

Environmental and Social Report  
2017



## Management Philosophy



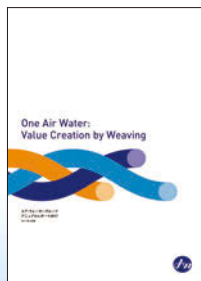
We dedicate ourselves and our resources backed by the entrepreneurial spirit and pride in creation and development of businesses linking air, water, the earth, and humans.

The starting point of the Air Water Group's business is found in our name: "Air" and "Water." We make use of resources from this invaluable earth to create businesses and contribute to society and people's lives. In a business environment that continues to change at a dizzying pace, we will continue to leverage the Group's collective capacities and work to provide highly diverse products and services that benefit society's development while fulfilling our responsibilities to all stakeholders.

## About This Publication

Enterprises have been making various efforts to fulfill their Corporate Social Responsibility (CSR) over time. Air Water began publication of this annual Environmental and Social Report in 2002, as a way of informing our stakeholders about our commitment to CSR, and about the organization and content of our CSR activities throughout the many businesses we operate. With the goal of appealing to a wide range of readers, we have arranged this 2017 Report as follows.

- The 2017 Environmental and Social Report is comprised of a section on our approach to value creation, two detailed features, and our environmental, social and governance, or ESG, report.
- This report covers the activities of Air Water Inc. and its domestic Group companies.
- This report is based on data from April 1, 2016 to March 31, 2017. We also include some information about more recent initiatives.
- In editing this report, we have referred to the ISO26000 guidelines, to the Environmental Reporting Guidelines from Japan's Ministry of the Environment, and to other relevant guidelines.
- In presenting our approach to value creation, we worked to provide readers with an understanding of how the Group's diverse businesses create social value.
- For the features, we focused on initiatives in home medical care and for a demonstration project being promoted by the Ministry of the Environment as examples of the social responsibilities fulfilled by the Group. We worked to facilitate an understanding of the value being provided to society by the Group's businesses while also including outside perspectives.
- In the ESG report, our aim was to straightforwardly convey our basic approach and current situation.

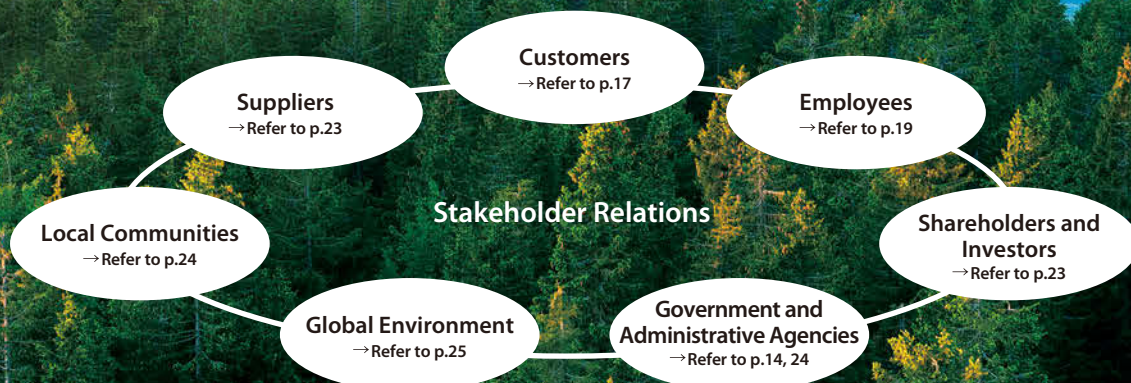


Refer also to our Annual Report for financial information and details on our growth strategy.

<http://www.awi.co.jp/english/ir/library/>

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# We will work to be a company that continues to grow perpetually while fulfilling its responsibilities to diverse stakeholders.



**Masahiro Toyoda**

Representative Director,  
Chairman of the Board,  
Chief Executive Officer  
Air Water Inc.

In April 2017 the Air Water Group initiated the “Management Reform 2017” project consisting of large-scale reforms to our management structures in order to maintain management continuity based on an expanding business portfolio and our future growth strategy. We have six internal companies, industrial gases, chemicals, medicine, energy, agriculture and food products, and logistics, and two major independent businesses, seawater and aerosols, and by combining these businesses with the functions of our eight regional business companies, we intend to work toward further business expansion. Going forward, we plan to achieve further growth as a highly diverse corporate group based conglomerate management around a core of eight businesses.

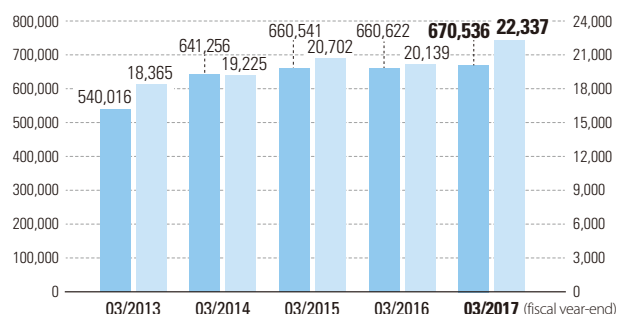
## Progress of Medium-term Business Plan “NEXT-2020 Ver.3”

The Air Water Group is steadily carrying out initiatives in each business area in line with our Medium-term Management Plan “NEXT-2020 Ver.3,” which is the third step in our long-term growth vision formulated in 2010, “Vision for a 1 trillion yen Company” by fiscal 2020. The plan has a basic concept of “Challenges for structural reform and sustainable growth,” and in the initial fiscal year of the plan (fiscal 2016), earnings from the industrial gas business increased on firm gas demand across a broad spectrum of the manufacturing industry. We worked to expand business by actively conducting M&A in the agriculture and food products business, and, in the medical business and energy business, we carried out structural reforms in order to reinforce earnings power.

As a result, consolidated net sales for fiscal 2017 totaled ¥670,536 million, a year-on-year increase of 1.5%. In terms of profits, operating income was ¥41,341 million, up 4.6% from the previous year, ordinary income came to ¥41,251 million, a gain of 17.6%, and net income totaled ¥22,337 million, an increase of 10.9%, so we achieved year-on-year increases across the board. For us, it was a year of steady progress toward realization of our

**Net Sales and Net Income** (millions of yen)

■ Net Sales (left scale) ■ Net Income (right scale)



medium-term plan.

## Diversity at Air Water

The Air Water Group is a conglomerate of numerous different businesses that has expanded and developed driven by M&A. Having fused and integrated various corporate cultures, the Group has a culture of accepting each other's differences; that is to say, a well-rooted culture of diversity. The Group's basic strategy, what we call the "Order Rodentia Style of Business," is also a major strength in this regard. Our approach is to continue to diversify our business and reinforce earnings power to further solidify our "All-Weather Management System" for producing sustained, stable growth regardless of the operating environment, so we believe that this diversity will become more and more important to business expansion as well going forward.

Our current diversity promotion efforts are focused on taking in diverse personnel from outside and on creating workplaces for women's greater participation and advancement. Along with development of young employees, we are currently promoting various reforms. These reforms we believe will lead directly to the growth of each individual employee and the development of the Group as a whole.

## Toward a Company that Continues to Grow Perpetually with Society

A company must always be an indispensable part of its society. For us, customers, shareholders and investors are of course important stakeholders but so are the people and natural environment of the regions where we do business and all the employees who support our business.

To sincerely face various social issues, including environmental problems, and respond to them, a company must grow together with society. "Growth" itself continues to change form, and the Group I believe must be a company that continually puts this into practice.

We will continue to fulfill our responsibilities to stakeholders and move forward with them to become a company that continues to grow perpetually.

### Basic Management Policy

## Order Rodentia Style of Business

"Order Rodentia Style of Business" is our unique growth strategy; it likens the business conglomerate formed by the Group to mice and other rodents in that they produce more offspring than any other mammal. Like order rodentia, we sensitively adapt to the diverse and changing environment and continue to produce small, medium-sized and mid-market companies with the vitality to flexibly develop new fields and new businesses. In doing so we organically link diverse business groupings with high earnings power to achieve sustained corporate growth.

## All-Weather Management System

The Air Water Group is diversifying and reinforcing earnings power to establish an "All-Weather Management System" that can produce stable growth in any operating environment. Going forward, we will continue to pursue balanced expansion of our industrial businesses, industrial gases and chemicals, and our living-related businesses, medicine, energy, and agriculture and food products, and form a business portfolio unaffected by changes in the operating environment to achieve sustained growth.

### Management Philosophy

→ Refer to p.1

### Management Strategy (Management Policies)

Order Rodentia Style of Business  
All-Weather Management System

### Business Model for Value Creation

→ Refer to p.7

### Vision

## NEXT-2020 Vision for a 1 Trillion Yen Company

Aim of ¥1 Trillion in Net Sales by FY2020

Medium-term Business Plan for Its Achievement

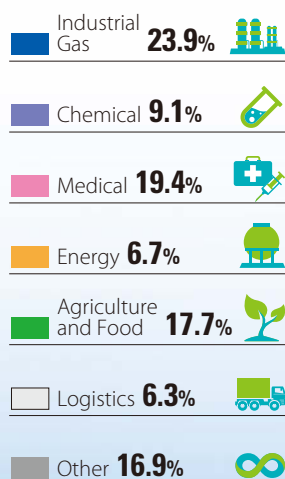
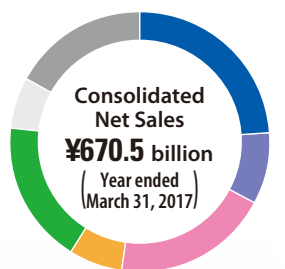
"NEXT-2020 Ver.3"

(from fiscal 2016 to fiscal 2018)

→ Refer to p.7

# Contributing to the Development of Industry and Living with Diverse Businesses

Percentage of Sales by Segment (%)



## Industrial Gas Business



The industrial gas business supplies oxygen, nitrogen and argon from air separation along with a range of other industrial gases like carbon dioxide, hydrogen and helium. Its products are indispensable to a variety of industries, including steelmaking, chemicals, electronics, and glassmaking, as well as consumer sectors such as medicine, agriculture and food products.

Net sales **¥160.2** billion

Consolidated subsidiaries **27**



## Chemical Business



The chemical business consists of two main areas, coal chemicals, based on coke oven gas purification, and functional chemicals, which includes carbon materials, fine chemicals and quinone materials. The business's diverse products are utilized in many applications throughout society, including plastics, rubbers, fertilizer, pharmaceuticals, and electronic materials.

Net sales **¥61.3** billion

Consolidated subsidiaries **5**



## Medical Business



The medical business utilizes in-house infrastructure to provide various gases safely and securely to medical institutions. It also imports and sells medical devices, designs and builds hospital facilities, and provides medical services such as SPD and contract sterilization. The business provides comprehensive solutions that support the frontlines of medicine.

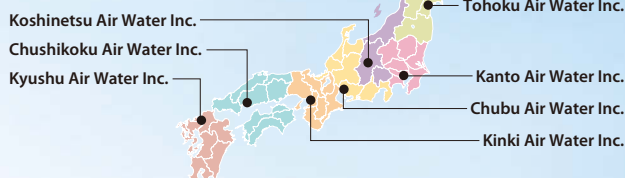
Net sales **¥130.0** billion

Consolidated subsidiaries **28**

Notes:  
 Figures are for the fiscal year ended March 2017.  
 Regional business companies and three other companies conduct business activities that span multiple businesses, so the total of the consolidated subsidiaries of each business does not match the overall Group's listed number of consolidated subsidiaries.

## Eight Regional Business Companies Developing Business Nationwide

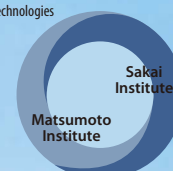
The eight regional business companies developing business nationwide implement the "All-Weather Management System" and "Order Rodentia Style of Business" on the frontlines of operations. Demonstrating synergies between businesses based on their respective regional characteristics and business groupings, each region autonomously creates its own unique business model to further cultivate its businesses.



## Promoting Research and Development at Two Research Institutes

Our comprehensive R&D institutes in Sakai and Matsumoto equipped with state-of-the-art research facilities closely coordinate with our business divisions to promote technology integration across businesses. With a focus on active partnerships with academic institutions and partner research institutes, we strive to create unique technologies through technology synergies.

- R&D areas**
- Gas processing technologies
  - Gas collection/recycling technologies
  - Gas application technologies
  - Plasma surface treatment technologies
  - Electronic materials technologies
  - Metal surface treatment technologies
  - Agriculture and food products technologies
  - Fine chemical and new materials technologies
  - Functional resin and carbon materials technologies
  - Medical technologies
  - Energy utilization technologies
  - Energy solution technologies





### Energy Business



The energy business utilizes a network of supply and sales sites throughout Hokkaido, eastern Japan and western Japan to deliver LP gas and other energy sources. By combining this with sales of liquefied natural gas (LNG) and low-temperature equipment, it provides comprehensive energy solutions and services.

Net sales **¥45.0** billion

Consolidated subsidiaries **15**



### Agriculture and Food Business



The agriculture and food business is involved in a broad array of activities, from agricultural product cultivation and procurement, agricultural equipment manufacturing, food processing, and beverage production to retail sales of fruits and vegetables. With strengths in the stable procurement and supply of raw materials and in technical capacities that meet customer expectations, the business supports food both as a necessity and a luxury.

Net sales **¥118.4** billion

Consolidated subsidiaries **23**



### Logistics Business



The logistics business handles transportation for the Group overall, starting with high-pressure gases. It also provides logistics for general freight, food products, and medical and environment-related products, offers warehousing and distribution processing services, and manufactures specialty vehicles. The business provides comprehensive logistics services with proficiency in low-temperature management technologies.

Net sales **¥42.4** billion

Consolidated subsidiaries **5**



### Other Businesses



A group of distinctive, high-profit companies involved in a range of businesses support the Air Water Group's sustained growth, centering on the seawater business, which develops high-quality salt products and magnesium products, and the aerosol business, which conducts OEM supply to diverse markets, and also including NV metal surface treatment and the ECOROCA (an eco-friendly construction material) business.

Net sales **¥113.2** billion

Consolidated subsidiaries **25**



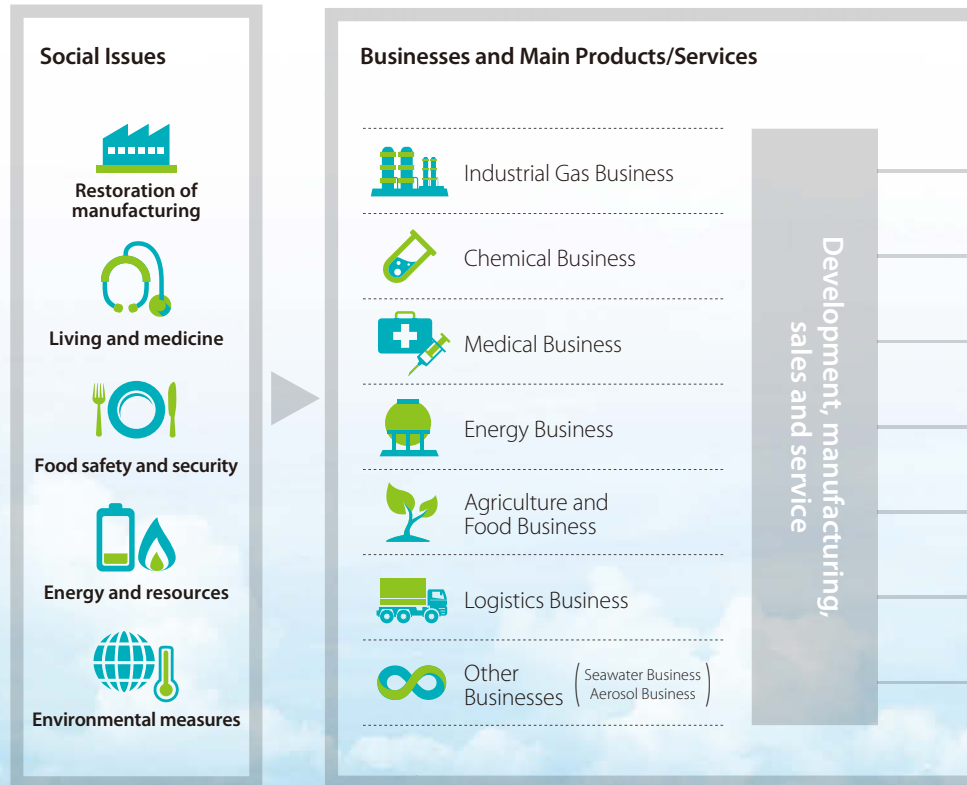
# Creating Value to Help Solve Social Issues through Development and Provision of Wide-Ranging Products and Services

Society today is facing numerous issues it must overcome, including economic stagnation partially due to slower growth in emerging countries, medical and nursing care issues associated with the ultra-aging of society, concern over food safety stemming from mislabeled food products and other incidents, energy and resource problems from nuclear accidents and resource competition, and climate change caused by global warming.

The Air Water Group is involved in eight main businesses, industrial gas, chemicals, medicine, agriculture and food, logistics, seawater, and aerosols, and we develop these businesses in coordination with over 240 Group companies, including eight regional business companies. Through providing diverse products and services, we create value that supports societal development and enriched living and that helps create solutions to social issues.

Going forward, we will continue to actively tackle a variety of issues in the spirit of our founder and continue being a corporate group that is essential to society.

## Business Model for Generating Social Value



## Overview of Medium-term Business Plan “NEXT-2020 Ver.3”

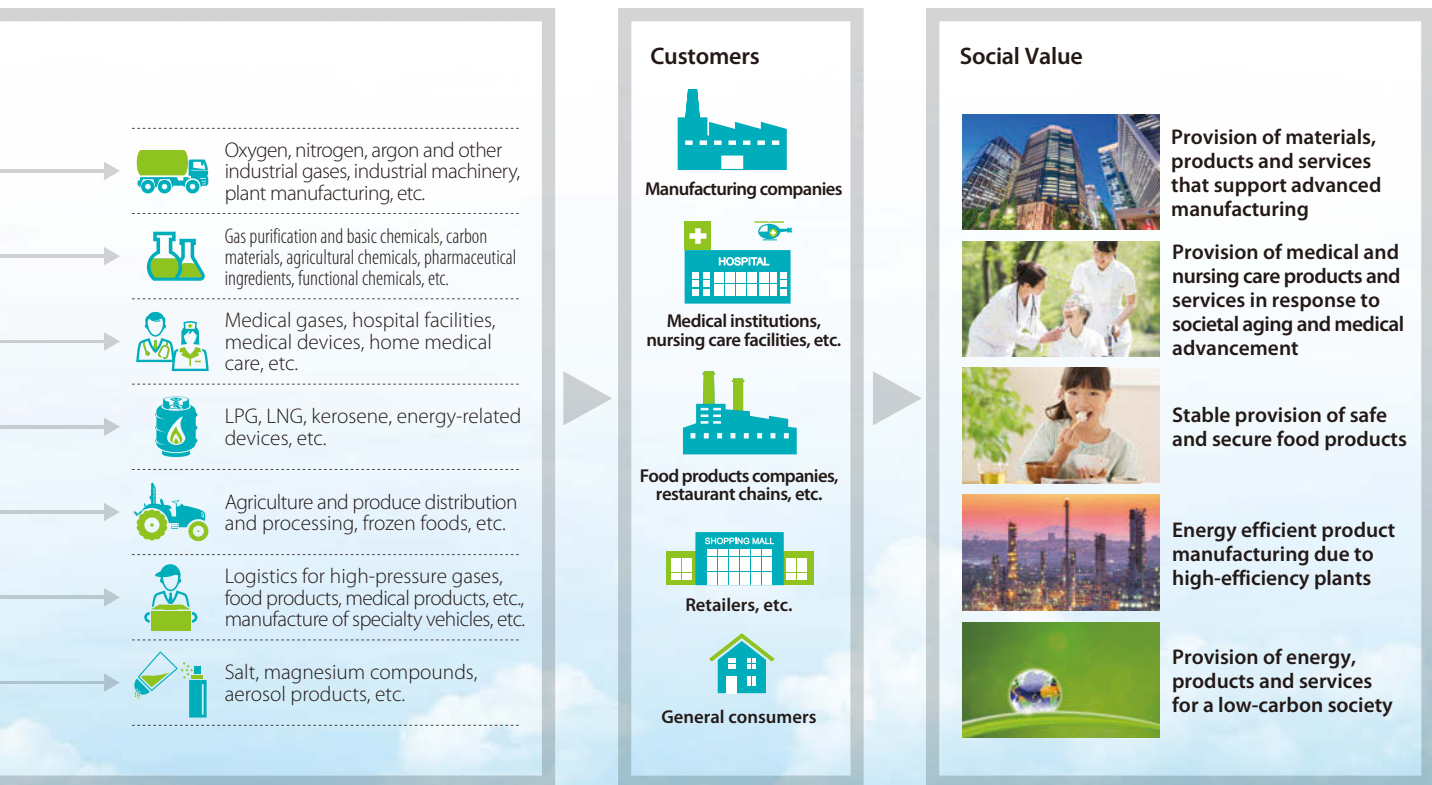
We are currently promoting initiatives in line with our medium-term business plan “NEXT-2020 Ver.3,” which is the third step in our long-term growth vision “Vision for a 1 trillion yen Company 2020”. With a basic concept of “Challenges for structural reform and sustainable growth,” we aim to build a highly profitable business structure and become a corporate group that perpetually grows and develops by further implementing the “All-Weather Management System” and “Order Rodentia Style of Business.” In the final year of the plan (fiscal 2018), we are targeting net sales of ¥850.0 billion, operating income of ¥51.0 billion, ordinary income of ¥51.0 billion, and net income of ¥29.0 billion.

### Basic Concept

## Challenges for structural reform and sustainable growth

Foster earning power, create a business foundation with higher earning capabilities, and enjoy continuous growth and development





### Three Implementation Measures

#### Pursuing Ultimate Solutions Services and Providing Innovation

- Pursue optimal products and services to satisfy customers' needs
- Achieve business innovation through crystallization of the Air Water Group's overall strengths
- Strengthen business structures with a focus on regional business

#### Strengthening Corporate Structure by Implementing Structural Reforms

- Invest strategically to strengthen business foundation
- Establish a support system for each business division
- Thoroughly streamline and rationalize all divisions
- Enforce compliance

#### Challenges towards Issues for post 2020

- M&A
- Overseas
- Strategic technologies

# 1 Greatly Raising Patient Quality of Life Through Innovative Device Development in Home Medical Care



**Haruyuki Azuma**  
President and Representative Director  
Air Water Medical Inc.

**Norihiko Furuta**  
President and Representative Director  
Ikiken Co., Ltd.

Production line for "Konatsu 3" SP at Ikiken Co., Ltd., a member of the Air Water Group

With Japan becoming an ultra-aging society, there is increasing need for more advanced home medical care. Air Water, a pioneering company in the field, is focused on developing highly innovative products that help raise the quality of life of patients, starting with "Konatsu 3" SP, a portable oxygen concentrator that greatly increases freedom of movement inside the home.

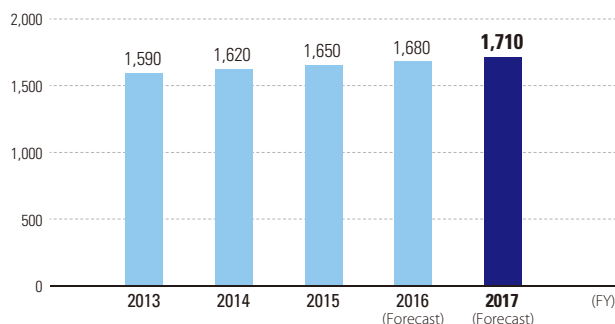
## Providing a Wide Range of Products and Services in Home Medical Care

The medical business is at the core of our people-centered business and we are developing it on a comprehensive basis. In particular, there has been increasing societal need in recent years for home medical care devices. The advantages of home medical care are that care can be provided in a comfortable, familiar environment and that the psychological and physical burden is lower than treatment at a hospital. In other words, the further advancement of home medical care will lower medical costs while also raising the quality of life of individual patients.

Air Water began its involvement in the home medical care business in Japan with the import of oxygen concentrators for medical use in 1982. Since then we have developed a diverse range of products and services that have contributed to the development of home medical care, starting with in-house production of home oxygen concentrators for medical use. For example, Cafty Pump S, a home parenteral nutrition pump with an over 80% share of the market, is a portable device used for central venous hyperalimentation therapy in which a solution with various nutrients is administered intravenously to patients unable to obtain the nutrients they need from regular food.

Other products include a mechanical in-exsufflator that helps patients who have difficulty expectorating phlegm and secretions on their own, aspirators, and devices for continuous positive airway pressure (CPAP) treatment. We are a company seeking to be No. 1 in the home medical care business and have an extensive, diverse lineup of systems and devices that help raise the quality of life of patients.

Home Medical Care Patients (Oxygen concentrator users only) (Hundreds of people)



Source: K.K. Gas Review's "Gas Medicina 2016"

## Providing Innovative Devices Based on Frontline Feedback for Home Oxygen Treatment of COPD Patients

There is an especially large number of home care patients who receive home oxygen therapy (HOT), which provides patients who have difficulty inhaling the amount of oxygen they need with supplemental oxygen at home. The number of HOT patients is estimated at around 170,000, and of them 40% are patients with a chronic obstructive pulmonary disease (COPD) such as chronic pulmonary emphysema or chronic bronchitis.

In order to help improve the quality of life of these patients, Group company Air Water Medical and Ikiken in January 2015 jointly developed the "Konatsu 3" SP portable oxygen concentrator. Thanks to its internal battery, large wheels, and extendable handle, "Konatsu 3" SP can be moved around smoothly with very little effort, which greatly expands the range of activity of patients inside their homes. In addition, new compressor technology has greatly increased the energy efficiency and reduced the size and weight compared to conventional products. "Konatsu 3" SP also has a fire prevention function that automatically cuts off the oxygen if it should ignite as well as other important safety features.

It is said that there are as many as 5.3 million COPD patients, including people who have not been diagnosed, and the need for home oxygen therapy is expected to further increase going forward. Air Water will continue working to develop highly innovative products and services that contribute to the promotion of home medical care.



"Konatsu 3" SP oxygen concentrator



Oxygen concentrator being inspected and serviced



Cafty Pump S home parenteral nutrition pump



At inspection prior to shipping

## Message High Expectations for Air Water's Passion for Innovative Product Development

There were no home oxygen concentrators available that were fully satisfactory to patients with chronic respiratory disease despite the fact that the devices are used every day. As a specialist physician, I wanted to create the ideal product that would have both the functions patients wanted and the functions physicians required, so I signed a technical assistance agreement with Air Water in 2013 and participated in the company's oxygen concentrator development.

In January 2017, we jointly developed "Sazanami," which is based on "Konatsu 3" SP but with added functions like a micro-volume setting function that supports highly precise prescription flow rates and a remote control function for greater convenience. The new product is currently being introduced at Yokohama City University Hospital.

Air Water has always had a strong passion for helping patients and contributing to medicine with unique products and has never simply followed the crowd. I continue to have high expectations for the development of world-first products that will further substantially raise the quality of life of patients.

### Prof. Masaharu Shinkai

Yokohama City University Graduate School of Medicine Medical Course Pulmonology Associate Professor



# 2 Helping Realize a Low-Carbon Society with a Hydrogen Supply Chain Based on Local Production for Local Consumption



**Tomohiro Inoue**

Senior Manager, Engineering Division  
Industrial Company  
Air Water Inc.

A hydrogen station at the front of Shikaoi Hydrogen Farm supplies hydrogen to fuel cell vehicles and forklifts.

Air Water participates in a regional, low-carbon hydrogen technology demonstration project being promoted by the Ministry of the Environment in Shikaoi Town, Hokkaido. Through the Shikaoi Hydrogen Farm, Japan's first facility for generating hydrogen from livestock excrement and supplying it to the surrounding region, the project is investigating the feasibility of a hydrogen energy society that is based on local production for local consumption.

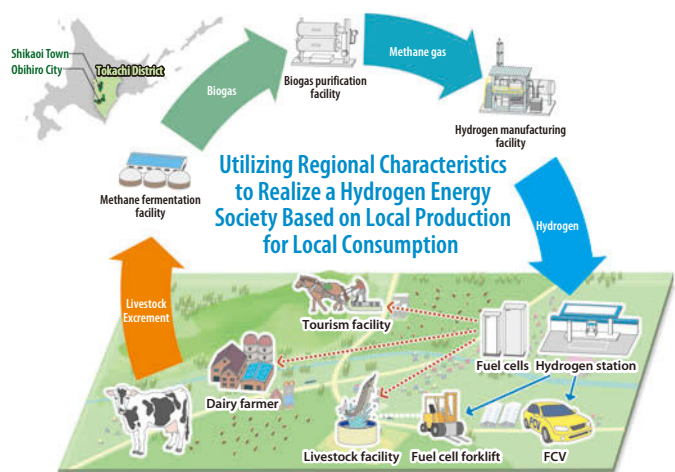
## Toward a Hydrogen Supply Chain Utilizing Regional Characteristics

Shikaoi Town is located in the northwestern part of Hokkaido's Tokachi district. It is a farming community of around 6,000 people with agriculture and tourism as its primary industries. In 2007 the town established the Environmental Protection Center, a production plant that conducts methane fermentation with dairy and beef cattle excrement to manufacture biogas and digestive fluids. The town is carrying out pioneering initiatives for using electricity and heat generated from biogas in a variety of applications.

The demonstration project is based on the town's initiatives and is one of the regional, low-carbon hydrogen technology demonstration projects being promoted by the Ministry of the Environment to verify the feasibility of new hydrogen supply chains that utilize regional characteristics. Air Water was contracted by the Ministry of the Environment in 2015 as the contract representative, and along with three other companies\*1 is conducting an integrated demonstration, from generation to transport and utilization of hydrogen, which is expected to serve as a next-generation energy.

\*1 Kajima Corporation, Nippon Steel & Sumikin Pipeline & Engineering Co., Ltd., Air Products Japan K.K.

### Overview of Regional, Low-Carbon Hydrogen Technology Demonstration Project in Shikaoi Town, Hokkaido



## Shikaoi Hydrogen Farm Utilizes Cultivated Gas Technologies

For the demonstration project, the Shikaoi Hydrogen Farm, Japan's first facility for manufacturing hydrogen with biogas from livestock excrement to have integrated functions up to storage, transport and supply, was established at the Hokkaido Shikaoi Environmental Preservation Center by Air Water utilizing the technologies and expertise it has cultivated over many years in the industrial gas sector.

Air Water's biogas purification and hydrogen gas production systems were installed at the facility, which went into operation in January 2017, and utilizing the systems, Air Water's engineers purify the biogas and manufacture hydrogen gas from it. The hydrogen gas is supplied to fuel cell vehicles and forklifts, and depending on the rack\*2, it is also supplied to the fuel cells of dairy farmers and neighboring facilities, generating electricity and hot water.

The aim of the project is to establish a model of a hydrogen supply chain based on local production for local consumption that utilizes regional characteristics and in the future promote the model in other regions throughout Japan. At the Shikaoi Hydrogen Farm going forward, we plan to verify the performance, durability and other aspects of the systems and equipment based on the seasonal impact of operating the facility in a region with an extremely cold winter and also to consider expanding the

possibilities of hydrogen utilization and its commercialization by confirming issues related to hydrogen transport and other factors. Through Japan's first demonstration project of its kind, Air Water will actively work toward actualization of a hydrogen energy society based on local production for local consumption.

\*2 Rack of high-pressure gas canisters



Manufactured hydrogen storage tank (right) and tanks of liquefied nitrogen and liquefied oxygen used in manufacturing (left and center)



Air Water's VH hydrogen gas generator



Supervision of the hydrogen manufacturing process



Rack filling area



### Message

**Hiroshi Yoshida**  
Mayor, Shikaoi Town

### High Expectations for Positive Impact of Project on Shikaoi's Development

The Shikaoi Hydrogen Farm demonstration project being conducted by Air Water is a state-of-the-art project by national standards that seeks to establish a hydrogen supply chain that utilizes regional characteristics. Since operations commenced, many people have come and toured the facility, from government agencies around the country, schools and other organizations.

The town had already been manufacturing and using the biogas that is used to make hydrogen, but there is still a substantial amount of the livestock excrement used to make the gas available. If we are able to build a system for effectively using hydrogen fuel in various applications, it would not only contribute to the formation of a low-carbon society but also I believe help revitalize the region.

# ESG Report



## Governance

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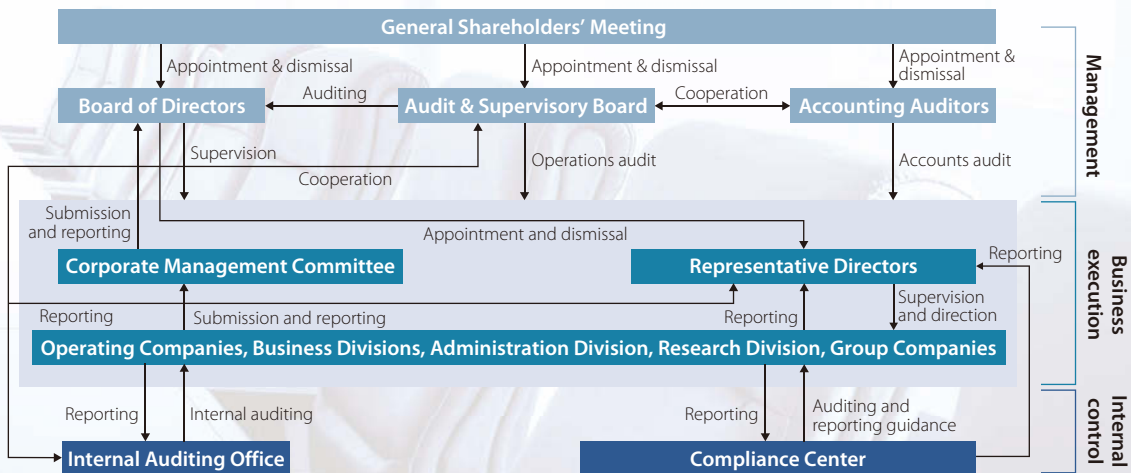
# Corporate Governance

## Basic Approach to Corporate Governance

The Air Water Group believes that conducting fair business activities, observing social common sense and gaining trust from all stakeholders is essential for continuous business growth and the maximizing of enterprise value. We view

comprehensive corporate governance including an internal control system as the most important management issue for gaining stakeholder trust and fulfilling corporate social responsibility.

### Corporate Governance Structure



## Compliance with Japan's Corporate Governance Code

Air Water complies with the requirements of Japan's Corporate Governance Code that the Tokyo Stock Exchange established, effective June 1, 2015. Details of our compliance with the Code are reported in our Corporate Governance Report, which is available to the public on the Company's official website.

**Corporate Governance Report (Japanese version only)**  
<http://www.awi.co.jp/csr/governance/>

## Summary of Corporate Governance System

Air Water has adopted the company with Audit & Supervisory Board system for its basic governance structure. The Board of Directors is responsible for making important management decisions and supervising business execution, and auditing of the execution of director duties and other matters is accomplished through Audit & Supervisory Board members attending meetings of the Board of Directors and other important committees.

### Directors and the Board of Directors

Air Water's Board of Directors, which met 14 times in fiscal 2016, is comprised of a total of 20 members, 18 internal directors (of which none are women) and two outside directors (of which one is a woman). In addition to matters stipulated in laws, regula-

tions and the Articles of Association, the Board of Directors makes decisions and receives reports on important matters related to the Group's management and business execution and also supervises and monitors individual directors. In addition, Air Water appoints two outside directors to receive recommendations and other opinions that are beneficial to the Company's management from an outside, objective perspective in order to further reinforce the Board of Director's management supervisory function. The term of office for directors is set at one year in order to make it possible to flexibly construct the optimal management framework in a rapidly changing business environment and in order to further clarify the management responsibilities of directors each fiscal year.

### Corporate Management Committee

As the body that supports accurate and quick decision-making in the Group's wide-ranging fields of business, the Corporate Management Committee is comprised of executive directors at the level of managing director and higher, the general managers of each business division, and other key managers. The committee, which meets once a month, in principle, conducts advance deliberations on the agenda items of the Board of Directors from wide-ranging and diverse standpoints, and also deliberates on important items related to the Group's business execution.

**Audit & Supervisory Board and A & SB Members**

Air Water’s Audit & Supervisory Board, which met 14 times in fiscal 2016, is comprised of a total of five members, two internal A & SB Members (of which none are women), and three outside A & SB Members (of which none are women).

In addition, Air Water appoints two outside A & SB Members and receives recommendations and opinions that are beneficial to the Company’s auditing from an outside, objective perspective in order to further reinforce monitoring and supervision of management. A & SB Members work to grasp and monitor management execution by such means as attending Board of Director meetings and other key meetings in accordance with the auditing policies and standards, etc. stipulated by the Audit & Supervisory Board, and conduct auditing to ensure that the execution of duties by directors conforms with laws, regulations and the Articles of Association and that corporate operations are being executed properly through supervision and verification of the design and operation, etc. of the internal control system, including internal controls related to financial reporting.

A & SB Members receive regular reports from the accounting auditors and internal auditing unit on the status of audits and findings, and exchange information and opinions with these bodies.

**Internal Audits**

Internal audits are conducted regularly by the Internal Auditing Office, the Company’s internal auditing unit with 11 full-time staff members, on the Group’s compliance with laws, regulations and internal rules and on the appropriateness and adequacy of the Group’s business processes. The Internal Auditing Office also conducts monitoring and supervision of the construction and operation of the internal control system for ensuring the reliability and appropriateness of financial reporting, and with respect to evaluations of the system’s effectiveness, the office fulfills the role of lead managing division under the responsibility and direction of the representative director.

In addition, along with the Internal Auditing Office, the Company has established the Compliance Center with 13 full-time staff members as the dedicated department for cross-Group management and governance in connection with compliance, disaster preparedness and environmental protection. When facts are found through internal audits that have the potential to seriously impact the Company’s management, there is a system for appropriately reporting them to the Audit & Supervisory Board and the representative director.

**Accounting Auditors**

With regard to accounting audits, Air Water has concluded an auditing agreement with KPMG AZSA LLC, and this firm carries out the audits.

**Utilization of Independent Outside Directors**

In order to ensure that the management supervisory function of the Board of Directors is highly effective, Air Water appoints two independent outside directors with the capability and experience to contribute to the Company’s sustained growth and to increasing its corporate value over the medium-to-long term.

**Independence Judgment Criteria and Qualifications for Independent Outside Directors**

Air Water appoints as independent outside directors individuals who meet requirements and criteria stipulated in the Companies Act and by financial instrument exchanges and who meet the Judgment Criteria for the Independence of Outside Officers, which has been established by resolution of the Board of Directors. In addition, in selecting candidates for independent outside directorships, the Company puts emphasis on a high level of expertise and extensive experience that make possible honest and constructive recommendations and opinions with respect to the Company’s management.

**Reasons for Independent Outside Director Appointments**

**Yukiko Sakamoto** Director since June 2014

Yukiko Sakamoto has held key positions in the Ministry of Health, Labour and Welfare and has also served as the deputy governor of Shizuoka Prefecture and as a member of the House of Councilors, and therefore has extensive experience and a high level of expertise. The Company has determined that she is qualified as an outside director of the Company because she is able to leverage that experience and expertise to provide beneficial recommendations and opinions on the Company’s overall management. In addition, there are no circumstances with the potential for conflicts of interest with general shareholders as stipulated by the Tokyo Stock Exchange, and she meets the Judgment Criteria for the Independence of Outside Officers stipulated by the Company, so she has been designated as an independent director.

**Yoji Arakawa** Director since June 2015

Yoji Arakawa has extensive experience and a high level of expertise from serving as a public prosecutor and attorney, and the Company has determined that he is qualified as an outside director of the Company because he is able to leverage that experience and expertise to provide beneficial recommendations and opinions on the Company’s overall management. In addition, there are no circumstances with the potential for conflicts of interest with general shareholders as stipulated by the Tokyo Stock Exchange, and he meets the Judgment Criteria for the Independence of Outside Officers stipulated by the Company, so he has been designated as an independent director.



# Compliance

## Compliance Structure Overview

As the foundation of its compliance framework, Air Water has established the "Air Water Group Code of Ethical Conduct" to increase awareness about social ethics and law-abiding spirit and to ensure compliance with all applicable laws and regulations. The Code provides all officers and employees of the Company and its Group companies with guidelines to act in strict conformance with the laws and regulations and behave with full respect for social ethics.

## Compliance Committee

Air Water has established the Compliance Committee as a consultative body in which relevant divisions get together and

discuss compliance issues. The Committee considers specific measures concerning the policies and instructions on compliance given by representative directors, and other issues, and also discusses ways to deal with compliance violations when they occur.

## Internal Reporting System

Air Water has established an internal reporting system in order to manage its business while meeting compliance requirements. Anyone who becomes aware of violations of laws and various internal rules, or any acts which may violate them, can make a report.

Points of contact for reporting have been established both inside and outside of the Company, and there is a provision ensuring that the person who reports will not suffer any disadvantage.

# Risk Management

## Risk Management Structure

The Compliance Center, which is under the direct control of the representative directors, manages, as the supervisory division for the entire Group, the risks recognized as particularly important for business activities of the Air Water Group; namely the risks concerning compliance, safety, disaster prevention, environmental preservation, and quality assurance.

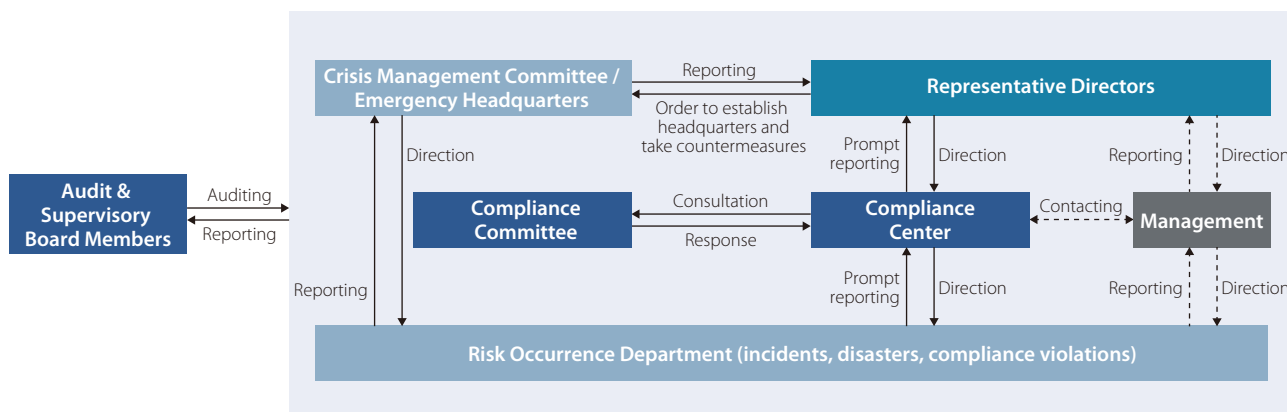
Individual risks concerning information security, quality control, intellectual properties and business contracts are managed through prior inspection and authorization procedures. In addition, by enacting internal regulations and creating

manuals, education and training at the level of each responsible division are carried out.

With the Compliance Center serving as the secretariat, the Risk Management Committee has been held regularly, through which the status of risk management framework in each division and Group company is assessed, and the risk management framework in the Air Water Group overall is bolstered.

If a risk having significant impact on business activities is realized, a Crisis Management Committee will be established immediately in accordance with the Risk Management Regulations, and a framework for dealing with the realized risk promptly and appropriately will be put in place.

## Risk Management Framework



## Customer Relations (Offering Safe and Secure Products and Services)

Air Water is working every day to offer products and services that meet our customers' high expectations and earn their trust. The entire Group is pursuing efforts toward further improvement of quality, focusing on safety and security.

### Company-Wide Policy on Quality

Offering products, goods, and services with quality appreciated by our customers with a word of thanks.

Air Water has established the Company-Wide Policy on Quality, which is a common policy applied to each division and Group company.

The policy applies to the Group as a whole and under it we work to promote quality assurance activities and raise the quality assurance awareness of employees.



### LP Gas Initiatives for the Safety, Security and Trust of Customers

As an initiative for the safety and security of customers who use LP gas, the Air Water Group has a system for taking calls from its approximately 200,000 customers in Hokkaido 24 hours a day, 365 days a year. When there is urgency, such as when the customer smells LP gas or a burner does not light properly, the problem is handled by a service staff member who arrives from one of 108 locations around Hokkaido within 30 minutes. Staff members perform highly pragmatic disaster preparedness drills each year and work to further improve safety techniques.

In addition, we have established an LP gas delivery system and devise delivery schedules with resupply date forecasts based on past customer data. For large customers, we install gas level monitoring systems using communication lines, when a customer's supply decreases to a certain level, that customer is automatically entered into the delivery schedule. This allows us to maintain stable supplies of LP gas to customers.

We strive through these initiatives to ensure the safety and security of customers while earning their trust.



A disaster preparedness drill in progress

### Measures for Quality Control of Industrial Gases

To ensure industrial gases can be used safely by customers, in April 2016 Air Water established the Remote Control Support Center and created a system for 24-hour monitoring of production sites around the country. We currently monitor 55% of sites (rate of plan achievement) and continue working to raise that figure to 100%.

In addition, to supply the same quality of gas nationwide, in April 2015 we established the Gas Analysis Technique Certification System. As of the present, 71 production facilities at all supply sites have been certified for processes from liquefied gas and gas tank manufacturing to pipeline supply. Through this program, we are unifying our quality control methods.

Moreover, we have also established the Accreditation Scheme for Workers Engaged in Gas Analysis to ensure inspectors have the requisite analysis skills when construction work is conducted. Thus far, 158 inspectors have been accredited. We plan to continue expanding the scope of accreditation and further improve our quality control system.

Through these activities, the entire Group maintains production facilities and product gases in an integrated manner and will ensure stable supply to our customers, applying the "Air Water Quality."



Certification for Gas Analysis Workers



Remote Monitoring & Support Center

## Measures for Quality Assurance

### Quality Management Systems

In the Air Water Group, each Group company has acquired quality management system certifications (ISO9001 and ISO13485).

Within the Air Water Group, we are conducting courses to train internal auditors, and providing support for obtaining certifications for quality management systems and for continuous improvement.

### Sharing Information on Quality Assurance

Air Water issues "Quality Assurance Information" and circulars to share information on quality assurance with responsible officers and focal points for quality assurance in all divisions and the Group companies.

In fiscal 2016, notifications were issued on a change to the deputy chief quality officer and the company-wide quality target for fiscal 2016 along with information on quality assurance training and other topics.

品質保証情報	発行日	発行部	発行日
2016年4月1日			
品質保証部長 加藤 健一			
全社品質保証責任者の代理者変更の連絡について			
重要事項：全社品質保証責任者の代理者変更の連絡です。品質保証責任者は、品質保証の推進に重要な役割を担っており、その役割を十分に果たすことが品質保証の推進に不可欠です。品質保証責任者の代理者は、品質保証責任者の不在時にその役割を代行するものです。			
代理者変更の概要			
代理者変更の対象者	代理者変更後の代理者	代理者変更後の代理者の所属部署	代理者変更の有効期
代理者変更後の代理者	代理者変更後の代理者の所属部署	代理者変更の有効期	代理者変更の有効期
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代理者変更後の代理者	代理者変更後の代理者の所属部署	代理者変更の有効期	代理者変更の有効期

Quality Assurance Information

### Workshop on Quality Assurance

Air Water holds various types of quality assurance workshops with an aim to raise awareness on quality assurance and to share information and technologies within the Group. The following two workshops were held in fiscal 2016.

We will continue to hold quality assurance workshops in a systematic manner, to raise awareness on quality assurance and to promote the sharing of information and technologies within the Group.

#### 1. A workshop targeting young technical staff in the Group companies

Quality management seminars were held in three locations around Japan to teach the basics of quality control.

#### 2. Training on the quality management system

Training for development of internal auditors and enhancement of internal auditing techniques was held at three locations around the country in connection with the Company having upgraded its ISO 9001 certification for quality management systems to the 2015 version.

## Measures for Food Safety

### Food Safety System

To further accommodate diversification in the agriculture and food business, Air Water in fiscal 2016 established three subcommittees for beverages, processed foods, and agriculture, respectively, as a part of its Agriculture and Food Company Quality Management Project, and we continue working to improve quality while developing more advanced analysis methods for customer complaints and other feedback.

Contaminant analyzers have been installed to identify foreign substances in food and beverage products and this has allowed us to quickly analyze contaminants in the Group and investigate their causes.

Moreover, as a company involved in food products, we monitor employee training, and in fiscal 2016 conducted training seminars at two organizational levels, production floor leaders at food manufacturing plants and plant managers. Experts were brought in as instructors and practical training was conducted in Tokyo and Sapporo on issues from production floor improvements to plant operations. A total of 65 people participated.

In this way, we will continue working daily to improve quality control and ensure that the food products used by customers are safe and secure.

### Staff Workshop Efforts on Food Safety

Air Water implements staff workshops on food safety aiming at sharing information and technologies concerning "food safety and security," improving knowledge and awareness on the same, and preventing food accidents.

In fiscal 2016, 35 quality assurance and management staff from 15 Group companies involved in food products and agriculture participated. The staff members toured Saveur SS's Sagami Ham Shirakawa Plant and took part in group training on HACCP becoming mandatory and on creating an HACCP plan based on seven principles and 12 procedures.

As our agriculture and food business expands, managing food product safety and security with respect to production vendors is also an important factor, and we intend to continue improving quality control and assurance by continuing to conduct this type of food safety training.



Participants in the food safety staff training session

## Employee Relations (Utilizing Diverse Personnel and Creating Rewarding Workplaces)

The Air Water Group is made up of highly varied Group companies engaged in a range of business activities. We protect the human rights of diverse personnel, respect their individuality and character, ensure safety and health, and strive to create workplaces that allow personnel to work with energy and a sense of purpose.

### Basic Policy on Human Resources

#### Respect for the Individual

We strive to establish programs that can be chosen by employees in order to respect the will of each and every individual.

#### Recognition of Ability and Performance

We appropriately recognize ability and performance without regard to age or educational background and structure compensation accordingly.

#### Personnel Development

We support each employee's desire for growth through a development-oriented support system and help them achieve their career plans through ongoing skill development and performance opportunities.

### Safety and Health Basic Policy

1. We aim to achieve zero work-related accidents, and advance comprehensive and systematic safety measures.
2. We promote the formation of a comfortable workplace environment, while securing employee safety and health.
3. We comply with all related laws and operating procedures, and create workplaces with clear lines of responsibility concerning occupational safety, traffic safety, occupational health, as well as safety and disaster prevention.

### Priority Initiative 1 Workplaces for Women's Participation and Advancement

**It is no exaggeration to say that the diversity of our personnel is what has allowed the Group to achieve multifaceted business development and dramatic growth. In order to continue to be a company that is indispensable to industry and people's lives and to continue to grow, we will establish workplace conditions that facilitate women's greater participation and advancement and thereby further strengthen diversity.**

### Women's Participation and Advancement Promotion Project

The Women's Participation and Advancement Promotion Project was launched in November 2016, with CEO Masahiro Toyoda as the chief officer and Director Yukiko Sakamoto (outside director) as special advisor, in order to further develop a corporate culture and workplace conditions that enable women to work with energy and a sense of purpose at the Air Water Group. The project's activities are directed at creating a corporate culture, establishing related programs and helping advance careers, and its main policies for this are divided into six categories: improving the workplace culture, actively hiring women, supporting women's career

development, actively promoting motivated women, realizing work-life balance, and supporting continued employment.

The Women's Subcommittee made up of female employees and the labor union meets at least once every two months to promote initiatives through discussions of specific proposals and presentations of them to the Project Committee, where subcommittee members are joined by managers from each internal company. Proposals compiled by the Project Committee are then deliberated on at the meeting of the chairman and internal company heads held once each quarter and overall company initiatives are determined.

Based on the proposals of the Project Committee, we instituted a flex-time program and extended the period for the short working hours program effective April 2017, enhanced programs related to job transfer to facilitate continued employment, instituted a job return program, and set up a consultation desk for consultations on these programs and to gather feedback on the project.

We also established the Visionary Life Seminar for women employees to facilitate further thinking on personal ideals and an individual career development program for women and young employees. Moreover, we intend to lay additional groundwork for the participation and advancement of diverse personnel through such measures as reforming programs for the continued development of part-time staff members.



At a meeting of the Project Committee



At the Visionary Life Seminar

## Priority Initiative 2 Work Style Reform

**Overwork as the cause of brain and heart diseases, psychological disorders, and accidents and disasters has been focused on in recent years as a very serious social issue. Air Water promotes a range of initiatives for more efficient and effective ways of working, with priority initiatives at the Group level of ensuring appropriate working times and management of working times, fully implementing health management measures, and promoting effective Health Committee activities.**

### “Merihari 20” (on-off 20) Activities to Improve Work Methods

The Air Water Head Office began promoting “Merihari 20” activities in July 2015 as a joint labor-management project with the goal of making 8:00 p.m. the work-end time at its business offices. All employees from each division and department participate in achieving the goal by combining their wisdom, gaining an understanding of one another, and cooperating and coordinating to work more efficiently and effectively. Since April 2017, activities have been carried out under the name “Merihari 20 NEXT.”



At a “Merihari 20” meeting

### Upgrading the Attendance Management System

Air Water strengthened the management functions of its attendance management system in September 2016 to appropriately adjust working hours and working hours management. For example, when an employee’s monthly overtime reaches a certain number of hours, there is a function for sending an alert email to the person and his or her manager. Such changes are intended to make further appropriate adjustments to working hours and improve working hours management.

### Support for Balancing Work and Nursing Care

In order to promote continued employment by employees providing nursing care to family members, Air Water has instituted various support programs related to working hours, including nursing care leave, vacation days and a flex-time program.

Further, in a joint labor-management initiative from January to February 2017, we conducted a survey to grasp the nursing care situation of employees and their knowledge of company programs, nursing care insurance and other related items. Going forward, we will work to further develop employment conditions in line with Air Water’s characteristics that help employees balance nursing care and job responsibilities.

### Harassment Prevention Guidelines

Harassment at the workplace is socially sanctioned conduct that improperly impinges on the personal dignity of an employee. In addition, such conduct prevents employees from fully demonstrating their abilities and further can significantly threaten continued employment. Moreover, harassment disrupts workplace order, hinders administration and can also adversely affect a company’s reputation in society—it is a very serious issue.

Air Water has always stipulated in its labor agreements, employment rules and Code of Ethical Conduct that harassment is absolutely prohibited and that no employee may engage in it. In fiscal 2016, in order to further solidify this prohibition, we formulated new workplace harassment prevention guidelines in connection with maternity and childcare leave, nursing care leave and other such programs. We will further enhance knowledge and responsiveness in connection with harassment, even more thoroughly ensure that harassment is not perpetrated, ordered, permitted or overlooked, and further develop safe and pleasant workplace environments defined by mutual respect by all employees.

### Mental Healthcare Initiatives

A stress check program is among Air Water’s comprehensive initiatives for employee mental health care, which we conduct on a planned, ongoing basis.

The stress check program is intended to prevent mental health issues before they can occur by having employees understand their own stress levels and use that knowledge in caring for themselves and by enabling the company to grasp the state of the workplace and use this information to create more pleasant working conditions. In fiscal 2016, stress checks were conducted in November by an outside specialist organization. The results are conveyed directly by the organization to the person involved, and employees are also able to consult with specialists via an outside consultation desk that does not go through the company. In addition, when submitting a request to the company, employees are able to talk with an industrial physician or other specialist and receive instruction.

We intend to continue improving the workplace environment based on the findings of stress check analysis.

## Personnel Development

To further raise organizational capacities through the active participation of diverse personnel, Air Water conducts personnel development based on the ideal of a company where each employee amply demonstrates his or her abilities with energy and a sense of purpose.

The education and training program includes level-specific training based on roles and positions, theme-based training on organizational management, specific businesses and other topics, and career-support training to enhance the autonomous career-development capacities of employees. In addition, through correspondence courses and a scholarship program for acquiring professional certifications, we support the self- and skill-development efforts of employees.

In fiscal 2017, we are actively conducting personnel development based on the view that the education of young employees and the active participation of women are a key source of organizational growth.

## Making the Best Use of Global Personnel

Air Water Vietnam is a liquefied gas manufacturing site in the Air Water Group. It manufactures and sells liquefied gas, develops the cylinder business and sells gas-related equipment and materials. As a Vietnamese manager, Mr. Tung handles personnel and general affairs and also manages the sales division while utilizing his extensive personal network.

"The reason I joined the company was because I thought, compared to local companies, it offered a good work environment in terms of working hours, compensation and other benefits and would be a rewarding place to work for the long term. Japan and Vietnam are different culturally and misunderstandings can arise. I myself went through culture shock at first. But if you can simply accept the differences, work actually often proceeds very smoothly. Part of my job is 'translating' these cultural differences between the Japanese staff, Vietnamese employees and customers."



**Nguyen Khac Tung**  
Air Water Vietnam Co., Ltd.  
Business Development  
Assistant Manager

## Relationship with the Labor Union

Air Water believes that relationship between labor and management is like the wheels of a vehicle. We strive to establish a firm collaborative relationship that always advances in the right direction through mutually exchanging frank opinions while respecting each other's positions and maintaining a certain distance.

In fiscal 2016, we revised our wage tables based on consideration of economic trends and other factors by the wage committee together with the labor union. Additionally, based on an agreement with the labor union, we established the Women's Participation and Advancement Promotion Project, revised childcare and nursing care leave programs, and agreed to institute polices in fiscal 2017 to promote work style reforms.

## Safety and Health Structure

Air Water has established a Central Safety and Health Committee structure to secure workplace safety and health. The Central Safety and Health Committee meets on a regular basis under the Safety and Health Management Headquarters Director.

To help enhance safety awareness among employees and provide motivation, the Company gives awards at the end of every fiscal year to Air Water business locations and Group companies with a five straight year record of zero accidents or injuries.

The minutes of Central Safety and Health Committee meetings are disclosed internally using corporate networks for information sharing.

### Safety and Health Structure Chart



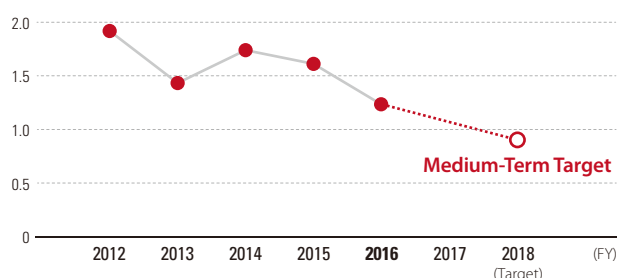
## Industrial Accident Statistics

At the Air Water Group in fiscal 2016, there were 51 cases of accidents involving days away from work, a decrease of three cases compared to the previous year. The frequency rate of accidents involving days away from work\* was 1.23, also a decrease from the previous year (1.61). In fiscal 2017 as well, we are conducting initiatives with a medium-term target of 0.90 or lower for the frequency rate.

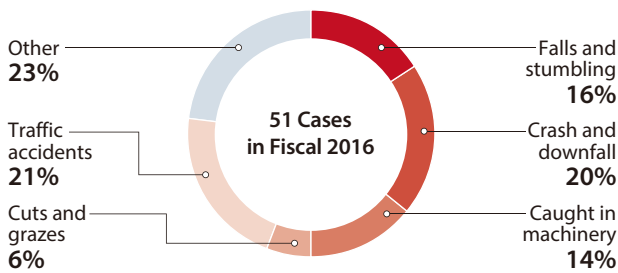
Regarding a breakdown of accidents in fiscal 2016, many of the accidents involved "Falls and stumbling" or "Crash and downfall," and combined with "Caught in machinery," these accidents accounted for about 50% of the total. Traffic accidents increased from the previous year to account for around 20% of the total.

\* Frequency rate of accidents for the cases with days away from work is an indicator for the frequency of industrial accidents. It is a rate expressed by the number of people encountering an accident per one million total working hours. Taking into consideration the types of business as well as the number and composition of employees, the Air Water Group has set the medium-term target of the frequency rate of accidents for the cases with days away from work as 0.90 or below, for the period fiscal 2016 to fiscal 2018.

### Frequency Rate of Accidents for the Cases with Days Away from Work



## Breakdown of the Cases with Days Away From Work



## Initiatives to Reduce Work-Related Accidents

Air Water has conducted activities to eradicate falling-related accidents since fiscal 2015 as a priority health and safety initiative. In fiscal 2016, we reinforced measures to prevent crashes. In addition, to reduce work-related accidents caused by human error, we conducted new measures to prevent human error.

We put up posters on preventing accidents from falls and crashes in places with the potential for such accidents to occur, conduct workplace patrols using check sheets for preventing fall and crash accidents, routinization of hazard prediction activities, and other objectives, promote “4S” (Sort, Set in Order, Shine, Standardize) activities, and work to make visible hazard areas. In this way we are working through various activities to fully raise awareness at the workplace.

## Safety Slogans

On the occasion of “National Safety Week,” which is held every July, Air Water solicits “safety slogan” proposals from all employees, including employees at Group companies, in order to raise awareness of safety.

This contest provides a good opportunity for employees to think about safety at work and at home, and in fiscal 2016, there were 6,115 proposals.

An award is given for the best entry, and the slogan is displayed on posters in each workplace. In addition, the company with the highest entry rate and the company that provided the largest number of proposals are given awards for company excellence in safety and health in the Group, with the aim to recommend company-wide positive activities.



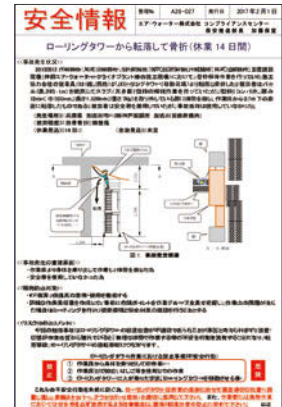
Safety slogan poster (FY2016)

## Sharing Safety Information

Air Water distributes “Safety Information,” which includes information such as on the accidents that occurred within the Group and to promote activities for occupational safety and health at each workplace, through the corporate network.

An incident resulting in lost worktime is often a trigger for a major, more serious accident. Accordingly, we immediately carry out risk analysis of an incident and document the direct causes and the countermeasures for recurrence prevention. The information is disseminated throughout the Group.

The sharing of information and its infiltration into employees increase awareness about the working environment and promote the horizontal spread of the workplace improvement activities, thus leading to prevention of similar accidents. The publication was issued 29 times in fiscal 2016.



Safety Information

## Safety Training

Air Water conducts various training programs related to safety. In fiscal 2016, we conducted safety staff training with the Group’s staff members in charge of safety and health as well as technical training on high-pressure gas safety for employees who work with high-pressure gas.

Training was also held on causes of accidents that have tended to occur frequently in the Group, including on preventing falls and crashes and on preventing getting pinched or caught. Other training included basic training on risk assessment to reduce physical risks connected with neglecting hazardous work spaces or deficiencies in machinery or equipment, training on preventing human error to reduce human risk associated with unsafe activities, and training on risk assessment for chemical materials, which was targeted at Group sites that manufacture or handle chemical substances for which management is mandated under the Industrial Safety and Health Act.

We also conduct experiential safety-awareness training for frontline workers to deepen their knowledge of safety and facilitate experiential understanding of latent hazards at the workplace to reduce the potential for accidents.



Safety-awareness training (experiencing a static electricity explosion)

## Shareholder and Investor Relations

**We actively communicate with shareholders and investors to help deepen their understanding of our businesses and strategies and also work to build trust on a stable, long-term basis by returning profits to shareholders in line with performance.**

### Communication with Investors and Shareholders

Air Water strives to disclose appropriate information in a timely manner and to proactively communicate with shareholders and investors through providing company information on our website and in publications, holding the general meeting of shareholders, and conducting IR activities in Japan, among other activities, in order to build stable, long-term, trust-based relationships and provide them with a correct understanding of our distinctive strategies and business model.

For shareholders, we create shareholder reports twice a year that seek to provide a



On a tour at Air Water Farm Co., Ltd.

clear presentation of our business activities and performance. For institutional investors and analysis, we give tours of the Group's facilities and plants in each region, hold earnings briefings each quarter via teleconferencing and also arrange individual meetings in order to further deepen understanding of Air Water.

### Basic Policy on Shareholder Returns

Air Water works to strengthen its operating base to increase corporate value on a sustained basis and at the same time has positioned returning profits to shareholders as one of the most important tasks of management.

For this reason, our basic policy on dividend of surplus is to pay a stable dividend in line with performance into the future, with a target payout ratio of 30% of consolidated net income, while maintaining adequate focus on enhancing internal reserves necessary for strategic investment and other measures to achieve growth over the medium-to-long term.

## Supplier Relations

**For the continued growth of its business, Air Water strives to comply with laws and observe agreements with customers, suppliers and other parties, and to maintain and improve our trusting relationship with our stakeholders.**

**The Company promotes fair business practices and would like to grow together with its stakeholders.**

### Purchasing Approach

Air Water has established its purchasing approach in the purchasing management regulations as follows.

- Air Water selects its suppliers based on a comprehensive evaluation rooted in economic rationality. Selection is made without regard to nationality, location, or size of business, and new entrants are always given a fair and impartial opportunity to participate.
- In conducting its purchasing activities, Air Water considers conservation of resources and environmental protection. In addition, the Company ensures that related laws as well as its regulations and circulars are fully understood and observed.

### Fair Dealings

#### Compliance Training Seminars

Air Water regards maintaining and developing good relations with suppliers based on fair dealings as an important task of management and also understands this to be an important pillar of compliance.

In fiscal 2016, compliance training seminars focused on compliance with antimonopoly law were held in Osaka, Tokyo and Sapporo and attended by employees from Head Office administrative divisions and Group companies.

The training was held in line with the Compliance Handbook distributed to all Group employees served to broadly communicate the importance of compliance, starting with antimonopoly law.



# Community Relations

The Air Water Group has eight Regional Business Companies throughout the country and more than 240 various Group companies. It is essential for these companies to be trusted by local communities, in order to be closely tied to local communities and pursue businesses rooted in local communities. Each company is striving to become a trusted presence as a member of the local community.

## Initiatives in the Hokkaido Region

### Factory Tours for Community and Agricultural Group Members

The Group has given tours of its manufacturing facilities to agricultural professionals in Ashoro-cho, Hokkaido since 1990, in part to promote its products. More recently, the tours have been held for around 20 to 30 groups per year, including agricultural cooperatives and other groups, local elementary schools, agricultural high schools, regular companies, and overseas agricultural groups involved with the JICA and other organizations.

The tour covers production processes, product explanations with demonstrations, a PR video and information on 5S\* activities and other initiatives.

Factory tours are an invaluable opportunity for hearing the opinions of many people, and going forward we intend to continue the tours as a way of engaging the community and providing helpful information to the various groups that take the tours.

\* 5S refers to Sort, Set in Order, Sanitation, Standardize and Sustain.



On a factory tour at Nichinoki Seiko Co., Ltd.

### River Beautification Activities

The Air Water Sapporo office cleans up trash along the walkways and banks of the Sosei River, which runs in front of its office building. The building is located in downtown Sapporo where large numbers of people and cars come and go. In the spring when the winter snow melts, it uncovers trash that had been hidden underneath. This activity came out of conversations on ways of contributing to the community, and the office picks up litter and trash every year in April with the participation of around 50 people. The city has been seeing many more visitors in recent years, not only from Japan but also from overseas, so we intend to continue the activities in part to maintain Hokkaido and Sapporo's reputation for cleanliness.



At the river cleanup

## Initiatives in the Koshinetsu Region

### Agreement with Matsumoto City on Extending the Healthy Lifespan

Air Water has concluded an agreement with Matsumoto City on collaborating to make the city into one that extends people's healthy lifespan for the purpose of conducting initiatives to energize the regional economy and further improve citizen services.

We are carrying out activities to address the ultra-low birthrate and declining population, including training nursing care personnel at nursing care centers being developed by Matsumoto City, providing mobile power supply vehicles that generate LP gas in earthquakes and other large-scale disasters, and conducting retail sales of Matsumoto "Ippon" green onions, a traditional vegetable of the Shinshu region.

Based on this agreement, we plan to contribute even more to the local community in the form of regional economic vitalization and realizing sustainable community development through creating employment and other means.



At the press conference for the agreement

## Initiatives in the Kyushu Region

### Cooperation in Food Bank Tamana

Food Bank Tamana is a program to provide food that cannot be sold but has no quality problems that has been donated by companies and other organizations to Tamana City to people in need of food both now and in the future. The donated food is provided free of charge as a food safety net.

The Group specifically donates seaweed and rice seasoning products. We will continue to engage in social contribution activities as a local company by using the food bank system to help raise the spirits of the region.



Nihonkaisui Co., Ltd. donating products to Food Bank Tamana at its Kumamoto plant

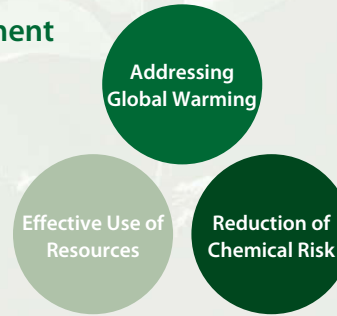
# Environmental Management

The Air Water Group is engaged in a business that uses resources of the earth, including air and water. As such, the Group believes that activities to preserve the global environment are essential for the sustainable growth of companies. On the basis of this idea, we identified major issues related to the environment and established the Environmental Basic Policy, and the entire Group is pursuing environmental management.

## Air Water Group's Major Issues Related to the Environment

Among issues related to sustainability, the Air Water Group has identified global warming countermeasures, effective use of resources, and reduction of chemical risk as major issues related to the environment and is actively working to address them.

These major issues are indicated in the international standard "ISO 26000:2010 Guidance on social responsibility" as issues that need to be addressed by the organization as a whole, and we regard this process as indispensable to the sustained development of the Air Water Group.



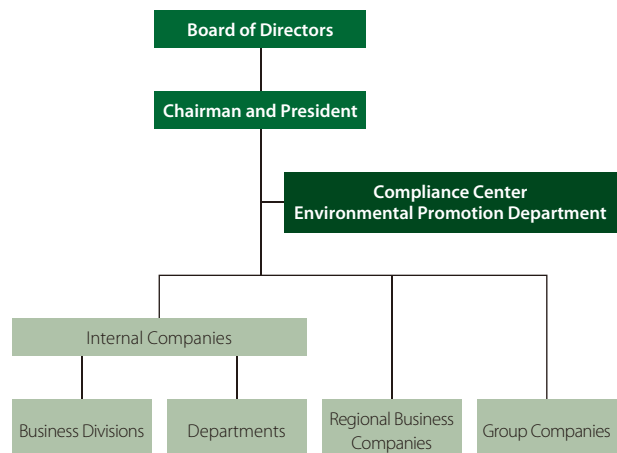
### Air Water Group Environmental Basic Policy

- ① We work on prevention of environmental pollution, global warming countermeasures (mitigation and adaptation of climate change), effective use of resources, and reduction of chemical risk in all our business activities from research and development to production, sales, logistics, and service.
- ② We research and examine the impact on the environment resulting from our business activities, establish technically and economically feasible goals for reducing environmental load, and promote environmental conservation activities. Also at the same time, we continually try to improve our environmental management system.
- ③ We comply with environmental laws and regulations, establish voluntary standards as necessary, and work for environmental conservation.
- ④ We select resources (facilities, raw materials, subsidiary materials, components, etc.) required for business activities that satisfy technological and economic demands, but which also have a small environmental impact and little negative affect on local residents and employees.
- ⑤ Our research and development work gives consideration to the environment, safety and quality, and provides products, goods and technology development that contribute to the environment.
- ⑥ We promote acquisition of the ISO 14001 international standards for environmental management systems, and arrange structures for implementing our Environmental Basic Policy.
- ⑦ We use internal publicity and other activities to boost all employees' understanding and awareness of the Air Water Group Environmental Basic Policy. We disclose this Environmental Basic Policy to the general public.

## Environmental Management Structure

The Air Water Group's environmental activities are led by the representative director, who serves as chief environmental officer. As a part of these activities, the Group's Environmental Management Promotion Department of the Compliance Center, which provides guidance on compliance with environmental laws and regulations at workplaces and Group companies, promotes activities to reduce environmental load, and supports the activities to obtain and maintain ISO 14001 certification.

### Air Water Group Environmental Management Structure



## Efforts on Environmental Management Systems

The Air Water Group has acquired ISO 14001 environmental management system certification primarily for companies within the Group with a high environmental load. Certification has now been obtained for 22 organizations.

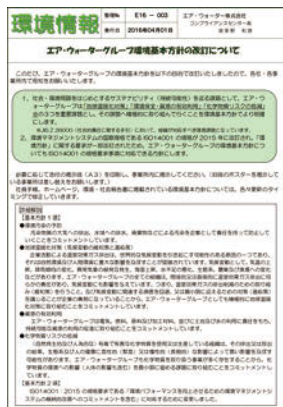
## Environmental Risk Management

### Publication of Environmental Information

The Air Water Group publishes Environmental Information to provide information, such as information on amendments to environmental laws and regulations and environmental conservation efforts by other companies for workplaces and Group companies.

In fiscal 2016, seven issues were published with information on revisions to the Air Water Group Environmental Basic Policy, compliance with the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc., and other key topics.

Sharing information throughout the Group helps reduce environmental risk.



Environmental information

### Environmental Audits

Air Water conducts environmental audits to guide environmental preservation activities and compliance with environmental laws and regulations. Audits are conducted according to set schedules and based on the degree of environmental load at each manufacturing plant, whether ISO 14001 certification has been acquired, the findings of past environmental audits, and other factors.

In fiscal 2016, environmental audits were conducted in 33 business establishments. Two of these audits were of companies licensed to collect and transport industrial waste.



Environmental audit

## Training for Environmental Management Personnel

### Environment Management Staff Training Session

The Air Water Group holds workshops for educating personnel at workplaces and Group companies about environmental activities and so on.

In fiscal 2016, given the changes to the ISO 14001 standard in 2015, training was conducted on revising the Environmental Management Manual for conformance with ISO 14001:2015 for business sites and Group companies with ISO 14001 certification. Training was held by outside instructions on the ISO standard generally and how to revise the manual for conformance with it, and discussions were also held based on presentations of examples of ISO 14001 activities within the Group.



At the Environment Management Staff Training Session

### ISO 14001 Internal Auditor Seminar

Air Water conducts training seminars every year for internal auditors from organizations and Group companies that have acquired ISO 14001 certification.

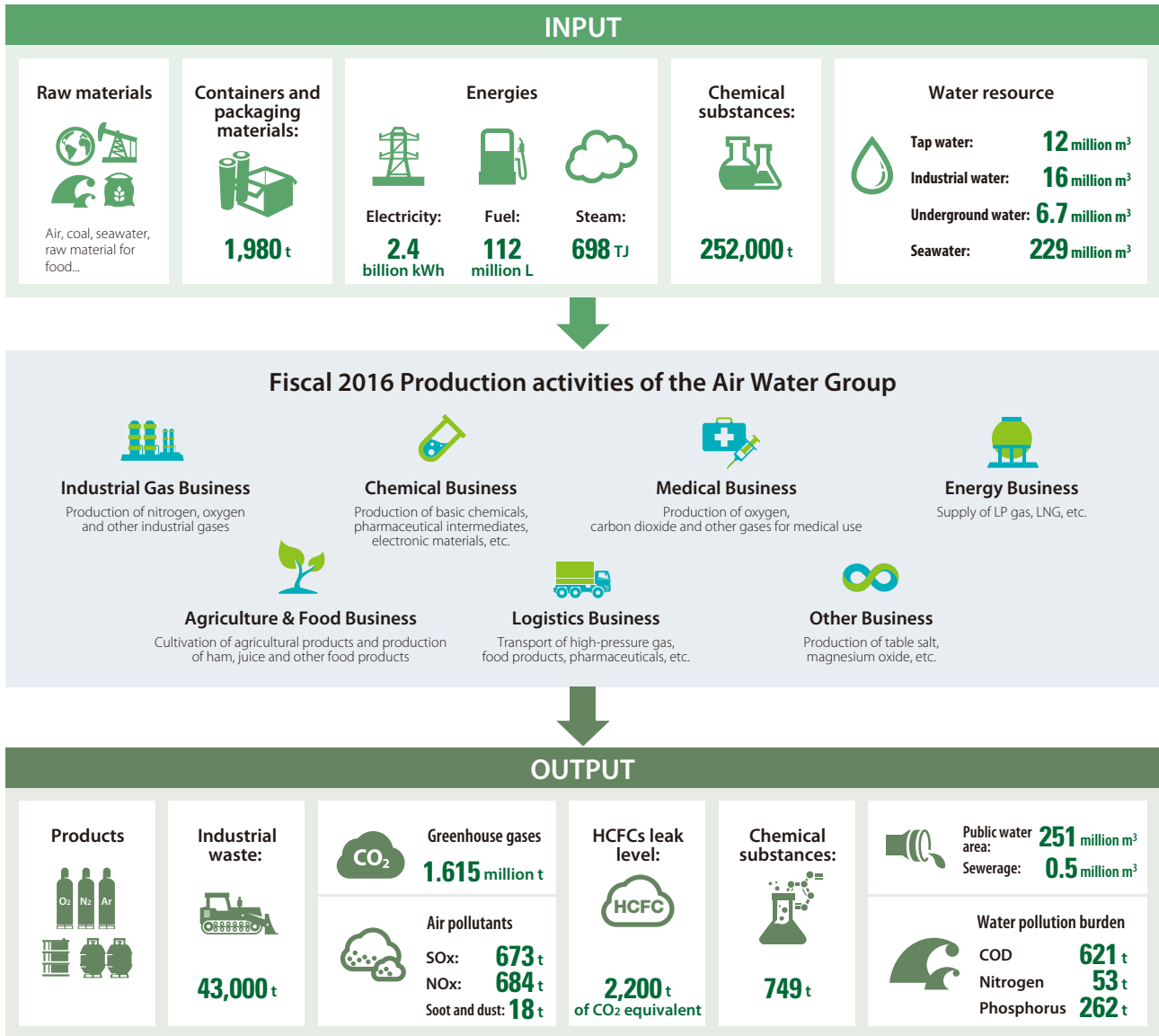
In fiscal 2016, in light of revisions to the ISO 14001 standard, transition training seminars for conforming with ISO 14001:2015 for personnel certified as internal auditors under the previous standard were conducted in three locations around the country (Hokkaido, Tokyo and Osaka).



At the transition training seminar for internal auditors

## Materials Balance (Overall Picture of the Environmental Impact)

Providing customers with safe and secure products created from the earth's resources such as air and water, and returning them to nature after they have been used—The Air Water Group's work is intimately related to the earth, and we therefore promote reductions to our environmental load by tracking inputs like resources and energy and outputs like products and waste at our major manufacturing facilities.



### Scope of collection of environmental performance data

Air Water Inc. and 32 Group companies\* which have a high environmental load (33 companies in total)

\* Companies which are specified business operators under the Energy Conservation Act, businesses discharging a vast quantity of industrial waste, companies under the Law Concerning the Improvement of Pollution Prevention Systems, and companies that release and transfer to the environment 1 ton or more of Class I Designated Chemical Substances under the Pollutant Release and Transfer Register Act

#### ■ 32 Group companies

**Industrial Gas Business:** Air Water Carbonic Inc., Air Water Bellpearl Inc., Shinko airTech Ltd., NCSS Air Water Inc., Matsuyama Oxygen, Inc., Sagami-hara Ekisan Co., Ltd., Shizuoka Ekisan Co., Ltd., Shinano Ekisan Co., Ltd., Tokai Ekisan Co., Ltd., Niigata Ekisan Co., Ltd., Fukushima Ekisan Co., Ltd., Tomakomai Kyodo Oxygen Co., Ltd.

**Chemical Business:** Kawasaki Kasei Chemicals Ltd., Sun Chemical Co., Ltd.

**Medical Business:** Air Water Safety Service Inc., Saito Medical Industries Inc.

**Agriculture/Food Product Business:** Air Water Tokachi Foods Co., Ltd., Air Water Farm Agricultural Production Corporation, Gold Pak Co., Ltd., Saveur SS Inc., Daisen Ham Co., Ltd., Tomiichi Co., Ltd., Plecia Co., Ltd.

**Logistics Business:** Air Water Specialized Transportation Inc.

**Other Businesses:** Air Water NV Inc., Air Water SOL Inc., Air Water MACH Inc., Tateho Chemical Industries Co., Ltd., Nihonkaisui Co., Ltd.

**Regional Business Companies:** Kinki Air Water Inc., Chuushikoku Air Water Inc., Kyushu Air Water Inc.

Material Balance: 69 domestic plants of 33 companies in the left column

#### Measures to address global warming (P. 28)

- Measures at plants and offices: 25 specified business operators under the Energy Conservation Act
- Measures in the transportation field: efforts as a freight consigner: 2 specified consigners under the Energy Conservation Act efforts as a transportation business: 1 specified carrier under the Energy Conservation Act

#### Effective use of resources (P. 30)

- Amount of industrial waste discharge: intended plants for material balance
- Food recycling: 4 businesses discharging a vast quantity of food waste under the Food Recycling Law
- Container and packaging recycling: 10 companies that are "specified container users" and "specified packaging users" under the Containers and Packaging Recycling Act

#### Reduction of chemical substance risk (P. 31)

- Production volume and import volume of chemical substances: 4 companies subject to the notification under the PRTR Act.
- Release amount and transfer amount of chemical substances to the environment: intended plants for material balance
- Management of PCB waste and products using PCB: 4 companies that are "storage companies" or "ownership companies" under the PCB Treatment Special Measures Act

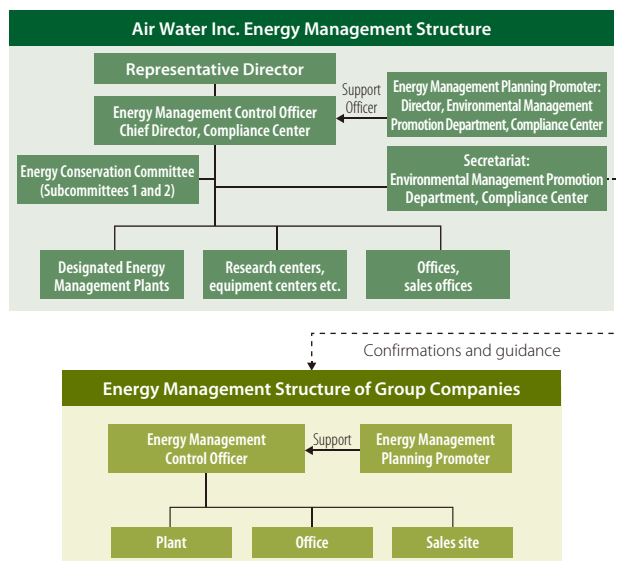
# Addressing Global Warming

The Air Water Group uses a great deal of energy for its business activities. As a Specified Business Operator under the Energy Conservation Act, the Company is working to track energy use accurately and conserve energy in all its operations, including not only plants, but also offices and research facilities.

## Energy Management Structure

As a Specified Business Operator under the Energy Conservation Act, Air Water has established an environmental management structure with the Compliance Center Manager acting as the Energy Management Control Officer. This has included establishing the Energy Conservation Committee Subcommittee 1, which is made up of production plants with high levels of energy use, and Energy Conservation Committee Subcommittee 2, which is made up of plants and business sites with relatively low levels of energy consumption. Meetings are held regularly to consider issues related to compliance with the Energy Saving Act, exchange information on energy conservation, and take up other related matters.

In addition, at Group companies, environmental audits are conducted to verify energy management structures and provide instruction.



## Award for Excellence in Energy Conservation

Air Water honors Group companies and businesses that have demonstrated excellence in energy conservation activities. The program is intended to further raise the motivation of companies and sites while further promoting energy conservation activities. In fiscal 2016, Air Water Farm Co., Ltd. and the Ako Plant of Nihonkaisui Co., Ltd. received the award.



Air Water Farm Co., Ltd.



Nihonkaisui Co., Ltd. Ako Plant

## Information Liaison Conference of Energy Management Staff

Air Water holds the Information Liaison Conference of Energy Management Staff for Group companies designated as a specified business under the Act on Rationalizing Energy Use.

There were talks by outside instructors as well as discussions on energy conservation at the Group based on presentations of example activities.



At the Information Liaison Conference of Energy Management Staff

## Nihonkaisui Receives Environment Minister's Award for Global Warming Prevention Activity

Group company Nihonkaisui received the fiscal 2016 Environment Minister's Award for Global Warming Prevention Activity (Introduction of Progressive Technologies Category).

Nihonkaisui's Ako Plant introduced an integrated cogeneration power system that uses both natural gas and woody biomass. Energy efficiency is raised by using the electricity and steam at salt manufacturing facilities while also selling electricity and excess steam to outside parties.

The company received the award for its collaboration with forestry companies to make use of forest thinnings and for reducing CO<sub>2</sub> emissions by 170,000 tons.



At the awards ceremony

## Efforts by Plants and Offices

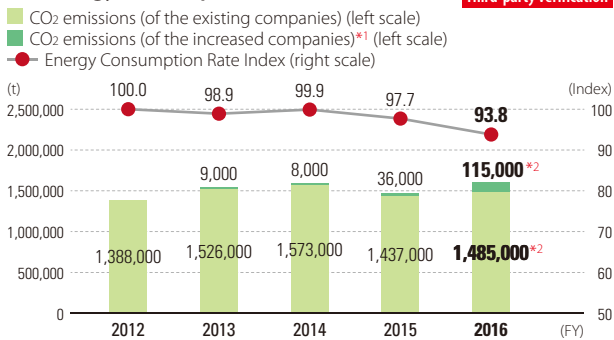
In the Air Water Group, presently 25 companies are designated as Specified Business Operators under the Energy Saving Act, which work on energy conservation and CO<sub>2</sub> reduction.

In the Evaluation System by Business Operator Class that went into operation under the Energy Saving Act in fiscal 2016, the Group has eight S Class (Superior Business Operator) companies\*.

\* Evaluation based on fiscal 2016 results.

### Air Water Group

#### Changes in CO<sub>2</sub> Emissions regarding Energy Consumption (t) and Energy Consumption Rate Index



\*1 The base year is 2012 and the scope is companies increased due to M&A and designation of Specified Business Operators.

Note: CO<sub>2</sub> emissions from purchased power are calculated based on the emissions factors of each electric power provider and is impacted by changes in emissions factors each year.

\*2 CO<sub>2</sub> emissions for fiscal 2016 have been verified by Japan Quality Assurance Organization (JQA).

### Mid- to Long-Term Goals of Addressing Global Warming (energy conservation)

Goal	Results	Evaluation	Causes of the Differences
Reduce energy consumption rate by an average rate of at least 1% per year over the mid- to long-term (over the past five fiscal years)	Annual average reduction of 1.6% over the past 5 fiscal years	✓	<ul style="list-style-type: none"> <li>Improved rate from increased gas supply volume in the industrial gas business and upgrading to high-efficiency plant facilities</li> <li>Improved rate from fuel conversion in connection with upgrading internal power generation facilities in the seawater business</li> </ul>

### Fiscal Year Goals of Addressing Global Warming (energy conservation)

Goal	Results	Evaluation	Causes of the Differences
Reduce energy consumption rate compared with the previous fiscal year	Reduction of 4.0% compared with FY2015	✓	<ul style="list-style-type: none"> <li>Improved rate from increased gas supply volume in the industrial gas business and upgrading to high-efficiency plant facilities</li> <li>Improved rate from fuel conversion in connection with upgrading internal power generation facilities in the seawater business</li> </ul>

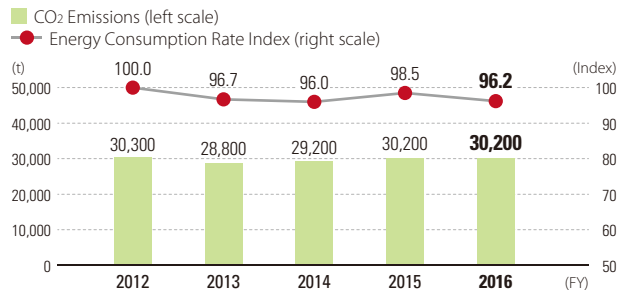
Evaluation: ✓ Goal achieved ○ Close to goal × Far from goal

## Transportation Field Effort

### Efforts as a Freight Consigner

As a freight consigner, the Air Water Group promotes energy conservation and CO<sub>2</sub> reduction in collaboration with transportation companies.

### Consigned Transport CO<sub>2</sub> Emissions (t) and Energy Consumption Rate Index



### Mid- to Long-Term Goals of Addressing Global Warming (energy conservation)

Goal	Results	Evaluation	Causes of the Differences
Reduce energy consumption rate by an average rate of at least 1% per year over the mid- to long-term (over the past five fiscal years)	Annual average reduction of 1.0% over the past 5 fiscal years	✓	<ul style="list-style-type: none"> <li>Conducted efficient transport in the industrial gas business by establishing new small-scale manufacturing facilities for liquefied oxygen and nitrogen</li> <li>Improved rate from reduced transport frequency in seawater business from loading trucks and ships to capacity for land and marine transport</li> </ul>

### Fiscal Year Goals of Addressing Global Warming (energy conservation)

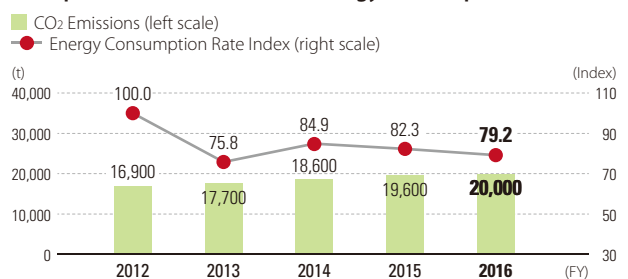
Goal	Results	Evaluation	Causes of the Differences
Reduce energy consumption rate compared with the previous fiscal year	Reduction of 2.3% compared with FY2015	✓	<ul style="list-style-type: none"> <li>Conducted efficient transport in the industrial gas business by establishing new small-scale manufacturing facilities for liquefied oxygen and nitrogen</li> <li>Improved rate from modal shift and larger trucks in seawater business</li> </ul>

Evaluation: ✓ Goal achieved ○ Close to goal × Far from goal

### Initiatives Befitting an Innovative Transportation Business

Air Water Specialized Transportation Inc., which manages transportation mainly in the Hokkaido area, promotes energy conservation and CO<sub>2</sub> reduction as a freight carrier.

### Transport CO<sub>2</sub> Emissions (t) and Energy Consumption Rate Index



### Mid- to Long-Term Goals of Addressing Global Warming (energy conservation)

Goal	Results	Evaluation	Causes of the Differences
Reduce energy consumption rate by an average rate of at least 1% per year over the mid- to long-term (over the past five fiscal years)	Annual average reduction of 5.7% over the past 5 fiscal years	✓	<ul style="list-style-type: none"> <li>Increased rate from energy efficiency measures</li> <li>Introduction of fuel-efficient vehicles and implementation of eco-driving</li> <li>Implementation of modal shift</li> </ul>

### Fiscal Year Goals of Addressing Global Warming (energy conservation)

Goal	Results	Evaluation	Causes of the Differences
Reduce energy consumption rate compared with the previous fiscal year	Reduction of 3.8% compared with FY2015	✓	<ul style="list-style-type: none"> <li>Improved rate from energy efficiency measures</li> <li>Introduction of fuel-efficient vehicles and implementation of eco-driving</li> <li>Implementation of modal shift</li> </ul>

Evaluation: ✓ Goal achieved ○ Close to goal × Far from goal

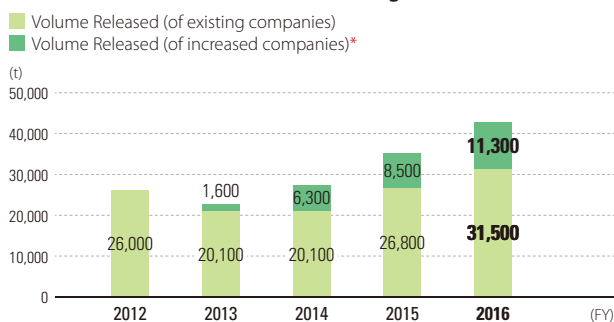
# Efficient Use of Resources

The Air Water Group works to use resources efficiently by reducing industrial waste through 3R initiatives (reduce, reuse, recycle), recycling 99% or more of food product waste and other measures. In addition, we conduct appropriate contract disposal and report to regulatory authorities in conformance with the law.

## Discharge of Industrial Waste

The Air Water Group makes efforts to reduce waste through the practice of 3R (reduce, reuse and recycle), and properly monitors the amount of waste discharge. In addition we conduct appropriate disposal in accordance with the Waste Disposal Act, which includes contracting vendors certified by regulatory agencies.

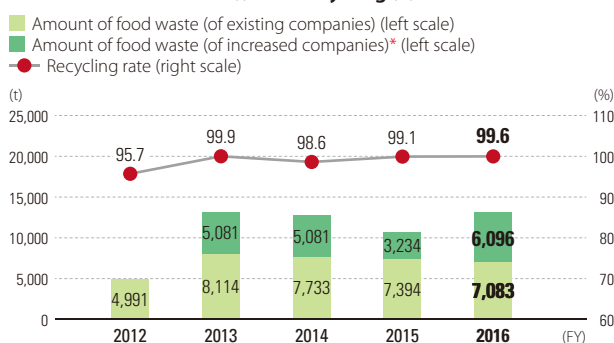
### The Amount of Industrial Waste Discharge (t)



## Food Recycle

The Air Water Group makes active efforts for reduction and recycle of food waste discharged from agriculture/food related plants, and has achieved over a 99% recycling rate. In addition, companies that generate a large volume of food product waste submit reports to the government in accordance with the Food Recycling Act.

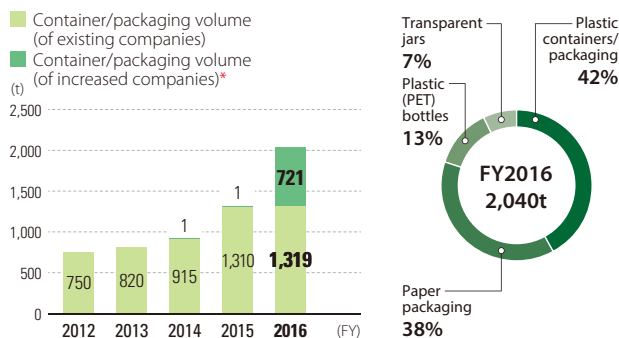
### Amount of Food Waste (t) and Recycling (%)



## Container and Packaging Recycling

Group companies that use containers and packaging work to reduce their weight and save resources by adjusting packaging materials, sizes and other items. In addition, we monitor and manage quantities used in product packaging in line with the Containers and Packaging Recycling Act and have concluded a service agreement for product recycling with The Japan Containers And Packaging Recycling Association.

### Container and Packaging Volume (t)



## Food Waste Recycling Initiatives

### Daisen Ham Yonago Plant

Group company Daisen Ham Co., Ltd. manufactures and sells ham, bacon, sausage and other products from Yonago City, Tottori Prefecture.

At the Yonago Plant, food waste like sliced ham scrap and tendons and bones removed from meat when it is processed is generated, but 100% of this waste is recycled. Of the total, 90% is turned into charcoal and used as an auxiliary fuel material, and the rest is converted to fertilizer.

The plant is also working to improve yields and reduce food waste volume through such measures as reducing sliced ham scrap.



**Fumio Murakami**  
 Plant Manager  
 Yonago Plant,  
 Daisen Ham Co., Ltd.

\* The base year is 2012 and the scope is companies increased due to M&A.

## Reduction of Chemical Risk

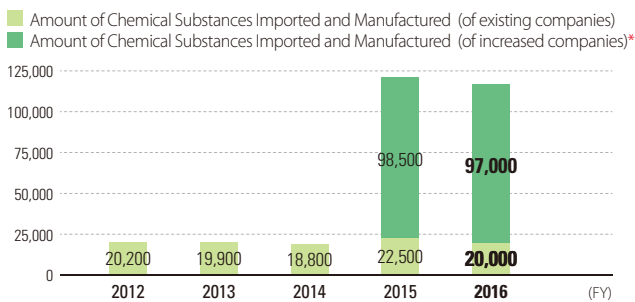
We appropriately monitor manufacturing, import and discharge volumes of chemical substances and work to raise management level by ensuring employees that handle chemicals have a proper understanding of related risks.

### Manufacturing and Import of Chemical Substances

The Air Water Group properly monitors the quantities of chemical substances manufactured and imported properly to control chemical risk.

Centering on the chemical business, the Group makes notifications of the quantities of chemical substances manufactured and imported in accordance with the "Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc." (Chemical Substances Control Law).

#### Amount of Chemical Substances Imported and Manufactured (t)

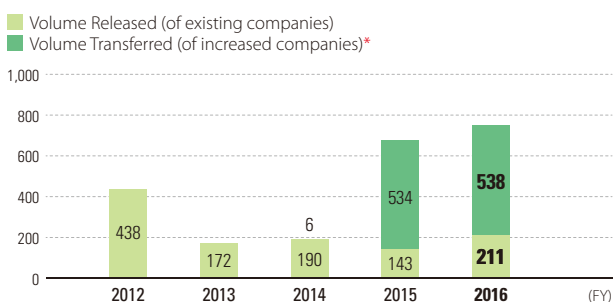


### Discharge and Transfer of Chemical Substances to Environment

The Air Water Group properly monitors the amounts of chemical substances handled, released to and transferred in the environment to provide information on the handling of chemical substances.

In accordance with the "Pollutant Release and Transfer Register (PRTR) Act" (PRTR system), the businesses that handle 1 ton or more of Class 1 designated chemical substances (PRTR substances) notify the national government of the amounts released and transferred.

#### Amount of PRTR Substances Released to and Transferred (t)



\* The amount has substantially increased since new group companies in the chemical business were added in the scope in fiscal 2015.

### Management of PCB Waste and Products Using PCB

The Air Water Group tracks types, quantities, storage conditions and other data for PCB waste and products using PCB and works to ensure that it is stored appropriately and disposed of by the deadlines established by the government.

#### Storage of PCB Waste and Products Using PCB [FY2016]

Plants with PCB waste or products using PCB	Location	Type of PCB waste	Type of product using PCB
Air Water Inc. Industrial Company Wanishi Plant	Hokkaido Muroran City	Stabilizers for fluorescent lighting	Transformers
Air Water Inc. Industrial Company Kashima Plant	Ibaraki Prefecture Kashima City	Stabilizers	High-voltage condensers, high-voltage transformers, reactors, discharge coils
Air Water Inc. Industrial Company Wakayama Plant	Wakayama Prefecture Wakayama City	Stabilizers for fluorescent lighting	
Air Water Inc. Industrial Company Kokura Plant	Fukuoka Prefecture Kitakyushu City	High-voltage circuit breakers	High-voltage transformers, low-voltage transformers
Air Water Inc. Chemical Company Kashima Plant	Ibaraki Prefecture Kashima City	Electrical devices with extremely low levels of PCB contaminants (low-voltage transformers), other contaminants	Transformers
Air Water Inc. Chemical Company Wakayama Plant	Wakayama Prefecture Wakayama City		Transformers
Nihonkaisui Co., Ltd. Ako Plant	Hyogo Prefecture Ako City	Stabilizers for fluorescent lighting	Transformers
Gold-Pak Co., Ltd. Aomori Plant	Aomori Prefecture Hirosaki City	Transformers, condensers	
Kawasaki Kasei Chemicals Ltd.	Kanagawa Prefecture Kawasaki City	High-voltage condensers, high-voltage transformers, sludge, stabilizers for fluorescent lighting, stabilizers for mercury lamps, other	

### Efforts for Chemical Risk Assessment

With amendments to the Industrial Safety and Health Act, chemical substance risk assessments became mandatory on June 1, 2016, and Air Water since fiscal 2015 has conducted chemicals risk assessment training for Group sites that manufacture or handle chemical substances.

The training covers risk assessment for preventing explosions and fire, which involves conducting risk assessments on the potential for explosions or fire to occur, and risk assessment for preventing health damage, which consists of conducting risk assessments on the potential of workers that handle chemical substances to sustain health damage.

Through the training we will ensure legal compliance and raise the safety of the Group's work environment.



# Environmental Businesses

The Air Water Group is actively involved in environmental businesses that contribute to the sustained development of society. As examples, the following summarizes our environmental analysis business, which includes analysis of air and water quality and has been developed for over 40 years, and development of an eco-construction material that makes use of underutilized resources.

## Environmental Analysis Business

Hokkaido Air Water Inc., one of the Group's regional business companies, is involved in the analysis business and has over 40 years experience in environmental analysis in particular, which began with registering environmental measurement business certification after changes to the Measurement Act in 1976.

In addition to environmental analysis, the company currently conducts a broad range of analysis work, including drinking water analysis, residual agricultural chemicals analysis, and food product analysis. Its analysis services are utilized in a wide variety of sectors, including manufacturing, hospitals, food products manufacturing and processing, agricultural cooperatives, and agricultural product distribution.

Hokkaido Air Water has sales reps certified in analysis at sites throughout Hokkaido. The sales reps are involved in industrial, medical, energy and other sectors and work to quickly respond to customer requests by conducting sampling and measurement on the site.

With Kankyo Kagaku Kenkyujo Co., Ltd. becoming a member of the Air Water Group in August 2016, we have expanded inspection items to include cryptosporidium (drinking water component) and Legionella pneumophila (bath water). Beginning in October, we also began contract analysis of food product nutrients (items required on nutritional labels).

Personnel from the analysis center in Sapporo are now stationed at satellite offices in Tomakomai and Muroran to more rapidly respond to the needs of more highly specialized customers. Going forward, we intend to expand this network of satellite offices to provide the same level of service in other regions of Hokkaido as well.



Taking measurements of a work environment

## ECOROCA Composite Wood-Plastic Material for Efficient Resource Use\*

ECOROCA is an eco-construction material that makes use of underutilized resources, including scrap wood and scrap plastic.

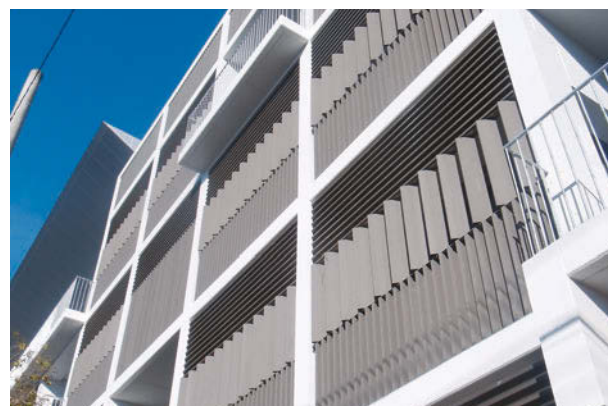
The product combines the superior features of both wood and plastic to provide a high level of durability and safety without the need for maintenance. It is used in decking, louvers, walls and other applications as an alternative to natural wood products. In addition, in recent years, applications have expanded to use as a civil engineering material in road work and other projects. In fiscal 2016, we increased transactions with overseas customers, providing the product for a shopping mall project in Barcelona, Spain.

In fiscal 2017, we began manufacturing a new series of decking material with reduced wood content as its main raw material and an alternative filler material. The material maintains an R90 rating, which means it contains recycled materials at a rate of 90% or higher.

Its mechanical strength is three times greater than conventional products and it swells only 1/4 as much, so it can be used in a wider range of applications, which has drawn the positive appraisal of customers. There is also a hybrid product developed over a number of years that combines an aluminum core and Ecoroca provides energy savings from its light-blocking characteristics, simplification of frame wall finishing, and improved design potential, and it has therefore been used in numerous applications.

Going forward, we plan to continue developing products using composite material technologies cultivated in turning underutilized resources into raw materials and continue to provide products suited to a sustainable society.

\* Ecoroca is manufactured and sold by Group company Air Water Ecoroca Inc.



A school with louvers made of Ecoroca

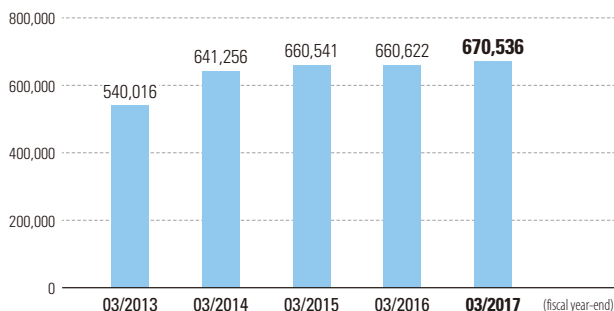
Note: For other environmental performance data, please refer to our website (Japanese version only) (<http://www.awi.co.jp/csr/>).

## Corporate Profile (as of March 31, 2017)

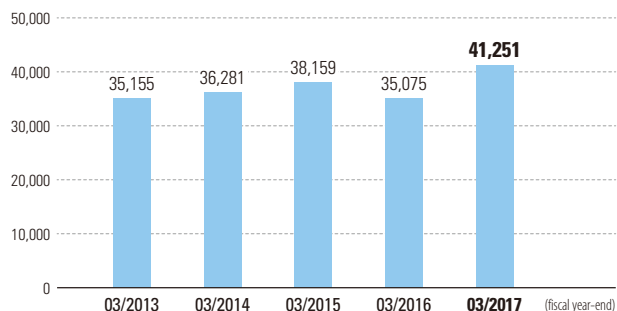
**Company Name:** Air Water Inc.  
**Head Office Address:** 12-8 Minami-Semba, 2-chome, Chuo-ku, Osaka, 542-0081, Japan  
**Established:** September 24, 1929

**Representative:** Masahiro Toyoda  
 Representative Director, Chairman of the Board, Chief Executive Officer  
**Paid-in Capital:** ¥32,263 Million  
**Number of Employees:** 12,580 (Consolidated)  
**Number of the Air Water Group Companies:** 243 (including 101 consolidated subsidiaries)

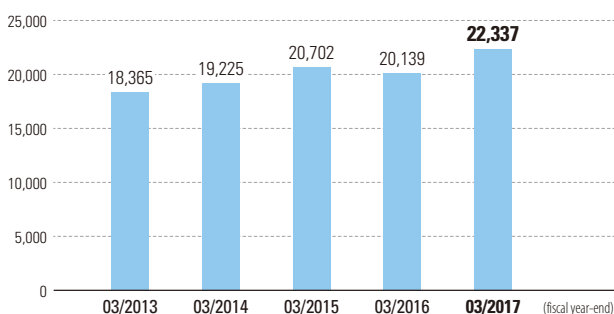
### Net Sales (millions of yen)



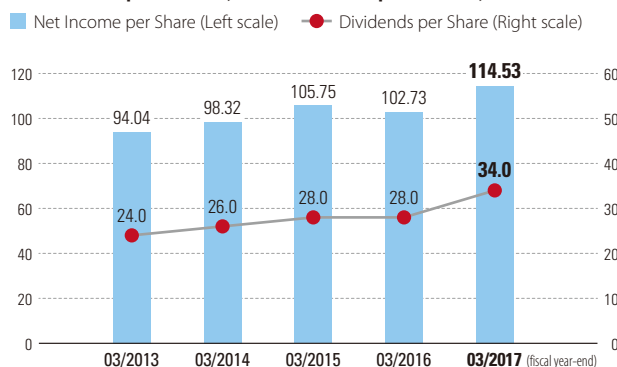
### Ordinary Income (millions of yen)



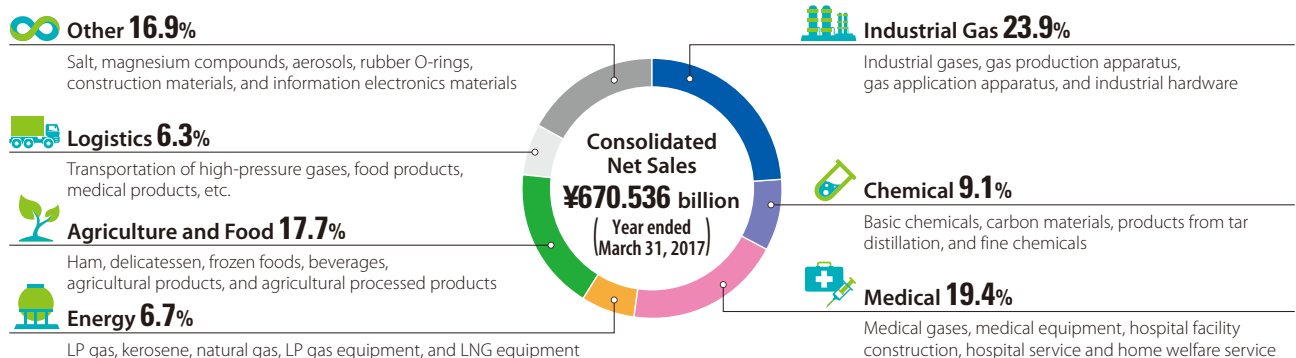
### Net Income (millions of yen)



### Net Income per Share (yen) / Dividends per Share (yen)



### Percentage of Sales by Segment (%) and Major Business Items



### Major Subsidiaries and Affiliates

#### Industrial Gas Business

Air Water Carbonic Inc., Air Water Plant & Engineering Inc.

#### Chemical Business

Kawasaki Kasei Chemicals Ltd., C-Chem Co., Ltd.

#### Medical Business

Air Water Safety Service Inc., Kawamoto Corporation, Nishimura Kikai Co., Ltd., Ci Medical Co., Ltd.

#### Agriculture and Food Business

Gold Pak Co., Ltd., Kyusyuya Co., Ltd., Saviour SS Inc., Daisen Ham Co., Ltd., Plecia Holdings KK

#### Logistics Business

Air Water Specialized Transportation Inc.

#### Other Businesses

Nihonkaisui Co., Ltd., Tateho Chemical Industries Co., Ltd., Air Water Sol Inc., Air Water Materials Inc.

#### Regional Companies (Industrial Gas, Medical and Energy Businesses)

Hokkaido Air Water Inc., Tohoku Air Water Inc., Kanto Air Water Inc., Koshinetsu Air Water Inc., Chubu Air Water Inc., Kinki Air Water Inc., Chushikoku Air Water Inc., Kyushu Air Water Inc.

# Third-Party Opinion on Air Water's Environmental and Social Report 2017



**Katsuhiko Kokubu**  
Professor  
Graduate School of Business Administration  
Kobe University

## Comprehensive Environmental and Social Activities

As is evident from the "Air" and the "Water" in its name, Air Water engages in corporate management with an emphasis on the environment and society. Its Environmental and Social Report compiles and presents basic items in a good balance, and I think the fundamentals of CSR activities are well established. Divided into ESG, important matters are explained in detail and overall the report is well worth reading. With regard to each section, the topics taken up are quite sufficient and I get the sense that much thought went into their composition.

Going forward, I think greater systemization to help further incorporate the company's management philosophy into individual activities would enable the philosophy to more fully penetrate the organization. In particular, since the company's business is bound up closely with the environment, the effect would be greater I think if a strategic policy could be crafted that was aimed at, for example, simultaneously increasing both economic value and environmental and social value.

## CSR Activities Befitting a 1 Trillion Yen Company

Air Water has declared its commitment to becoming a 1 trillion yen company by fiscal 2020, so I think CSR activities also need to

be enhanced to befit a 1 trillion yen company. To do this, I think it is first necessary to create key performance indicators for CSR activities. Air Water's CSR activities, as I mentioned above, are conducted comprehensively, but what is guiding them in a given direction is not entirely clear. Creating key performance indicators for major goals and indicating a more specific direction would likely function effectively in this regard. In addition, if Air Water in each of its activities could bring out more of its distinctive characteristics, I expect it would lend further vitality to those activities.

## Active Involvement of Stakeholders

Stakeholders play the leading role in CSR. Stakeholders appear throughout Air Water's report, but I recommend an even stronger stance toward carrying out CSR activities together with stakeholders. The supply chain and local communities are particularly important. On the management side, stakeholder participation in the planning and evaluation of CSR activities is essential.

Stakeholders are not just people outside the company. I think if the company had a framework for every employee to participate as citizens in the company's CSR activities, it would further increase motivation.

## In Response to the Third-Party Opinion

### Yasunori Kato

Senior Executive Officer, Corporate CSR Officer, General Manager  
Compliance Center  
Air Water Inc.

I would like to thank Prof. Kokubu for his invaluable feedback as well as for understanding that the Air Water Group engages in management with an emphasis on the environment and society.

The Group has worked to solve social issues through its business. Going forward, based on this feedback, we intend to further establish CSR activities within the Group and work to further raise corporate value by simultaneously increasing both economic value and environmental and social value.

The Group is striving to become a 1 trillion yen company by fiscal 2020 and to build systems befitting this goal. Based on Prof. Kokubu's feedback, we will work to further specify the direction of our CSR activities and to carry them out together with stakeholders.

## Regarding Third-Party Verification of Greenhouse Gas Emissions Third-party verification

The Air Water Group discloses greenhouse gas emissions in its Environmental and Social Report and on its website. To ensure that the data we provide is highly transparent and verified from an independent, objective perspective, in fiscal 2017 we began receiving third-party verification for our greenhouse gas emissions (figures for fiscal 2016).

We will continue working to provide even more reliable data to outside stakeholders through third-party verification of our greenhouse gas emissions.



Greenhouse gas emissions verification report



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This report is available on Air Water's website.  
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Since 2009, Air Water has been supporting the "Mori no Chonai Kai" (Forest Neighborhood Association) activities, which is sponsored by the "Office Chonai-Kai," an environmental non-profit organization, through the paper used for the Environmental and Social Report. By donating 15 yen per 1 kg of paper, the Company is supporting forest thinning and contributing to nurture healthy forests in Iwate. Last year's Environmental and Social Report 2016 helped to facilitate the thinning of forest with an area of 0.19 ha.