust takes for five years after the establishment. Those stocks are acquired from the stock market during a fixed period of time and sold automatically and continuously to the Group. The Trust is to be terminated when all of the stocks with the Trust are sold. If profit accumulates from an increase in stock price, that profit is distributed to the members of the Group who are satisfied with the requirements to receive it. If losses accumulate with a fall in stock price and the obligations of the Trust cannot be fully performed, the Company performs on behalf of the Trust based on the contract with the bank concerning compensation for the borrowing of the Trust.

(b) The remaining stocks in the Trust
The Company recorded the remaining stocks in the Trust as treasury stock in net assets based on the book value of the Trust, that is ¥245 million and 245,000 stocks as of March 31, 2015

(c) The book value of the borrowing recorded in gross price method
¥11 million as of March 31, 2015

(3) Securities
Equity securities issued by subsidiaries and affiliated companies not consolidated or accounted for using the equity method are stated at moving average cost.

Available-for-sale securities with available fair market values are stated principally at fair market value based on the average market price in the month before the balance sheet date.

Unrealized gains and losses on available-for-sale securities with available market prices are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost.

Available-for-sale securities with no available fair market values are stated at moving average cost.

If the fair market value of available-for-sale securities is not readily available, the securities are written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly and is not expected to recover.

(4) Inventories
Inventories are principally stated at the lower of cost or net realizable value and costed using the average cost method. Each valuation at cost means to write-down the book value using the decreased profitability method for the amount on the consolidated balance sheet.

(5) Derivatives and hedge accounting
The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss, unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in the fair value of the derivative financial instruments until the related loss or gain on the hedged items are realized.

However, in cases in which forward foreign exchange contracts are used as hedges, meet certain hedging criteria and are executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate and no gain or loss on the forward foreign exchange contract will be recognized.

Interest rate swaps meeting the requirement of exceptional treatment under Japanese GAAP are not measured at fair value, but the difference between the payment amount and the receipt amount is included in the interest expense on the borrowings as the hedged item.

(6) Property, plant and equipment
Property, plant and equipment are carried at cost. Depreciation is computed principally by the straight-line method.

(7) Lease assets
Property, plant and equipment capitalized under finance lease arrangements are depreciated over the estimated useful life of the asset or the lease term. The residual value is the guaranteed residual value if such value is set forth in the lease contract, otherwise the residual value is zero.

Finance leases, except for certain immaterial leases, are capitalized and depreciated over the estimated useful life of the asset or lease term, as applicable. However, the Companies account for finance leases commenced prior to April 1, 2008 and which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information.

(8) Amortization of goodwill
Goodwill is amortized using the straight-line method within 20 years. A limited amount of goodwill is recognized as income directly when incurred.

(9) Allowance for doubtful accounts
Allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based upon the actual rate of historical bad debts. For certain doubtful receivables, the uncollectible amount is individually estimated.

(10) Allowance for investment loss
Allowance for investment loss is provided in an amount sufficient to cover the losses for investment based on financial soundness and is deducted directly from the amount of the asset.

(11) Provision for directors' and statutory auditors' bonuses
Provision for directors' and statutory auditors' bonuses is provided in the amount of the expected payment for each fiscal year to those directors and statutory auditors serving at the end of the fiscal year.

(12) Provision for environmental measures
Provision for environmental measures is provided in the amount of the expected payment for environmental improvement of our own land as of the year ended March 31, 2016.

(13) Provision for directors' retirement benefits
Certain consolidated subsidiaries provide for directors' and statutory auditors' retirement benefits based on internal regulations in the estimated amount to be paid if all directors and statutory auditors retired at the balance sheet date.

(14) Accounting treatment for retirement benefits
The method for attributing projected benefits to periods was adopted for attributing the amount of expected retirement benefit in each period in calculating projected obligation. Actuarial gains and losses are recognized in expenses using the straight-line method within the average of the estimated remaining service years of employees commencing with the following period. Prior service cost is recognized in expenses using the straight-line method within the average of the estimated remaining service years commencing with the period incurred.

Some of the consolidated subsidiaries have adopted the simplified method for micro enterprises to calculate the amount of net defined benefit liability and retirement benefit expenses.

(15) Standards for recognition of construction revenue
When the outcome of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method; otherwise the completed contract method is applied. The percent, or portion, of the contract completed as of the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost.

(16) Research and development expenses
Research and development expenses, which were ¥2,900 million ($25,737 thousand) and ¥2,793 million for the years ended March 31, 2016 and 2015, respectively, are recognized when paid and are included in general and administrative expenses.

(17) Translation of foreign currencies
Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

(18) Income taxes
The asset-liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(19) Cash and cash equivalents
Cash and cash equivalents include cash on hand, readily available deposits placed with banks on demand and highly liquid investments with insignificant risk of changes in value which have maturities of three months or less when purchased.

(20) Per share of common stock
The computations of net income per share are based on the weighted average number of shares of common stock outstanding during the period.

Diluted net income per share is based on the assumption that dilutive convertible bonds were converted and all stock options were exercised to the extent that each is not antidilutive at the beginning of the period.

Cash dividends per share presented in the statements of income represent the applicable cash dividends declared for each period.

(Accounting standards issued but not yet applied)
- Implementation Guidance on Recoverability of Deferred Tax Assets

(a) Summary
The accounting treatment on recoverability of deferred tax assets still basically follows the framework of the Auditing Treatment Regarding Judgment of the Recoverability of Deferred Tax Assets outlined in the JICPA Industry Audit Committee Statement No. 66, i.e. a framework for estimating deferred tax assets by classifying entities into five categories and calculating the amount according to those categories, but it has made the following necessary revisions on treatment.

(i) Accounting treatments of entities not satisfying any of the category criteria from (Category 1) to (Category 5).
(ii) Category criteria of (Category 2) and (Category 3).
(iii) Accounting treatments of unscheduled deductible temporary differences for entities in (Category 2).
(iv) Accounting treatments for reasonably estimated period for taxable income before temporary differences for entities in (Category 3).
(v) Accounting treatments for entities satisfying the category criteria of (Category 4) and also falling in (Category 2) or (Category 3).

(b) Effective dates
The amended rules will be applied at the beginning of the fiscal year ended March 31, 2017.

(c) Effect of application of the standards
The Company and its consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. Statements of cash flows

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash on hand and in banks in the consolidated balance sheets	¥ 23,853	¥ 24,506	$ 211,688
Time deposits with maturities exceeding 3 months	(957)	(743)	(8,493)
Securities including in other current assets	700	5,000	6,212
Cash and cash equivalents in the consolidated statements of cash flows	¥ 23,596	¥ 28,763	$ 209,407

Details of the assets and liabilities of main newly acquired subsidiaries were as follows:

Millions of yen

For the year 2016	Kawasaki Kasei Chemicals Group	Kyusyuya Co.,Ltd	Taylor-Wharton Malaysia Sdn.Bhd.
Current assets	¥ 10,150	¥ 3,793	¥ 1,138
Noncurrent assets	10,357	2,384	1,376
Current liabilities	(3,802)	(2,587)	(700)
Noncurrent liabilities	(2,862)	(950)	(22)
Goodwill	–	1,955	259
Gain on bargain purchase	(2,863)	–	–
Minority interests	(6,908)	(1,187)	–
Acquisition cost of stock	4,072	3,408	2,051
Acquisition cost before business combination	–	(70)	–
Gain on step acquisition	–	(75)	–
Cash and cash equivalents of acquired companies	(175)	(1,377)	(36)
Net expenditure (revenue)	¥ 3,897	¥ 1,886	¥ 2,015

Thousands of U.S. dollars

	Kawasaki Kasei Chemicals Group	Kyusyuya Co.,Ltd	Taylor-Wharton Malaysia Sdn.Bhd.
Current assets	$ 90,078	$ 33,662	$ 10,099
Noncurrent assets	91,915	21,157	12,212
Current liabilities	(33,742)	(22,959)	(6,212)
Noncurrent liabilities	(25,399)	(8,431)	(195)
Goodwill	–	17,350	2,298
Gain on bargain purchase	(25,408)	–	–
Minority interests	(61,306)	(10,534)	–
Acquisition cost of stock	36,138	30,245	18,202
Acquisition cost before business combination	–	(621)	–
Gain on step acquisition	–	(666)	–
Cash and cash equivalents of acquired companies	(1,553)	(12,220)	(320)
Net expenditure (revenue)	$ 34,585	$ 16,738	$ 17,882

Millions of yen

For the year 2015	Kobelco Air Water Cryoplant, Ltd.	Celco Co.,Ltd	Handa Co.,Ltd	MCService Co. Ltd.
Current assets	¥ 1,550	¥ 724	¥ 1,905	¥ 716
Noncurrent assets	30	138	811	230
Current liabilities	(1,198)	(359)	(2,517)	(284)
Noncurrent liabilities	–	(27)	(261)	(465)
Goodwill	725	383	263	83
Minority interests	(153)	(47)	–	(79)
Acquisition cost of stock	954	812	201	201
Carrying value under the equity method	(154)	–	–	–
Additional acquisition cost of stock	800	812	201	201
Cash and cash equivalents of acquired companies	(10)	(113)	(595)	(258)
Net expenditure (revenue)	¥ 790	¥ 699	¥ (394)	¥ (57)

4. Inventories

Inventories as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Merchandise and finished goods	¥ 26,060	¥ 23,215	$ 231,275
Work-in-process	5,887	6,785	52,245
Raw materials and supplies	12,012	9,159	106,603
	¥ 43,959	¥ 39,159	$ 390,123

5. Securities

Available-for-sale securities with available fair market values at March 31, 2016 and 2015 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference gain (loss)	Book value	Acquisition cost	Difference gain (loss)	Book value	Acquisition cost	Difference gain (loss)
	2016			2015			2016		
Securities with book values exceeding acquisition costs: Stocks	¥ 21,883	¥ 11,417	¥ 10,466	¥ 32,580	¥ 17,596	¥ 14,984	$ 194,205	$ 101,323	$ 92,882
Other	23	22	1	–	–	–	204	195	9
Subtotal	21,906	11,439	10,467	32,580	17,596	14,984	194,409	101,518	92,891
Securities with book values not exceeding acquisition costs: Stocks	7,315	9,389	(2,074)	2,637	3,097	(460)	64,918	83,324	(18,406)
Subtotal	7,315	9,389	(2,074)	2,637	3,097	(460)	64,918	83,324	(18,406)
Total	¥ 29,221	¥ 20,828	¥ 8,393	¥ 35,217	¥ 20,693	¥ 14,524	$ 259,327	$ 184,842	$ 74,485

6. Land revaluation

On March 31, 2002, in accordance with "The Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land," the Company and some subsidiaries revalued land. The evaluation difference, net of the income tax effects, was directly charged to net assets.

The difference between the book value and the fair value of the revalued land as of March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Revalued land	¥ (5,144)	¥ (3,487)	$ (45,651)

7. Short-term borrowings and long-term debt

The weighted average interest rate of short-term borrowings as of March 31, 2016 and 2015 was 0.38% and 0.57%, respectively.

Long-term debt as of March 31, 2016 and 2015 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Loans from banks and insurance companies due 2044	¥ 96,683	¥ 97,251	$ 858,031
(weighted average interest rates - 0.68%)			
0.27% unsecured bonds due 2020	10,000	–	88,747
0.54% unsecured bonds due 2015	–	10,000	–
0.48% unsecured bonds due 2015	–	19	–
Lease obligations through 2030	16,808	18,626	149,166
	123,491	125,896	1,095,944
Less amount due within one year	13,779	28,046	122,284
	¥ 109,712	¥ 97,850	$ 973,660

The aggregate annual maturities of short-term debt and long-term debt as of March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31,	2016	2016
2017	¥ 13,779	$ 122,284
2018	22,220	197,196
2019	19,233	170,687
2020	13,061	115,912
2021	28,650	254,260
2022 and thereafter	26,548	235,605

As of March 31, 2016, assets were pledged as collateral for short-term debt of ¥7,439 million ($66,019 thousand), long-term debt of ¥6,412 million ($56,905 thousand) and others of ¥2,184 million ($19,382 thousand) as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Land	¥ 9,405	$ 83,467
Buildings and structures	3,022	26,819
Machinery and equipment	1,808	16,045
Cash and deposits (time deposits)	143	1,269
Investment securities	129	1,145
Other (Property, plant and equipment)	30	266
Other (Investments and other assets)	361	3,204
	¥ 14,898	$ 132,215

As of March 31, 2015, assets were pledged as collateral for short-term debt of ¥3,914 million, long-term debt of ¥9,330 million and others of ¥1,348 million as follows:

	Millions of yen
	2015
Land	¥ 9,679
Buildings and structures	3,092
Machinery and equipment	1,841
Cash and deposits (time deposits)	29
Investment securities	103
Property, plant and equipment	33
Investments and other assets	190
	¥ 14,967

8. Derivative financial instruments and hedging transactions

Derivative financial instruments and hedging transactions were as follows:

(1) Derivatives transactions for which hedge accounting does not apply

For the years 2016 and 2015

None

(2) Derivatives transactions for which hedge accounting applies

① Currency related

For the year 2016

			Millions of yen			Thousands of U.S. dollars		
Hedge accounting method	Type of transaction	Hedged items	Contract amount	Portion over 1 year	Fair value	Contract amount	Portion over 1 year	Fair value
Allocation method	Forward exchange contracts:							
	Purchased option to sell							
	U.S. dollars	Accounts receivable - trade	832	7	23	7,384	62	204
	Euro	Accounts receivable - trade	492	54	(5)	4,366	479	(44)
	Thai baht	Accounts receivable - trade	30	–	–	266	–	–
	Purchased option to buy							
	U.S. dollars	Accounts payable - trade	5,880	28	(219)	52,183	249	(1,944)
	Euro	Accounts payable - trade	100	14	1	887	124	9
	Chinese yuan	Accounts payable - trade	1,293	–	(1)	11,475	–	(9)
	Singapore dollars	Accounts payable - trade	91	–	(3)	808	–	(27)
	Other							
	U.S. dollars	Short-term loans receivable	59	–	–	524	–	–
Total			¥ 8,777	¥ 103	¥ (204)	$ 77,893	$ 914	$ (1,811)

Notes: 1. Fair value is based on information provided by financial institutions at the end of the fiscal year.
2. Certain foreign currency forward exchange contracts meeting certain hedging criteria except forecasted transactions are excluded from the fair value of the table above.

For the year 2015 — Millions of yen

Hedge accounting method	Type of transaction	Hedged items	Contract amount	Portion over 1 year	Fair value
Deferral hedge accounting method	Forward exchange contracts:				
	Purchased option to sell				
	U.S. dollars	Accounts receivable - trade	¥ 1,746	¥ 27	¥ (40)
	Euro	Accounts receivable - trade	313	42	11
	Thai baht	Accounts receivable - trade	61	–	(9)
	Purchased option to buy				
	U.S. dollars	Accounts payable - trade	3,546	2	98
	Euro	Accounts payable - trade	59	–	(2)
	Chinese yuan	Accounts payable - trade	1,157	–	28
	Singapore dollars	Accounts payable - trade	53	–	(1)
Allocation method	Forward exchange contracts:				
	Purchased option to sell				
	U.S. dollars	Accounts receivable - trade	141	–	(Note 2)
	Euro	Accounts receivable - trade	62	–	(Note 2)
	Purchased option to buy				
	U.S. dollars	Accounts payable - trade	24	–	(Note 2)
	Chinese yuan	Accounts payable - trade	106	–	(Note 2)
	Other				
	U.S. dollars	Short-term loans receivable	118	–	(Note 2)
Total			¥ 7,386	¥ 71	¥ 85

Notes: 1. Fair value is based on information provided by financial institutions at the end of the fiscal year.
2. Certain foreign currency forward exchange contracts meeting certain hedging criteria are excluded from the fair value of the table above.

② Interest rate related

For the year 2016

Hedge accounting method	Type of transaction	Hedged item	Contract amount (Millions of yen)	Portion over 1 year (Millions of yen)	Fair value (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Portion over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferral hedge accountings	Interest rate swap:							
	Receive floating rate and pay fixed rate	Long-term loans payable	**¥ 8,305**	**¥ 7,871**	**¥ (282)**	**$ 73,704**	**$ 69,853**	**$ (2,503)**
Special treatment of interest rate swaps	Interest rate swap:							
	Receive floating rate and pay fixed rate	Long-term loans payable	**39,394**	**39,084**	**(Note 2)**	**349,610**	**346,858**	**(Note 2)**
Total			**¥ 47,699**	**¥ 46,955**	**¥ (282)**	**$ 423,314**	**$ 416,711**	**$ (2,503)**

For the year 2015 — Millions of yen

Hedge accounting method	Type of transaction	Hedged item	Contract amount	Portion over 1 year	Fair value
Deferral hedge accounting	Interest rate swap:				
	Receive floating rate and pay fixed rate	Long-term loans payable	¥ 9,984	¥ 8,305	¥ (365)
Special treatment of interest rate swaps	Interest rate swap:				
	Receive floating rate and pay fixed rate	Long-term loans payable	37,864	37,687	(Note 2)
Total			¥ 47,848	¥ 45,992	¥ (365)

Notes: 1. Fair value is based on information provided by financial institutions at the end of the fiscal year.
2. The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loan.

9. Income taxes

The Companies are subject to a number of taxes based on income, which, in aggregate, indicate a statutory tax rate in Japan of approximately 33.0% for the year ended March 31, 2016 and 35.6% for the year ended March 31, 2015.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2016 and 2015.

	2016	2015
Statutory tax rate	**33.0%**	35.6 %
Nondeductible expenses	**2.0**	1.2
Amortization of goodwill	**1.6**	1.5
Equity in earnings of nonconsolidated subsidiaries and affiliates	**4.9**	(0.8)
Per capita inhabitants taxes	**0.6**	0.6
Gain on bargain purchases	**(2.6)**	(1.4)
Effect of changes in tax rate	**1.2**	0.7
Increase (decrease) in valuation allowance	**(0.6)**	3.2
Loss carryforwards	**(2.1)**	(0.7)
Return of surcharge	**–**	(2.8)
Other	**0.0**	1.5
Effective tax rate	**38.0**	38.6

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	2016 (Millions of yen)	2015 (Millions of yen)	2016 (Thousands of U.S. dollars)
Deferred tax assets:			
Loss on business of subsidiaries and affiliates	**¥ 2,812**	¥ 1,919	**$ 24,956**
Net defined benefit liability	**2,727**	2,187	**24,201**
Excess bonuses accrued	**1,779**	1,731	**15,788**
Impairment loss	**1,592**	1,720	**14,128**
Net operating loss carried forward for tax purposes	**651**	1,410	**5,777**
Loss on valuation of investment securities	**631**	933	**5,600**
Accrued enterprise taxes	**618**	525	**5,485**
Allowance for investment loss	**–**	604	**–**
Other	**5,123**	5,036	**45,465**
Total deferred tax assets	**15,933**	16,065	**141,400**
Valuation allowance	**(6,153)**	(6,985)	**(54,606)**
Net deferred tax assets	**9,780**	9,080	**86,794**
Deferred tax liabilities:			
Variance of estimate of capital consolidation	**(3,166)**	(1,371)	**(28,097)**
Retained earnings appropriated for allowable tax reserves	**(3,025)**	(3,315)	**(26,846)**
Net unrealized holding gains on securities	**(2,559)**	(4,645)	**(22,711)**
Gain on contribution of securities to retirement benefit trust	**(939)**	(998)	**(8,333)**
Other	**(1,179)**	(1,135)	**(10,463)**
Total deferred tax liabilities	**(10,868)**	(11,464)	**(96,450)**
Net deferred tax assets (net deferred tax liabilities)	**¥ (1,088)**	¥ (2,384)	**$ (9,656)**

Deferred tax assets and liabilities for land revaluation difference as of March 31, 2016 and 2015 were as follows:

	2016 (Millions of yen)	2015 (Millions of yen)	2016 (Thousands of U.S. dollars)
Deferred tax assets	**¥ 3,252**	¥ 3,423	**$ 28,860**
Valuation allowance	**(3,102)**	(3,365)	**(27,529)**
Net deferred tax assets	**150**	58	**1,331**
Deferred tax liabilities	**¥ (986)**	¥ (1,036)	**$ (8,750)**

(Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates)
On March 29, 2016, amendments to Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced from 32.2% to 30.8% on and after April 1, 2016 and 30.6% on and after April 1, 2018 for the measurement of deferred tax assets and liabilities.

These changes brought an increase of net deferred tax assets by ¥36 million ($319 thousand), deferred income tax expense by ¥102 million ($905 thousand), valuation difference on available-for-sale securities by ¥144 million ($1,278 thousand), remeasurements of defined benefit plans by ¥1 million ($9 thousand) and deferred gains or losses on hedges by ¥7 million ($62 thousand) for the year ended March 31, 2016 compared with the amounts that would have been reported without the change. And also due to these changes, deferred tax liabilities for land revaluation difference decreased by ¥43 million ($382 thousand) and revaluation reserve for land increased by the same amount.

10. Net assets

Under the Japanese Corporate Law and regulations (hereafter “the Law”), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings of the consolidated balance sheets.

In addition, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or could be capitalized. Under the Law, both of these appropriations generally require a resolution of the shareholders’ meeting.

Moreover, additional paid-in capital and legal earnings reserve may not be directly distributed as dividends. However, additional paid-in capital and the legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

At the Board of Directors meeting held on April 28, 2016, the Company resolved the appropriation of surplus as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥14.00 = U.S. $0.12 per share)	¥ 2,746	$ 24,370

The above mentioned appropriation has not been reflected in the consolidated financial statements as of March 31, 2016. Such appropriations are recognized in the period in which they are approved.

11. Segment information

(1) General information about reportable segments

Reportable segments of the Company are the components of an entity about which separate financial information is available and which is evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance. With the segment information, the Company develops comprehensive business strategies for the products and services and undertakes business activities. Accordingly, the Company’s business is separated based on its products and services into 6 segments: Industrial Gas Business, Chemical Business, Medical Business, Energy Business, Agriculture and Food Products Business and Other Businesses, all treated as reportable segments.

The Industrial Gas Business segment provides manufacturing and sales of industrial gas such as oxygen, nitrogen and argon. In addition, this business segment provides manufacturing and installation related to high pressure gas and gas generators. The Chemical Business segment provides manufacturing and sales of basic chemical products and fine chemical products. The Medical Business segment provides manufacturing and sales of medical gas such as oxygen and nitrogen. In addition, this business segment provides various medical equipments and the hospital facility construction business. The Energy Business segment provides sales of petrochemical products such as LP gas and kerosene and other products. The Agriculture and Food Products Business segment provides manufacturing and sales of fruit and vegetables, frozen foods, processed meat products and beverages. The Other Businesses segment consists of the Logistics Business, Seawater Business and Aerosol Business. The Seawater Business provides manufacturing and sales of salt, salt by-products, electro fused magnesia and magnesia oxide.

(2) Basis of measurement about reported segment sales, segment profit or loss, segment asset, and other material items

The accounting methods used for reportable segments are the same as those used for the preparation of the consolidated financial statements. Profits for reportable segments are ordinary income. Profits and transfer sums for intersegment sales and transactions within the Group are based on market prices.

(3) Information about reported segment profit or loss, segment assets and other material items

Millions of yen

For the year 2016	Reportable Segment								
	Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Adjustment (Note 2)	Amounts reported on consolidated financial statements (Note 1)
Net sales:									
Customers	¥ 194,788	¥ 86,994	¥ 124,540	¥ 46,357	¥ 91,551	¥ 116,393	¥ 660,623	¥ –	¥ 660,623
Intersegment	3,002	65	445	2,815	416	19,400	26,143	(26,143)	–
Total	197,790	87,059	124,985	49,172	91,967	135,793	686,766	(26,143)	660,623
Segment profit	14,216	(4,867)	8,668	3,597	3,017	9,086	33,717	1,358	35,075
Segment assets	195,451	55,711	72,192	29,596	59,049	138,077	550,076	25,757	575,833
Other items:									
Depreciation and amortization	12,636	3,039	1,578	2,236	2,149	4,982	26,620	–	26,620
Amortization of goodwill	842	–	343	370	614	117	2,286	–	2,286
Interest income	10	2	2	3	1	13	31	128	159
Interest expense	416	15	39	5	50	144	669	716	1,385
Equity in earnings of nonconsolidated subsidiaries and affiliates	166	(6,400)	–	35	–	738	(5,461)	21	(5,440)
Investment amounts to equity method companies	918	758	–	546	–	4,964	7,186	–	7,186
Increase in amounts of fixed assets and intangible fixed assets	16,772	3,867	2,896	2,840	4,242	9,070	39,687	2,549	42,236

Thousands of U.S. dollars

For the year 2016	Reportable Segment								
	Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Adjustment (Note 2)	Amounts reported on consolidated financial statements (Note 1)
Net sales:									
Customers	$ 1,728,683	$ 772,045	$ 1,105,254	$ 411,404	$ 812,486	$ 1,032,952	$ 5,862,824	$ –	$ 5,862,824
Intersegment	26,642	577	3,949	24,982	3,692	172,169	232,011	(232,011)	–
Total	1,755,325	772,622	1,109,203	436,386	816,178	1,205,121	6,094,835	(232,011)	5,862,824
Segment profit	126,163	(43,193)	76,926	31,922	26,775	80,635	299,228	12,052	311,280
Segment assets	1,734,567	494,418	640,682	262,655	524,042	1,225,390	4,881,754	228,585	5,110,339
Other items:									
Depreciation and amortization	112,140	26,970	14,004	19,844	19,072	44,214	236,244	–	236,244
Amortization of goodwill	7,472	–	3,044	3,284	5,449	1,038	20,287	–	20,287
Interest income	89	18	18	26	9	115	275	1,136	1,411
Interest expense	3,692	133	346	44	444	1,278	5,937	6,354	12,291
Equity in earnings of nonconsolidated subsidiaries and affiliates	1,473	(56,798)	–	311	–	6,550	(48,464)	186	(48,278)
Investment amounts to equity method companies	8,147	6,727	–	4,846	–	44,054	63,774	–	63,774
Increase in amounts of fixed assets and intangible fixed assets	148,846	34,318	25,701	25,204	37,647	80,494	352,210	22,621	374,831

Notes: 1. Segment profit is adjusted to be consistent with ordinary income reported on the consolidated statements of income.
2. Adjustments are as follows:
(1) The adjustment to intersegment of -¥26,143 million (-$232,011 thousand) is the elimination of intersegment transactions.
(2) The adjustment to segment profit of ¥1,358 million ($12,052 thousand) is the sum of corporate expenses, research and development department expenses, profit or loss related to financing and equity in earnings and losses of nonconsolidated subsidiaries and affiliates.
(3) The adjustment to segment assets of ¥25,757 million ($228,585 thousand) is the sum of eliminated intersegment assets of -¥24,561 million (-$217,971 thousand) and corporate assets of ¥50,317 million ($446,548 thousand) that cannot be assigned to any particular segment.
(4) The adjustment to interest income of ¥128 million ($(1,136 thousand) is interest income that cannot be assigned to any particular segment.
(5) The adjustment to interest expense of ¥716 million ($6,354 thousand) is interest expense that cannot be assigned to any particular segment.
(6) The adjustment to equity in earnings of nonconsolidated subsidiaries and affiliates of ¥21 million ($186 thousand) is investment by corporate that cannot be assigned to any particular segment.
(7) The adjustment to increase in amounts of fixed assets and intangible fixed assets of ¥2,549 million ($22,621 thousand) is mostly corporate assets that cannot be assigned to any particular segment.

Millions of yen

For the year 2015	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Adjustment (Note 2)	Amounts reported on consolidated financial statements (Note 1)
Net sales:									
Customers	¥ 203,129	¥ 102,644	¥ 118,324	¥ 52,825	¥ 71,394	¥ 112,226	¥ 660,542	¥ –	¥ 660,542
Intersegment	3,140	65	342	2,773	619	20,619	27,558	(27,558)	–
Total	206,269	102,709	118,666	55,598	72,013	132,845	688,100	(27,558)	660,542
Segment profit	12,703	2,536	7,632	3,175	2,106	7,964	36,116	2,043	38,159
Segment assets	192,724	44,518	68,198	28,345	48,195	119,930	501,910	45,733	547,643
Other items:									
Depreciation and amortization	12,576	2,603	1,334	2,092	1,868	4,749	25,222	–	25,222
Amortization of goodwill	789	–	310	482	510	22	2,113	–	2,113
Interest income	5	1	4	3	3	12	28	145	173
Interest expense	443	11	50	10	44	120	678	775	1,453
Equity in earnings of nonconsolidated subsidiaries and affiliates	92	(26)	–	31	–	739	836	45	881
Investment amounts to equity method companies	868	758	–	547	–	4,964	7,137	–	7,137
Increase in amounts of fixed assets and intangible fixed assets	13,248	1,060	1,357	2,626	2,630	9,892	30,813	1,215	32,028

Notes: 1. Segment profit is adjusted to be consistent with ordinary income reported on the consolidated statements of income.
2. Adjustments are as follows:
(1) The adjustment to intersegment of -¥27,558 million is the elimination of intersegment transactions.
(2) The adjustment to segment profit of ¥2,043 million is the sum of corporate expenses, research and development department expenses, profit or loss related to financing and equity in earnings and losses of nonconsolidated subsidiaries and affiliates.
(3) The adjustment to segment assets of ¥45,733 million is the sum of eliminated intersegment assets of -¥18,094 million and corporate assets of ¥63,827 million that cannot be assigned to any particular segment.
(4) The adjustment to interest income of ¥145 million is interest income that cannot be assigned to any particular segment.
(5) The adjustment to interest expense of ¥775 million is interest expense that cannot be assigned to any particular segment.
(6) The adjustment to equity in earnings of nonconsolidated subsidiaries and affiliates of ¥45 million is investment by corporate that cannot be assigned to any particular segment.
(7) The adjustment to increase in amounts of fixed assets and intangible fixed assets of ¥1,215 million is mostly corporate assets that cannot be assigned to any particular segment.

(Related information)
(1) Information by Area

For the year 2016 and 2015

(1) Net sales

This information was omitted as sales to external customers in Japan exceeded 90% of net sales on the consolidated statements of income.

(2) Property, plant and equipment

This information was omitted as property, plant and equipment in Japan exceeded 90% of property, plant and equipment on the consolidated balance sheets.

(2) Information by Major Customer

For the year 2016

Customer	Sales (Millions of yen)	Sales (Thousands of U.S. dollars)	Related segments
NIPPON STEEL & SUMITOMO METAL CORPORATION	**¥ 77,462**	**$ 687,451**	Industrial Gas, Chemical, Other

For the year 2015

Customer	Sales (Millions of yen)	Related segments
NIPPON STEEL & SUMITOMO METAL CORPORATION	**¥ 109,538**	Industrial Gas, Chemical, Other

(3) Information on impairment loss in noncurrent assets for each reportable segment

For the year 2016

Millions of yen

	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Impairment loss	**¥ 0**	**¥ 107**	**¥ 10**	**¥ –**	**¥ 11**	**¥ 4**	**¥ 132**	**¥ 2**	**¥ 134**

Thousands of U.S.dollars

	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Impairment loss	**$ 0**	**$ 949**	**$ 89**	**$ –**	**$ 98**	**$ 35**	**$ 1,171**	**$ 18**	**$ 1,189**

For the year 2015

Millions of yen

	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Impairment loss	¥ 161	¥ 116	¥ –	¥ 0	¥ –	¥ 373	¥ 650	¥ 93	¥ 743

(4) Information on amortization of goodwill and the amortized balance for each reportable segment

For the year 2016

Millions of yen

	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Amortization of goodwill	**¥ 842**	**¥ –**	**¥ 343**	**¥ 370**	**¥ 614**	**¥ 117**	**¥ 2,286**	**¥ –**	**¥ 2,286**
Balance at end of period	**¥ 5,663**	**¥ –**	**¥ 2,584**	**¥ 927**	**¥ 4,883**	**¥ 824**	**¥ 14,881**	**¥ –**	**¥ 14,881**

Thousands of U.S.dollars

	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Amortization of goodwill	**$ 7,472**	**$ –**	**$ 3,044**	**$ 3,284**	**$ 5,449**	**$ 1,038**	**$ 20,287**	**$ –**	**$ 20,287**
Balance at end of period	**$ 50,257**	**$ –**	**$ 22,932**	**$ 8,227**	**$ 43,335**	**$ 7,313**	**$ 132,064**	**$ –**	**$ 132,064**

For the year 2015

Millions of yen

	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Amortization of goodwill	¥ 789	¥ –	¥ 310	¥ 482	¥ 510	¥ 22	¥ 2,113	¥ –	¥ 2,113
Balance at end of period	¥ 6,246	¥ –	¥ 2,388	¥ 1,147	¥ 3,374	¥ 811	¥ 13,966	¥ –	¥ 13,966

(5)Information on gain on negative goodwill for reportable segments

For the year 2016

The Companies acquired additional shares of a consolidated subsidiary in the Chemical segment. Therefore, gain on negative goodwill of ¥2,863 million ($25,408 thousand) was recorded.

For the year 2015

The Companies acquired additional shares of a consolidated subsidiary and gain on bargain purchase of ¥16 million in the Industrial Gas Business segment, ¥7 million in the Medical Business segment, ¥19 million in the Agriculture and Food Products Business segment and ¥1,469 million in the Other Businesses segment was recorded.

12. Contingent liabilities

As of March 31, 2016, the Companies were also contingently liable as guarantors for loans of other companies and employees in the amount of ¥9,659 million ($85,721 thousand).

As of March 31, 2015, the Companies were contingently liable with respect to notes receivable discounted in the amount of ¥173 million. As of the same date, the Companies were also contingently liable as guarantors for loans of other companies and employees in the amount of ¥6,769 million.

13. Compensation income

Compensation income is mainly income connected with the Tohoku Region Pacific Coast Earthquake on March 11, 2011.

14. Return of surcharge

The Company received the payment order of surcharge from the Fair Trade Commission on May 26, 2011 due to violation of the Antimonopoly Law. The Company paid this surcharge and then requested appeal against it to the Fair Trade Commission on July 22, 2011. On November 19, 2013 the Company received the rejection for this request. However, on October 14, 2014, a decision by the Tokyo High Court reversed the trial decision and provided that the payment order of surcharge of the Fair Trade Commission should have been rescinded in part. As a result, the Company received a refund of part of the surcharge on October 15, 2014 and recorded it as extraordinary income. ¥391 million ($3,254 thousand), the amount of interest on the refund, was included as other in non-operating income in the consolidated statements of income.

15. Comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥ (6,652)	¥ 6,649	$ (59,035)
Reclassification adjustments	(92)	(43)	(816)
Subtotal, before tax	(6,744)	6,606	(59,851)
Tax (expense) or benefit	2,286	(1,865)	20,288
Subtotal, net of tax	¥ (4,458)	¥ 4,741	$ (39,563)
Deferred gains or losses on hedges			
Increase (decrease) during the year	¥ (357)	¥ 35	$ (3,168)
Reclassification adjustments	137	146	1,216
Subtotal, before tax	(220)	181	(1,952)
Tax (expense) or benefit	67	(76)	594
Subtotal, net of tax	¥ (153)	¥ 105	$ (1,358)
Revaluation reserve for land			
Increase (decrease) during the year	¥ –	¥ –	$ –
Reclassification adjustments	–	–	–
Subtotal, before tax	–	–	–
Tax (expense) or benefit	220	98	1,952
Subtotal, net of tax	¥ 220	¥ 98	$ 1,952
Foreign currency translation adjustments			
Increase (decrease) during the year	¥ (41)	¥ 171	$ (364)
Reclassification adjustments	–	–	–
Subtotal, before tax	(41)	171	(364)
Tax (expense) or benefit	–	–	–
Subtotal, net of tax	¥ (41)	¥ 171	$ (364)
Remeasurements of defined benefit plans, net of tax			
Increase (decrease) during the year	¥ (1,998)	¥ 2,447	$ (17,731)
Reclassification adjustments	(361)	498	(3,204)
Subtotal, before tax	(2,359)	2,945	(20,935)
Tax (expense) or benefit	701	(976)	6,221
Subtotal, net of tax	¥ (1,658)	¥ 1,969	$ (14,714)
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	¥ (39)	¥ 81	$ (346)
Total other comprehensive income	¥ (6,129)	¥ 7,165	$ (54,393)

16. Finance leases

Information on finance leases commenced prior to April 1, 2008 that do not transfer ownership of the leased assets to the lessee and were accounted for as operating leases for the year ended March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
(1) Future minimum lease payments, including financing charges:			
Due within one year	¥ 512	¥ 1,571	$ 4,544
Due after one year	310	3,047	2,751
	¥ 822	¥ 4,618	$ 7,295

Allowance for impairment loss on leased property of ¥13 million as of March 31, 2015 was not included in obligations under finance leases.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
(2) Original lease obligation, payments made, accumulated impairment loss and remaining balance:			
Original lease obligation	¥ 3,990	¥ 9,276	$ 35,410
Payments made	3,226	6,907	28,630
Accumulated impairment loss	–	30	–
Remaining balance	¥ 764	¥ 2,339	$ 6,780
(3) Lease payments for the period	¥ 873	¥ 1,229	$ 7,748

If the above finance leases had been capitalized, reversal of allowance for impairment loss on leased property of ¥13 million ($115 thousand), depreciation of ¥685 million ($6,079 thousand) and interest of ¥66 million ($586 thousand) would have been recorded for the year ended March 31, 2016.

If the above finance leases had been capitalized, reversal of allowance for impairment loss on leased property of ¥4 million, depreciation of ¥989 million and interest of ¥112 million would have been recorded for the year ended March 31, 2015.

17. Operating leases

Obligations under non-cancelable operating leases as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due within one year	¥ 380	¥ 116	$ 3,373
Due after one year	2,496	497	22,151
	¥ 2,876	¥ 613	$ 25,524

18. Employees' severance and pension benefits

(1) Summary of adopted retirement benefit plan

The Companies have funded or unfunded defined benefit pension plans and funded or unfunded defined contribution pension plans to provide retirement and severance benefits to substantially all employees. Under the defined benefit pension plans, employees are entitled to lump-sum payments or pension payments based on their earnings and the length of service at retirement or termination of employment. The Company and certain subsidiaries adopted cash balance plans. Under the cash balance plans, each employee has a notional account which represents pension benefits. The balance in the notional account is based on principal credits, which are accumulated as employees render services, and interest credits, which are determined based on the market interest rates. Certain defined benefit pension plans have a pension trust. Under lump-sum pension plans (some of these plans are funded by pension trust), employees are entitled to lump-sum payments based on their earnings and the length of service at retirement or termination of employment. In addition, the Company and certain subsidiaries use the simplified method to determine pension benefit obligations.

Certain subsidiaries have adopted defined contribution pension plans or the Smaller Enterprise Retirement Allowance Mutual Aid System as a defined contribution plan.

(2) Defined benefit plans

(1) Movement in retirement benefit obligations, except plans that applied the simplified method

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Beginning balance	**¥ 27,577**	¥ 27,543	**$ 244,737**
Cumulative effects of changes in accounting policies	**–**	¥ (385)	**–**
Restated balance	**27,577**	27,158	**244,737**
Service cost	**1,280**	1,132	**11,360**
Interest cost	**292**	266	**2,591**
Actuarial loss (gain)	**172**	(514)	**1,526**
Benefits paid	**(1,965)**	(598)	**(17,439)**
New acquisitions	**1,911**	–	**16,960**
Other	**545**	133	**4,837**
Ending balance	**29,812**	27,577	**264,572**

(2) Movements in plan assets, except plans that applied the simplified method

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Beginning balance	**¥ 29,451**	¥ 26,203	**$ 261,368**
Expected return on plan assets	**257**	207	**2,281**
Actuarial loss (gain)	**(1,834)**	1,826	**(16,276)**
Contributions paid by the employer	**1,671**	1,487	**14,830**
Benefits paid	**(1,506)**	(156)	**(13,365)**
New acquisitions	**1,034**	–	**9,176**
Other	**307**	(116)	**2,724**
Ending balance	**29,380**	29,451	**260,738**

(3) Movement in net defined benefit liability of plans that applied the simplified method

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Beginning balance	**¥ 3,285**	¥ 3,597	**$ 29,154**
Retirement benefit cost	**620**	413	**5,502**
Benefits paid	**(520)**	(327)	**(4,615)**
Contributions paid by the employer	**(111)**	(151)	**(985)**
New acquisitions	**39**	–	**346**
Other	**(185)**	(247)	**(1,642)**
Ending balance	**3,128**	3,285	**27,760**

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Funded retirement benefit obligations	**¥ 30,216**	¥ 28,733	**$ 268,157**
Plan assets	**(30,410)**	(30,800)	**(269,879)**
	(194)	(2,067)	**(1,722)**
Unfunded retirement benefit obligations	**3,753**	3,479	**33,307**
Total net liability (asset) for retirement benefits at year end	**3,559**	1,412	**31,585**
Liability for retirement benefits	**7,869**	6,322	**69,835**
Asset for retirement benefits	**(4,310)**	(4,911)	**(38,250)**
Total net liability (asset) for retirement benefits at year end	**3,559**	1,412	**31,585**

(Note) Includes plans that applied the simplified method

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Service cost	**¥ 1,280**	¥ 1,132	**$ 11,360**
Interest cost	**292**	266	**2,591**
Expected return on plan assets	**(257)**	(207)	**(2,281)**
Net actuarial loss amortization	**14**	855	**124**
Past service costs amortization	**(356)**	(361)	**(3,159)**
Retirement benefit cost calculated with simplified method	**620**	413	**5,502**
Total retirement benefit costs for the fiscal year	**1,593**	2,098	**14,137**

(6) Remeasurements of defined benefit plans, net of tax

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Prior service costs	**¥ (359)**	¥ (253)	**$ (3,186)**
Actuarial differences	**(2,000)**	3,198	**(17,749)**
Total balance at year end	**(2,359)**	2,945	**(20,935)**

(7) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unrecognized prior service costs	**¥ (501)**	¥ (865)	**$ (4,446)**
Unrecognized actuarial differences	**468**	(1,475)	**4,153**
Total balance at year end	**(33)**	(2,340)	**(293)**

(8) Plan assets

1) Plan assets comprise:

	2016	2015
Bonds	**23.4%**	22.1%
Equity securities	**37.7%**	53.9%
General accounts	**19.5%**	18.1%
Other	**19.4%**	5.9%
Total	**100.0%**	100.0%

(Note) The pension trust set up for corporate pension plans and lump-sum plan represented 23.4% of total plan assets for the year ended March 31, 2016 and 26.8% for the year ended March 31, 2015.

2) Long-term expected rate of return

The principal actuarial assumptions as follows:

	2016	2015
Discount rate	mainly **0.96%**	mainly 0.96%
Long-term expected rate of return	mainly **1.0%**	mainly 1.0%
Assumed salary increase rate	mainly **3.7%**	mainly 3.7%

Notes: The Company adopted pension point system. This assumed salary increase rate signifies the assumed pension point increase rate.

3. Defined contribution plan

Contributions to the plan from the Company and consolidated subsidiaries were ¥369 million ($3,275 thousand) for the year ended March 31, 2016 and ¥254 million for the year ended March 31, 2015.

19. Stock options

(1) Expenses recorded were ¥64 million ($568 thousand) in the year ended March 31, 2016 and ¥63 million in the year ended March 31, 2015 and were included in selling, general and administrative expenses.

(2) Details, number, movement and price of stock options

(1) The following table summarizes the details of stock options:

Company name	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 8, 2007	July 30, 2008
Persons granted	18 directors	17 directors
Number of options granted	60,100 shares of common stock	67,300 shares of common stock
Date of grant	August 31, 2007	September 1, 2008
Vesting conditions	Holder relinquishes position as a director of the Company	Holder relinquishes position as a director of the Company
Eligible employment period	–	–
Exercise period	From September 1, 2007 to August 31, 2027	From September 2, 2008 to September 1, 2028

Company name	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 12, 2009	August 13, 2010
Persons granted	20 directors	19 directors
Number of options granted	80,100 shares of common stock	88,700 shares of common stock
Date of grant	September 1, 2009	September 1, 2010
Vesting conditions	Holder relinquishes position as a director of the Company	Holder relinquishes position as a director of the Company
Eligible employment period	–	–
Exercise period	From September 2, 2009 to September 1, 2029	From September 2, 2010 to September 1, 2030

Company name	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 12, 2011	August 14, 2012
Persons granted	18 directors	17 directors
Number of options granted	94,700 shares of common stock	85,400 shares of common stock
Date of grant	September 1, 2011	August 31, 2012
Vesting conditions	Holder relinquishes position as a director of the Company	Holder relinquishes position as a director of the Company
Eligible employment period	–	–
Exercise period	From September 2, 2011 to September 1, 2031	From September 1, 2012 to August 31, 2032

Company name	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 14, 2013	August 8, 2014
Persons granted	17 directors	17 directors
Number of options granted	54,000 shares of common stock	47,800 shares of common stock
Date of grant	August 30, 2013	September 1, 2014
Vesting conditions	Holder relinquishes position as a director of the Company	Holder relinquishes position as a director of the Company
Eligible employment period	–	–
Exercise period	From August 31, 2013 to August 30, 2033	From September 2, 2014 to September 1, 2034

Company name	AIR WATER INC.	Nihonkaisui Co., Ltd.
Date of resolution	August 7, 2015	September 28, 2007
Persons granted	17 directors	5 directors and 5 employees
Number of options granted	38,800 shares of common stock	408,991 shares of common stock
Date of grant	September 1, 2015	September 29, 2007
Vesting conditions	Holder relinquishes position as a director of the Company	–
Eligible employment period	–	–
Exercise period	From September 2, 2015 to September 1, 2035	From September 29, 2009 to September 28, 2017

(2) The following table summarizes number of stock options

Company name	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 8, 2007	July 30, 2008	August 12, 2009	August 13, 2010	August 12, 2011
Before vesting options (number of shares)					
April 1,2015	21,200	25,100	42,600	54,400	65,200
Granted	–	–	–	–	–
Forfeited	–	–	–	–	–
Vested	1,900	2,300	12,700	20,200	14,900
March 31, 2016	19,300	22,800	29,900	34,200	50,300
After vesting options (number of shares)					
April 1,2015	5,800	6,900	12,000	13,700	14,300
Vested	1,900	2,300	12,700	20,200	14,900
Exercised	1,900	2,300	12,700	14,600	–
Forfeited	–	–	–	–	–
March 31, 2016	5,800	6,900	12,000	19,300	29,200

Company name	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	Nihonkaisui Co., Ltd.
Date of resolution	August 14, 2012	August 14, 2013	August 8, 2014	August 7, 2015	September 28, 2007
Before vesting options (number of shares)					
April 1,2015	70,600	45,000	47,800	–	–
Granted	–	–	–	38,800	–
Forfeited	–	–	–	–	–
Vested	6,000	–	–	–	–
March 31, 2016	64,600	45,000	47,800	38,800	–
After vesting options (number of shares)					
April 1,2015	14,800	9,000	–	–	223,591
Vested	6,000	–	–	–	–
Exercised	3,000	–	–	–	–
Forfeited	–	–	–	–	–
March 31, 2016	17,800	9,000	–	–	223,591

The following table summarize price per shares

Company name	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 8, 2007	July 30, 2008	August 12, 2009	August 13, 2010	August 12, 2011
Exercise price (yen)	¥1	¥1	¥1	¥1	¥1
Average stock price at exercise (yen)	1,802	1,812	1,878	1,681	–
Fair value price at grant date (yen)	1,001	1,104	868	746	741

Company name	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	Nihonkaisui Co., Ltd.
Date of resolution	August 14, 2012	August 14, 2013	August 8, 2014	August 7, 2015	September 28, 2007
Exercise price (yen)	¥1	¥1	¥1	¥1	¥540
Average stock price at exercise (yen)	1,941	–	–	–	–
Fair value price at grant date (yen)	715	1,100	1,410	1,602	–

20. Related party transactions

The Company directly owned 49% of Sakai Gases Center Co. Ltd.
Significant transactions between the Company and the related party for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Payments of long-term loans receivable	¥ –	¥ 11,750	$ –
Interest income	87	97	772

The balance of the Company due to the related party for the year ended March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term loans receivable	¥ 800	¥ 800	$ 7,100
Long-term loans receivable	7,409	8,209	65,753

21. Financial instruments

Financial instruments were as follows:
(1) Qualitative information on financial instruments
(1) Policies for using financial instruments
The Companies restrict its funds management to time deposits and other short-term investments. Also, the Companies' policy is to raise funds mainly by borrowing from banks and issuing bonds. The Companies' policy is to use derivatives strictly as hedges to avoid the risks of interest rate fluctuations and foreign currency exchange fluctuations that arise in export and import transactions. The Companies do not conduct any speculative transactions.

(2) Financial instruments, associated risks and the risk management system
Operating receivables, including notes and accounts receivable - trade, are exposed to the credit risk of customers. To minimize the credit risk, the Companies perform due date controls and balance controls for each customer in accordance with internal regulations and regularly screen the credit status of major customers.

The Companies are exposed to market price fluctuation risk in relation to investment securities. However, those are primarily the shares of companies with which the Companies have operational relationships. The Companies assess the fair values on a quarterly basis.

Trade liabilities, including notes and accounts payable - trade are mostly current with due dates within a year.
Short-term loans payable are primarily used for short-term fund raising related to operations. Bonds payable, long-term loans payable and lease obligations are used mainly for capital investment and are exposed to the risk of interest rate fluctuations.

(3) Supplemental information on the fair value of financial instruments
The fair value of financial instruments is based on market prices or a reasonable estimate of fair value for instruments for which market prices are not available. Estimates of fair value are subject to fluctuation because they employ variable factors and assumptions. In addition, the contractual amounts of the derivatives transactions described below in the note "Derivative financial instruments and hedging transactions" do not represent the market risk of the derivative transactions themselves.

(2) Fair value of financial instruments
Fair value, the carrying value reported in the balance sheets and any difference as of March 31, 2016 and March 31, 2015 are set forth in the table below. Financial instruments for which it is extremely difficult to measure the fair value are not included.

	Millions of yen			Thousands of U.S. dollars		
(For the year 2016)	Carrying value reported in the balance sheets (*1)	Fair value (*1)	Difference	Carrying value reported in the balance sheets (*1)	Fair value (*1)	Difference
(1) Cash and deposits	¥ 23,853	¥ 23,853	¥ –	$ 211,688	$ 211,688	$ –
(2) Notes and accounts receivable - trade	149,037	149,037	–	1,322,657	1,322,657	–
(3) Short-term loans receivable	3,402	3,402	–	30,192	30,192	–
(4) Investment securities Other securities	29,221	29,221	–	259,327	259,327	–
(5) Long-term loans receivable (*2)	10,099			89,626		
Allowance for doubtful accounts	(788)			(6,984)		
	9,311	9,590	279	82,632	85,108	2,476
(6) Notes and accounts payable - trade	(90,940)	(90,940)	–	(807,064)	(807,064)	–
(7) Short-term loans payable	(34,303)	(34,303)	–	(304,428)	(304,428)	–
(8) Current portion of long-term loans payable	(11,608)	(11,608)	–	(103,018)	(103,018)	–
(9) Current portion of bonds	–	–	–	–	–	–
(10) Current portion of lease obligations	(2,172)	(2,172)	–	(19,276)	(19,276)	–
(11) Bonds	(10,000)	(10,111)	(111)	(88,747)	(89,732)	(985)
(12) Long-term loans payable	(85,076)	(87,372)	(2,296)	(755,023)	(775,399)	(20,376)
(13) Lease obligations	(14,636)	(15,822)	(1,186)	(129,890)	(140,415)	(10,525)
(14) Derivative transactions (*3)	(486)	(486)	–	(4,313)	(4,313)	–

			Millions of yen
(For the year 2015)	Carrying value reported in the balance sheets (*1)	Fair value (*1)	Difference
(1) Cash and deposits	¥ 24,506	¥ 24,506	¥ –
(2) Notes and accounts receivable - trade	141,020	141,020	–
(3) Short-term loans receivable	3,904	3,904	–
(4) Investment securities Other securities	35,217	35,217	–
(5) Long-term loans receivable (*2)	11,116		–
Allowance for doubtful accounts	(110)		–
	11,006	11,056	50
(6) Notes and accounts payable - trade	(91,444)	(91,444)	–
(7) Short-term loans payable	(28,968)	(28,968)	–
(8) Current portion of long-term loans payable	(15,575)	(15,575)	–
(9) Current portion of bonds	(10,019)	(10,019)	–
(10) Current portion of lease obligations	(2,452)	(2,452)	–
(11) Bonds	–	–	–
(12) Long-term loans payable	(81,676)	(83,074)	(1,398)
(13) Lease obligations	(16,174)	(16,738)	(564)
(14) Derivative transactions (*3)	(281)	(281)	–

Notes: *1 Figures shown in parentheses are liabilities.
*2 Allowance for doubtful accounts separately recorded in long-term loans is excluded.
*3 The value of assets and liabilities arising from derivatives is shown at net value, and a net liability position is shown in parentheses.

Note 1. Valuation approach for fair value of financial instruments, securities and derivative transactions
(1) Cash and deposits, (2) Notes and accounts receivable - trade and (3) Short-term loans receivable
The fair value of these amounts is stated at the carrying amount, which is approximate to it.

(4) Investment securities
The fair value of equity securities equals the quoted market price, if available. The fair value of debt securities is equal to the quoted market price or the price provided by financial institutions. Marketable and investment securities classified by the purpose for which they are held are described in "Notes to securities."

(5) Long-term loans receivable
The fair value is determined by the present value of future cash flows discounted using the assumed current lending rate for similar loans receivable of a comparable maturity. Doubtful receivables are valued with consideration for any possibility of collection based on guarantees or the existence of collateral.

(6) Notes and accounts payable - trade, (7) Short-term loans payable, (8) Current portion of long-term loans payable, (9) Current portion of bonds and (10) Current portion of lease obligations
The fair value of these amounts is stated at the carrying amount which is approximate to it.

(11) Bonds
The fair value is determined by the present value of future cash flows discounted using the assumed current interest rate for similar bonds of comparable maturities and contract conditions.

(12) Long-term loans payable
The fair value is determined by the present value of future cash flows discounted using the assumed current interest rate for similar loans payable of comparable maturities. Interest rate swaps subject to special treatment are used for long-term floating-rate loans. "Derivative transactions" provides additional explanation. Principal and interest of the loans in which these interest rate swaps are embedded are discounted using a reasonable estimate of the interest rate on the loan at the time of issue.

(13) Lease obligations
The fair value is determined by the present value of future cash flows discounted using the assumed current interest rate for similar lease contracts of comparable maturities and contract conditions.

(14) Derivative transactions
Hedge accounting was applied to derivative transactions. The fair value of derivatives transactions is determined by quoted prices provided by financial institutions. The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loan. The fair value of gain or loss resulting from forward foreign exchange contracts embedded in a payable and receivable subject to hedging is included in the fair value of the corresponding payable or receivable.

Note 2. Financial instruments cannot be estimated, which makes it extremely difficult to assess the fair value.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unlisted shares	¥28,414	¥33,126	$252,165

Unlisted shares are not included in "(4) Investment securities - Other securities" because these securities are without market values and their future cash flows cannot be estimated, which makes it extremely difficult to assess the fair value.

Note 3. The redemption schedule for receivables and marketable securities with maturity dates after the close of the fiscal year

	Millions of yen				Thousands of U.S. dollars			
(For the year 2016)	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	¥ 23,853	¥ –	¥ –	¥ –	$ 211,688	$ –	$ –	$ –
Notes and accounts receivable - trade	149,037	–	–	–	1,322,657	–	–	–
Short-term loans receivable	3,402	–	–	–	30,192	–	–	–
Long-term loans receivable	–	9,182	345	572	–	81,488	3,062	5,076
Total	¥ 176,292	¥ 9,182	¥ 345	¥ 572	$ 1,564,537	$ 81,488	$ 3,062	$ 5,076

	Millions of yen			
(For the year 2015)	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	¥ 24,506	¥ –	¥ –	¥ –
Notes and accounts receivable - trade	141,020	–	–	–
Short-term loans receivable	3,904	–	–	–
Long-term loans receivable	–	9,956	630	530
Total	¥ 169,430	¥ 9,956	¥ 630	¥ 530

Note 4. The redemption schedule for short-term loans payable, bonds, long-term loans payable and lease obligations

						Millions of yen
(For the year 2016)	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Short-term loans payable	¥ 34,303	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds	–	–	–	–	10,000	–
Long-term loans payable	11,608	20,571	17,701	11,713	17,298	17,793
Lease obligations	2,172	1,650	1,532	1,348	1,351	8,755
Total	¥ 48,083	¥ 22,221	¥ 19,233	¥ 13,061	¥ 28,649	¥ 26,548

						Thousands of U.S. dollars
	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Short-term loans payable	$ 304,428	$ –	$ –	$ –	$ –	$ –
Bonds	–	–	–	–	88,747	–
Long-term loans payable	103,018	182,562	157,091	103,949	153,514	157,907
Lease obligations	19,276	14,643	13,596	11,963	11,990	77,698
Total	$ 426,722	$ 197,205	$ 170,687	$ 115,912	$ 254,251	$ 235,605

						Millions of yen
(For the year 2015)	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Short-term loans payable	¥ 28,968	¥ –	¥ –	¥ –	¥ –	¥ –
Bonds	10,019	–	–	–	–	–
Long-term loans payable	15,575	10,243	18,617	16,390	11,537	24,889
Lease obligations	2,452	1,877	1,565	1,439	1,279	10,014
Total	¥ 57,014	¥ 12,120	¥ 20,182	¥ 17,829	¥ 12,816	¥ 34,903

KPMG

Independent Auditor's Report

To the Board of Directors of AIR WATER INC.:

We have audited the accompanying consolidated financial statements of AIR WATER INC. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AIR WATER INC. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 28, 2016
Osaka, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.