

## CEO Message



We will continue to fulfill our mission of solving social issues facing the world as an “Essential Company” that is indispensable to society.

Chairman and Representative Director  
Chief Executive Officer (CEO)

*Kikuo Toyoda*

### Revenue of 1 trillion yen and beyond

Before discussing the future, I would like to first talk about the history of Air Water.

Founded before World War II, “Hoxan Corporation” in Hokkaido and “Daido Sanso Co., Ltd.” in Osaka merged in 1993 to form “Daido Hoxan Inc.,” establishing an industrial gas supply network from Hokkaido to Kyushu. In 2000, “Air Water Inc.” was formed through a merger with “Kyodo Oxygen Co., Ltd.,” a subsidiary of Sumitomo Metal Industries, Ltd. This marked the beginning of our position as a manufacturer with upstream capabilities in industrial gases, taking our first step as a comprehensive industrial gas manufacturer.

During the 10 years from 2000, in order to become a company centered on industrial gas business, we acquired the carbon dioxide business from Mitsui

Chemicals, the hydrogen business from Sumitomo Corporation, and gas plant technology through Shinko Air Water, a joint venture with Kobe Steel, thereby creating the foundation of our industrial gas business.

In 2010, in order to expand our business and grow even more, we set forth our “a trillion-yen company vision,” and for the next 10 years, our “second founding stage” was dedicated to building a group of companies focused on industrial gas to achieve 1 trillion yen in sales.

Starting in 2022, as our “third founding stage,” we have set two growth pillars: Global Environment and Wellness. We are aiming for further evolution under the policy of “strengthening profitability domestically and growing internationally.”

In the 23 years since Air Water was established in 2000, sales revenue has grown 4.6 times and operat-

ing profit 5.3 times, achieving revenue of 1 trillion yen by FY2022. During this time, our relationship with the local community has deepened, and we have felt the change in the role we must play, along with the expectations from society.

The Group has expanded its business areas to include energy, medical care, and agriculture and food by building up related businesses derived from our industrial gas business of our origin through M&A and capital investment. Today, all segments are profitable, and we are proud to say that we have built a stable and unique business portfolio. Industrial gases are the cornerstone of our business portfolio and our greatest strength as a powerful engine of stable cash generation, enabling growth investments over the medium to long term. Going forward, we will enter a new phase of further growth and contribution to society while

strengthening our industrial gas business in overseas areas and in the semiconductor field.

While we have grown by focusing on PL (profit and loss) metrics such as revenue and profit, we remain keenly aware of challenges regarding our stock price and PBR levels. In FY2023, we revised our medium- to long-term ROE target from 10% to 12%. Moving forward, we will further strengthen our profit margin, cash generation capability, and balance sheet (BS) control, while promoting business restructuring through the integration and reorganization of group companies and the reassessment of low-margin businesses. The theme for FY2024 is “Management Evolution.” We aim to improve corporate value through enhancing profitability, capital efficiency, human capital investment, and governance.

## Contributing to solving social issues in the areas of “carbon neutrality” and “agriculture”

In recent years, the environment surrounding us is changing at an increasingly rapid pace, as various social issues such as climate change, energy problems, and food problems pile up. Amid these circumstances, we strongly feel that social demands on companies are also intensified.

In our long-term vision for FY2030 “terrAWell30,” we defined two axes of growth, “Global Environment” and “Wellness,” and set “create new corporate value through solving social issues” as our mission.

The keywords behind this long-term vision are three “100”s. There are concerns about the advent of the “100-year life era” due to population aging and extended healthy lifespans, and the depletion of resources such as food, water, and energy as we approach a “world population of 10 billion.” The key is how to address these social issues with our “over 100 products and businesses” and connect them to our growth strategy. In these uncertain times, we would like to take on the challenge of creating businesses for a better future while confronting these social issues with our “diverse businesses, human resources, and technologies.”

We aim to create new businesses to solve social issues in the areas of “carbon neutrality” and “agriculture,” which are our mid- to long-term focus themes. The foundation in both areas lies in “industrial gas.”

To achieve carbon neutrality, we are working on both our “responsibility” to reduce our own GHG emissions and our “contribution” to reducing GHG emissions across society through our products and business operations (→P32).

In particular, “contributing” to the reduction of GHG emissions in society is a significant business opportunity for us and an aggressive initiative unique to our company. We believe that we can become a market pioneer in the expanding decarbonization market by combining the commercial products, technologies, and expertise we have cultivated in the industrial gas business, including hydrogen and CO<sub>2</sub> capture, in GHG emission reduction.

Meanwhile, Japanese agriculture is undergoing a major transition. In addition to the issues of food security and self-sufficiency, there are issues such as the difficulties in growing crops in the mainland due to extreme weather and the shortage of farmers caused by aging. Furthermore, the food situation is changing moment by moment, with factors such as price increases due to inflation and the weak yen, and the industry is expected to have the potential to grow in

the future. Our Company is originally based in Hokkaido, a region with significant potential as an agricultural production area. We are strengthening our procurement capabilities in Hokkaido by expanding direct purchases from contracted farmers and our agri-support business, which mechanizes and provides harvesting and other farm operations on behalf of our customers. Additionally, we intend to grow as a business while addressing food-related issues that are likely to become more serious in the future by strengthening collaborations with our agri-related capital and business alliance partners who share the same vision, as well as by improving our proprietary gas-based freshness preservation and food processing technologies.

## Continued investment and strengthening of management base to actualize growth strategy

The Company has achieved growth primarily through M&A and capital investment. Following the principle of “no investment, no growth,” we must continue investing to achieve sustainable growth, and at the same time, we will need to accelerate the creation of synergies by more efficient input of management capital (→P24) by combining companies and businesses within the group.

Since assuming the position of Chairman, I have been reorganizing the company while promoting the integration and restructuring of businesses acquired through M&A in order to create synergies among businesses. In order to realize our growth strategy, we need to further strengthen our management base. In addition to enhancing governance and strengthening management control, we will focus on driving innovation through technological development, fostering industry-government-academia collaboration to support our focus areas, advancing AI and DX strategies, and intensifying our efforts in human capital investment. As a unified group, we will work towards the evolution of management.

## Deepening “technological development” and “industry-government-academia collaboration”

Technological development is key to expanding growth areas and creating new businesses. Currently, Development Centers are located within each business group, each focusing on a central theme of “materials for semiconductors,” “decarbonized energy,” “medical equipment,” “smart agriculture,” and “plant technology,” respectively, and are involved from development to commercialization. Apart from this,

there are three company-wide R&D themes.

The first is “industrial gas,” the foundation of the Company. We will develop its utilization and application technologies to create new gas demand. The second is “seawater.” Magnesium extracted from seawater, which is also the origin of our company name, holds unlimited potential, and we will continue to address social issues related to water around the world. The third is “dental pulp regenerative medicine,” which we are the first company in the world to put to practical use in 2020. The current theme is how to utilize “dental pulp,” which is taken from deciduous teeth and other sources. We are advancing research and development with the aim of commercialization and expansion into other areas, such as advancing applied research in various medical fields.

We are strengthening industry-government-academia collaboration as an initiative to support the new business creation. For example, we are collaborating with MITSUI & CO. for overseas expansion, and with SHINMEI Holdings, VEGETECH, and DELICA FOODS Holdings in the agriculture and foods field. We are also promoting open innovation at the “International Advanced Medical Center @Kobe,” which conducts research on dental pulp regenerative treatment, and the “Air Water Kento,” a center for the creation, development, and dissemination of new wellness-related businesses. Furthermore, in December 2024, “Air Water Forest” is scheduled to open in Hokkaido in collaboration with local governments, universities, local companies, and startups, and in 2025, “Nature’s Blessing Farm Matsumoto,” a carbon-neutral resource recycling facility using locally produced and consumed energy, will open. In the future, we will deepen external relationships based on these facilities, leading to new businesses that create new value that contributes to solving social issues.

## Aggressive promotion of AI/DX and investment in human capital

We have already mentioned “management evolution” as a theme for FY2024, and to achieve this, we will accelerate DX initiatives through the utilization of digital technologies such as AI. We will actively promote DX, including AI utilization, in the areas of operations, management, and business, to improve productivity through enhanced operational efficiency and data-driven management, as well as to pursue digital marketing and new business creation.

Human capital investment is also a very important factor in strengthening the management base. With increasing challenges in securing human resources, it



is urgent to create an environment in which employees want to continue working for the Group. Under our medium- to long-term wage policy, we are actively promoting wage increases throughout the Group. Thanks in part to the effects of DE&I (Diversity, Equity & Inclusion) initiatives, we are making progress in promoting younger employees, and the number of female managers is steadily increasing. In addition, we will create an environment where everyone can work energetically and comfortably, including health management, and focus on developing the next-generation management talents who will drive the Group’s growth, leading to the “human capital management” that we should aim for.

## Continuing to be an “Essential Company” indispensable to the world

Under the purpose “meeting society’s needs with nature’s blessings,” the Group will continue to strive to be an “essential company” that is indispensable to society and people’s lives. We will solve global social issues and meet people’s expectations. We will fulfill this mission as a unified group.

Our Company possesses diverse businesses, human resources, and technologies that we have acquired through corporate integration and M&A, and cultivated over many years. In addition to our management base that is resilient to changes in the environment, we also have strong connections with the community, customers, and business partners. We are confident that by maximizing these potentials and the synergies generated from them, we can solve social issues through our business, which only we can do.

Please look forward to Air Water’s future growth and evolution and its journey toward becoming an “Essential Company.”

## COO Message



My mission is to embed a corporate culture of challenge, create breakthroughs, and generate business synergies from diverse management resources.

President and Representative Director  
Chief Operating Officer (COO)

It has been about a year and a half since I was appointed President and Representative Director and COO in April 2023. My role is to execute growth strategies based under the policy of “expanding growth areas,” “creating new businesses,” and “strengthening profitability” as a united group in order to realize the long-term vision “terrAWell30.” I will continue to give my all to fulfill my responsibilities to the fullest to meet the expectations of our stakeholders.

In the past year and a half, as COO, I have closely reviewed the status of all businesses in this Group. Until now, we have prioritized the pursuit of scale, expanding our business and successfully building Air Water’s unique and stable business portfolio. On the other hand, we have also received feedback from shareholders and investors that our management policies and growth strategies are complicated and difficult to understand, and we feel a strong sense of crisis that our stock price and PBR are not reflecting our true value.

For the Group’s further evolution, we have been shifting our management focus to profitability and capital efficiency since last year, and we will strengthen these efforts even more going forward. Along with improving governance, we will promote investment for growth in our focus areas in digital and semiconductor, as well as overseas business to strengthen technological development, while advancing initiatives to create synergies among our businesses.

### Focus Areas:

#### Capturing robust capital investment demand in digital and semiconductor-related field

As one of our focus areas, we are expanding our business for the digital and semiconductor related industries. Currently, Japan is advancing the strengthening of its semiconductor production infrastructure as a national initiative, which we see as a major growth opportunity for our Company. Among them, we are covering various phases of our customers’ semiconductor factories, from construction to operation, and from facility expansion to production expansion, capturing a wide range of demand associated with the growth of the semiconductor market.

For us, the supply of gases, chemicals, and specialty chemicals accompanying the construction and expansion of large-scale semiconductor plants are the source of our business expansion, but we go beyond these to provide comprehensive solutions including

the delivery of equipment and facilities necessary for semiconductor plants and high-purity gas piping work. Furthermore, we differentiate ourselves from our competitors by providing multifaceted support for semiconductor plant operations, including materials management, logistics, and resource recycling.

### Focus Areas:

#### Development in India and North America, and overseas strategy

Another focus area is the expansion of our overseas business. In 2013, we began overseas business development targeting India, where market growth has been remarkable due to an increase in population and domestic demand expansion, followed by North America in 2016, the world’s largest industrial gas market and a place where innovation is thriving. Our strength is our ability to provide added value in the areas of energy conservation, low-carbon and decarbonization, and stable supply through our plant engineering and operation technologies and cryogenic technologies, which we have cultivated over many years. We have the ability to take advantage of these strengths to enter the newly emerging industrial gas market overseas and compete fully with competitors in overseas markets as well. Only a few companies, including ours, have complete in-house technologies ranging from cryogenic air separation, adsorption separation, hydrogen production and its liquefaction, carbon dioxide and noble gas capture and purification, to cryogenic equipment and gas applications. In addition, we will accelerate the pace of growth by establishing business foundations in our target markets through M&A and capital investment.

Currently, we are working to establish a foundation for overseas business primarily in industrial gas business, but in the medium to long term, we aim to solve social issues and create added value overseas as well. We are targeting to increase our overseas sales ratio from 9.8% as of FY2023 to 20% by FY2030.

To Strengthen our overseas business base, in FY2023, we established a new Global & Engineering Group to promote and manage our overseas business development. In addition, we reorganized the Global Management division to centralize functions such as planning, finance and accounting, human resources, legal and compliance, and DX globally to enhance management sophistication while supporting the achievement of business goals and human resource

development. We are in the process of further strengthening our structure to develop and acquire 150 global human resources over the next three years, including the appointment of external personnel.

### Technology development structure and synergy creation

In the past, our technology development structure was divided into a business division for uncovering market needs and a development division, which created issues in the time taken from development to commercialization. Therefore, in 2023, we established a Development Center under each business division, changing the structure to one in which the business group is responsible for everything from marketing to development. Furthermore, in 2024, the Technology Strategy Department and the Intellectual Property Strategy Department, which manage and promote company-wide development, were placed under the direct control of the president. As a technology platform for the entire group, these divisions will provide development support for each business and encourage industry-government-academia collaboration to accelerate the speed of business development.

The distinctive feature of our products and services is that by the supply of gases and chemicals to our customers, we improve their productivity, environmental characteristics, and safety. Although some products may be commodities that are difficult to differentiate from competitors' products, we create unique products by deeply understanding the customer's needs and conditions of use and providing stable supply under optimal conditions, properties, and states. This is precisely what "OUR PURPOSE" is: "Meeting society's needs with nature's blessings." This embodiment leads to our differentiation.

We have created new market and market-leading products such as "V1,"\*1 "VSU,"\*2 and "magnesium oxide for electromagnetic steel sheets." With this new development structure, we will accelerate the creation of new products that will contribute to society.

\*1 V1 : High-purity nitrogen gas generator  
 \*2 VSU : High-efficiency compact liquefied oxygen/nitrogen generator

#### Examples for New Product Creation initiatives

<b>Semiconductor</b>	<ul style="list-style-type: none"> <li>■ Pre-processing Specialty Chemicals</li> <li>■ Post-processing Sealing Materials</li> </ul>
<b>Decarbonization</b>	<ul style="list-style-type: none"> <li>■ Biomethane/Liquefied Biomethane</li> <li>■ Biomethane-derived green H<sub>2</sub></li> <li>■ CO<sub>2</sub> Recovery Equipment</li> </ul>
<b>Gas Application</b>	<ul style="list-style-type: none"> <li>■ Maintain food freshness through atmosphere control and cryogenic technology</li> </ul>

### Expansion of human capital investment

I believe that business strategy and human resource strategy are the two wheels of corporate management, and human capital investment is essential for the Company's sustainable growth.

In the industrial gas industry, where differentiation from competitors is challenging, we believe that the key lies in our employee's capabilities and technical skills to respond meticulously to customer needs. Going forward, it is crucial to continue to develop and strengthen professionals in development, design, and operations. We will be even more proactive in strengthening human resource development initiatives and improving compensation and benefits.

We believe that the most effective means of human resource development is to provide employees with opportunities to challenge themselves and encourage breakthroughs. Our strength is that we have not merely streamlined and improved efficiency, but also have sensed potential needs and made breakthroughs in the field as we meticulously responded to our customers' requests. Once again, I would like to make "a corporate culture of challenge" take root in the company.

### Financial Strategy

#### To improve capital efficiency

To enhance medium- and long-term corporate value through sustainable growth, the Group pursues both capital efficiency and profitability while maintaining financial soundness. In December 2023, we changed our medium- to long-term ROE target from 10% to 12%



or higher, and we will implement the necessary measures to achieve this target.

In addition to improving business profitability, each business division will revamp and properly monitor its performance management system to strengthen ROIC and cash generation capabilities, thereby improving the capital efficiency of the entire company. In addition, following FY2023, we will continue to implement thorough price management aligned with services in all of our businesses, while promoting ongoing productivity improvements to strengthen overall profitability.

Furthermore, we will work to ensure that each business unit secures appropriate production volumes, maintains proper inventory control, implements asset-light approaches, and utilizes DX and labor-saving technologies to streamline and improve the efficiency of business operations. Through these series of measures to improve capital efficiency, we aim to further expand operating cash flow.

As for financial soundness, we will maintain our current medium-term management plan's target range for the net D/E ratio of 0.8-1.0 times as our financial discipline target. On the other hand, concerning cross-shareholdings, we plan to accelerate their reduction while considering market impact, aiming to improve capital efficiency. Following the Basic Corporate Governance Basic Policy, we report to the Board of Directors once a year on our verification results regarding the significance and rationality of holdings from a medium- to long-term perspective.

#### Growth investment and cash allocation

The Group utilizes cash flows generated from operating activities, etc., for growth investments that contribute to medium- and long-term corporate value enhancement, such as M&A, capital expenditures, R&D, and human capital investments, while considering fi-

nancial security. During the three-year medium-term management plan period starting from 2022, we are focusing our investment mainly on strengthening industrial gas business in India and North America, and expanding our business for the semiconductor industry in Japan.

When evaluating individual investment projects, the Investment Committee deliberates and verifies the strategic significance to the Company, geopolitical and foreign exchange risks, and countermeasures against such risks, in addition to profitability, capital efficiency, and investment payback period. In the case of M&A, we carefully select M&A projects considering PMI (Post-M&A Integration Process) plans, etc. Even after investment execution, we establish evaluation indicators for investment recovery monitoring and regularly verify the return on investment.

In terms of shareholder returns, we aim to maintain stable dividends with a payout ratio of 30% as our benchmark. In FY2023, we achieved an annual dividend of 64 yen with a payout ratio of 32.9%, realizing more than an eight-fold increase in dividends over the past 20 years. We intend to further enhance shareholder returns by improving our cash generation capabilities.

### In conclusion

My primary role as COO going forward is to evolve and grow the Group and maximize our corporate value. Through our unique and stable business portfolio, which is indispensable to the world, we will enhance our raison d'être by continuing our efforts to create businesses to solve social issues.

We believe that we must continue responding to society's needs by actively engaging in open dialogue with various stakeholders, including employees, customers, business partners, shareholders, and investors, and by incorporating these learnings and insights into our management.

To sustainably enhance corporate value, in addition to sophisticating group governance and accelerating strategy implementation, we will more proactively communicate with shareholders and investors regarding management policies, medium- and long-term growth strategies, progress, and results.

The Company will continue to strive to contribute to the realization of a more prosperous society through our business activities under our vision of "create new corporate value through solving social issues."

We appreciate your continued understanding and support.