



Meeting society's needs with nature's blessings



**AIR WATER INC.**

**AIR WATER**  
REPORT 2020



## Management Philosophy

**Backed by an entrepreneurial spirit,  
we dedicate ourselves and our resources to  
the creation and development of  
businesses linking air, water, and the earth.**

The origins of the Air Water Group's business can be found in its name, which consists of two words: "air" and "water."

We make use of the resources of our precious earth to create businesses and contribute to society and everyday life.

Amid a business environment that continues to change at a dizzying pace, we will continue to leverage the group's collective capacities to tackle problems faced by our customers and society, and will rise to the challenge of creating new value.

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## Editorial Policy

In the Air Water Report 2020, to clearly convey the continued growth of the Air Water Group, which develops a variety of businesses as a conglomerate, the content centers on the social value the group creates through its business. Our desire to solve social issues through our business is embodied in our corporate slogan—Meeting Society's Needs with Nature's Blessings—and from this perspective, we provide a comprehensive overview of the group's business, our history and development, as well as our sustainability vision and key challenges. As part of our long-term sustainability vision for the year 2050, we have set the year 2030 as a milestone, which also marks the final year of the Sustainable Development Agenda. We have also set specific targets for the KPIs outlined in our ESG activity report to enhance our ESG-based management.



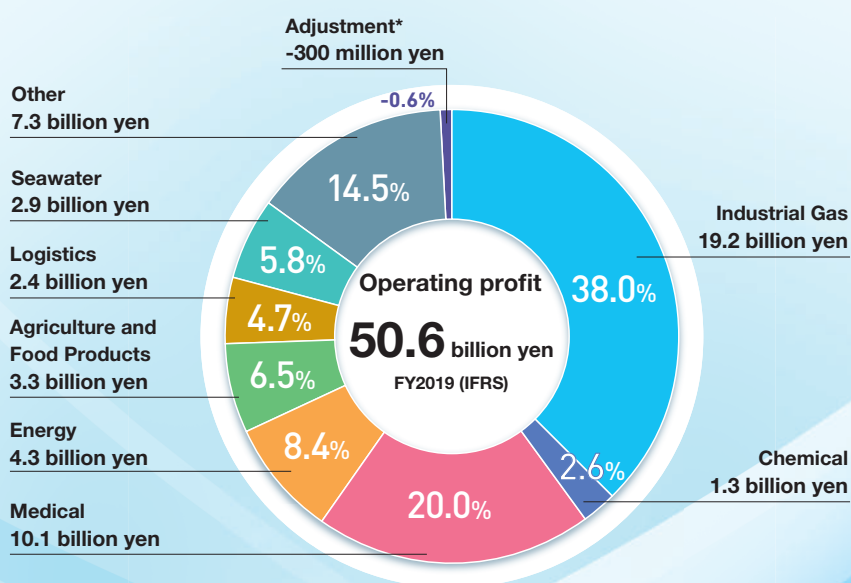
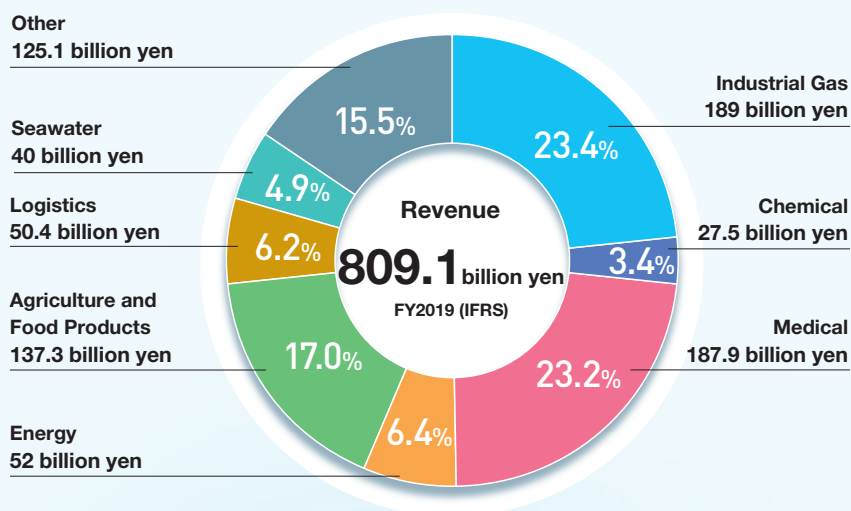
### Forward-looking Statements (Business Risk Factors, etc.)

The forward-looking statements in this Report regarding estimates of business performance and predictions of future developments reflect Air Water's judgments based on currently available information, but do involve potential risks and uncertainties. Actual business performance could be significantly different from the projections made herein due to changes in various factors.

Contributing to Manufacturing and Supporting Lifestyles

# Meeting Society's Needs with Nature's Blessings

The Air Water Group's corporate slogan is "meeting society's needs with nature's blessings." It speaks of our strengths and the social value we provide, such as how our technologies, expertise, and business model combine seamlessly to transform air and water into a stable, sustainable supply of invaluable products, services, and solutions for industries and lifestyles. Indeed, it encapsulates our determination to serve as a valued partner, providing essential resources from the earth in ways that meet the requirements of all people, communities, and industries.



Elimination of intersegment transactions and profit or loss of the company's Head Office divisions that are not allocated to each reporting segment.

## Industrial Gas Business

Our ability to harness the qualities of oxygen, nitrogen, argon, and other gases to benefit everything from manufacturing to everyday life supports the very foundation of society. The Air Water Group stably supplies various industrial gases that meet customer needs through its sales bases and nationwide production network extending from Hokkaido to Kyushu.



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## Chemical Business

We are not simply suppliers; we strive to add real value for customers. Our long-accumulated advanced separation and synthesis techniques enable us to offer electronic materials, pharmaceutical and agricultural chemical intermediates, circuits, and—thanks to the consolidation of Kawasaki Kasei Chemicals in 2015, the only company in the world to successfully produce quinone-based products and phthalic anhydride on a commercial scale—a range of other organic acid products.



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## Medical Business

Besides provision of medical gases, Air Water offers comprehensive medical solutions from advanced medical care to everyday, general medical care. The group has expanded its business domain to include the construction of hospital facilities such as operating rooms, respiratory and other medical equipment, SPD and contract sterilization, and medical, as well as sanitary products, injection needles, and dental materials.



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## Energy Business

The Energy Business began in Hokkaido in 1955 with the goal of enriching people's lives. Today, Air Water operates the LPG and Kerosene businesses under the Hello Gas brand, still with the same aspiration. The company is also engaged in various other energy businesses, such as supplying LNG, manufacturing and selling LNG tank containers, and retailing electricity, as a comprehensive energy service provider.



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## Agriculture and Food Products Business

The Food Products Business, which started with the sales of frozen foods utilizing liquid nitrogen, commenced full-scale participation in the agriculture sector in 2009. Our operations in this area now span three domains relevant to ensuring a secure supply of safe food for consumers. These are: processed agricultural products, which covers everything from plant cultivation to procurement, including products such as ham, deli food, frozen food, and confectionery; beverages, covering fruit, vegetables, and juice; and independent food and farming, covering produce retail and agriculture machinery.



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## Logistics Business

We operate a comprehensive range of logistics businesses, including container transport between Hokkaido and Honshu, and—taking advantage of the low-temperature transportation technology accumulated in the transportation of high-pressure gases such as oxygen and nitrogen—distribution services with warehouse functions, food logistics for retaining freshness through nuanced temperature control, medical logistics for transporting blood (plasma), and even the manufacturing of vehicles.



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## Seawater Business

Recognizing further potential in industries where air and water combine, we made a capital investment in Tateho Chemical Industries Co., Ltd. in 1988. Since then, we have pursued seawater as a business to effectively harness its resources and create an extensive range of products, including industrial and household salt (in which we have the dominant Japanese market share) as well as high-value-added magnesia products.



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## Other Businesses (incl. aerosol business)

Unique technologies and products such as aerosols, O-rings, ECOROCA® building material made from recycled wood, and NV metal surface treatments underpin the growth of the Air Water Group. We are also pursuing new businesses in order to drive the future growth of the group, such as power generation using woody biomass, high-power uninterruptible power supplies (UPS), and our engineering and equipment ventures predominantly in North America.

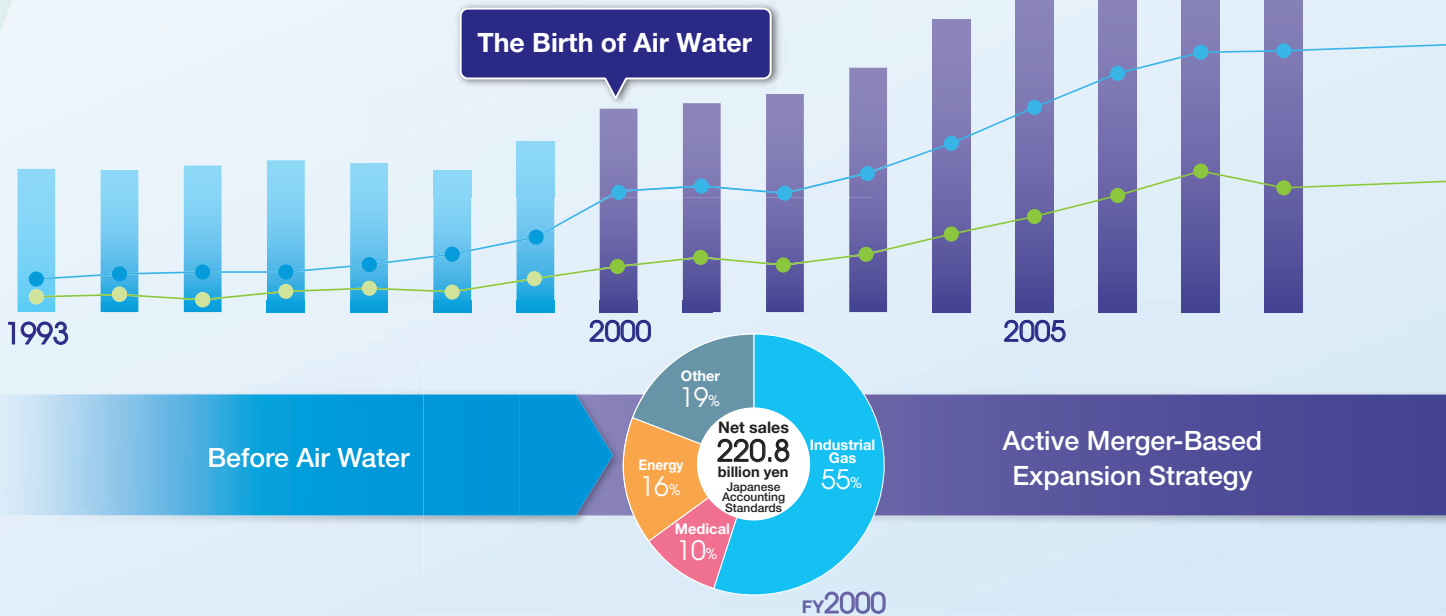


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# History of the Air Water Group

Pioneering business developments in each era to enrich society

Air Water Inc. was established in 2000 through the consolidation of three companies—Hoxan Corporation, Daido Sanso Co., Ltd. and Kyodo Oxygen Co., Ltd.—each with different histories and cultures, but with a common interest in air and water, and a shared sense of mission to contribute to innovation in industry and society. Later, proactive M&A activities served to strengthen our business foundations and expand our business domains. In addition to industrial gas and medical domains, we launched businesses in various other new fields such as agriculture, food products, and seawater. Since 2010, we have sought to expand our lifestyle-related businesses, such as “lifestyle medical,” enabling us to create an optimally balanced business portfolio covering industrial and lifestyle-related fields. Air Water will continue pioneering developments in each era to contribute to the creation of a better society.



## 1929 Hokkaido Sanso Co., Ltd. is established (Company renamed Hoxan Corporation in 1966)

**Aiming to save lives and help develop local industries**

In the years before the war, a certain individual passed away due to poor transportation conditions and the inability to receive sufficient oxygen inhalation. The deceased's elder brother, the then head of the Chamber of Commerce and Industry of Sapporo City, poured his efforts into founding Hokkaido Sanso Co., Ltd.



## 1933 Daido Sanso Co., Ltd. is established

**Founded with a desire for collaboration and a united front**

At the time, the military-support industry was given priority access to oxygen and acetylene, and so both were difficult for small businesses to obtain. Daido Sanso was established when oxygen-using businesses decided to take matters into their own hands, and band together and produce it themselves.



## 1962 Kyodo Oxygen Co., Ltd. is established Supporting Japan's rapid economic growth with oxygen

Kyodo Oxygen was established in the midst of the Japanese economic miracle. Sumitomo Metal Industries established Kyodo Oxygen inside its Wakayama Ironworks to meet rapidly increasing steel demand, and the supply of oxygen for converter steelmaking began.



## 1955

**Begins sales of LPG**



To improve the quality of lifestyles that were centered on firewood- and coal-based cooking, the company began selling LPG for residential use in Hokkaido.

## 1983

**V1 high-purity nitrogen gas generator is developed**



At the time, demand for high-purity nitrogen—essential for semiconductor production—was rapidly rising. The company thus developed a unique production plant that could cool air using ultra-low temperature nitrogen. The mold-breaking technology was welcomed by the industry as an optimal gas supply system.

## 1988

**Industrial-use magnesia business is launched through investment in Tateho Chemical Industries**



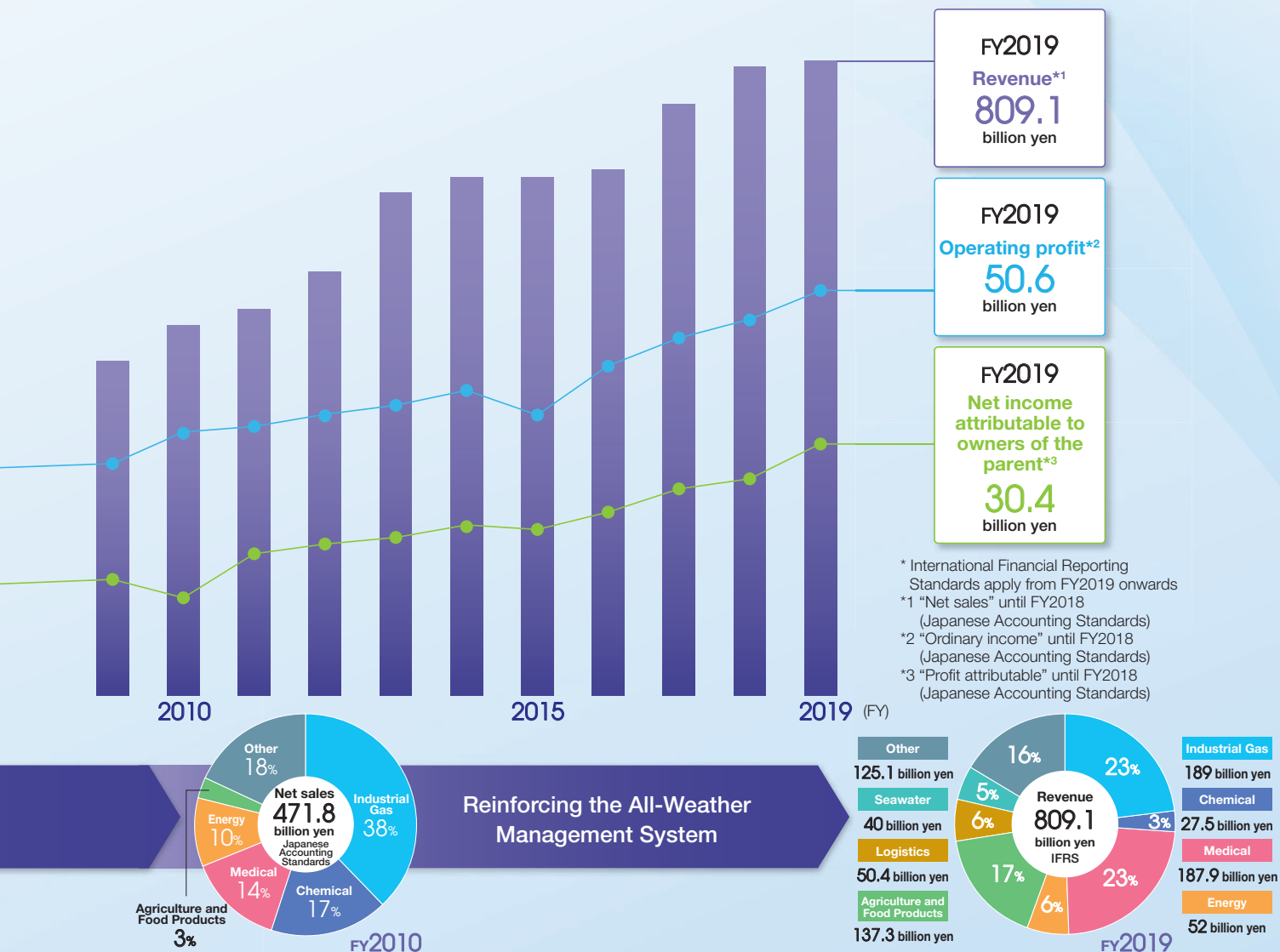
Air Water's investment in Tateho Chemical Industries—which produces various types of magnesia using bittern and mineral-based magnesia—was not only its first M&A; it also marked the launch of its seawater business.

## 1995

**Unified and joint management begins**



In addition to unified management, whereby the company established sales companies in each region to offer tailored sales and services and strengthen its downstream operations, the company also promoted joint management by emphasizing tie-ups with other companies. This unified management was the start of the regional business company system in the Air Water Group today.



## 2002

Agriculture and food products business is expanded



Upon inheriting the Hayakita Factory (in Abira Town, Hokkaido) from Snow Brand Foods, the company entered the ham and deli foods business and launched Saver SS. This drove the rapid growth of the company's agriculture and food products business.

## 2004

No. 1 VSU unit (high-efficiency, compact liquefied oxygen/nitrogen production plant) begins operations



In establishing compact VSUs, which are regional liquefied gas plants unique to Air Water, the company achieved stable energy supplies, reduced energy use, lower CO<sub>2</sub> emissions, and improved business continuity. Unlike conventional methods, in which industrial gas mass-produced at large-scale plants would be transported long distances to areas of demand, this was a revolutionary gas supply model.

## 2015

Naphthoquinone-led quinone business launched



Having welcomed Kawasaki Kasei Chemicals, a comprehensive quinone manufacturer, into the group, Air Water sought to utilize the new company's wide-ranging lineup of products and advanced, proprietary technologies to achieve synergy in the functional chemicals business.

## 2015

Power generation business using woody biomass begins



Air Water began its power generation business to secure its own power and ensure business continuity. Self-sufficiency also ensured a stable supply of industrial gas, which uses a huge amount of power when produced. Through Feed-in Tariffs, the power generation business will be a stable source of revenue for 20 years.

## 2016

Lifestyle medical segment begins in earnest



In 2016, the Air Water Group acquired Kawamoto Corporation and launched the sanitary products business. The group's lifestyle medical segment began in earnest with the expansion of the dental care business. Thus began the group's new, two-pronged medical business, comprising the advanced medical and lifestyle medical segments.

## 2019

Industrial gas business begins in India to enhance business foundation



Air Water entered the Indian market in 2013 with capital participation in a local Indian industrial gas company. Later, in 2019, it acquired industrial gas businesses in the east and south of India, establishing a firm business foundation in the country. Currently, the business in India caters to growing industrial gas demand from, among others, steel and automotive industries.

Creating social value through our business activities

# Key challenges in the Air Water Sustain-

The Air Water Group’s businesses make use of the earth’s valuable resources—such as air and water—and combine diverse technologies and unique business models and expertise to provide products, services and solutions that are essential for industries and quality lifestyles. Precisely because we make use of nature’s blessings, our business activities must be sustainable.

Today, society is working to create a sustainable future in which humanity and nature can coexist, and Air Water is aiming to provide solutions to the various issues society is

currently facing through environmental and social sustainability.

At Air Water, based on our management philosophy, we have created a Sustainability Vision for the year 2050. Through this vision, we will seek to create a recycling-oriented society through coexistence with society and the earth.

Further, with 2030 as a milestone, we will engage in SDG initiatives based on our corporate slogan—Meeting Society’s Needs with Nature’s Blessings—and work to solve society’s issues through our business activities.

### Management Philosophy

Backed by an entrepreneurial spirit, we dedicate ourselves and our resources to the creation and development of businesses linking air, water, and the earth.

### Our SDGs Concept

Corporate Slogan

## Meeting Society’s Needs with Nature’s Blessings

# 2020

### Issues to solve

#### Environmental issues

Pollution

Climate change

Resource shortages

Natural disasters

#### Social issues

COVID-19 pandemic

Water and food shortages

Urbanization and population concentration

Deteriorating infrastructure

Food loss

Low birthrates and ageing populations

Etc.

Air Water’s business activities using nature’s blessings

Solving social issues through our business activities

Meeting society’s needs through solutions to environmental and social issues, and contributions to environmental and social sustainability

Collective wisdom

## Four solutions

### Clean energy

Industrial gas

Energy

Logistics

Seawater

Other (electricity)

### Water and the environment

Chemicals

Seawater

Agriculture and food

### Safety, reliability, and disaster preparedness

Industrial gas

Medical

Energy

Logistics

Seawater

### Food and healthcare

Medical

Agriculture and food

Seawater

## Technology strategy

\*See p. 21 for details on our technology strategy





# Sustainability Vision

# 2050

# 2030



## Sustainability Vision

**Achieve a recycling-oriented society through coexistence with society and the earth**

- Continuously provide economic and social value by flexibly responding to environmental and social changes
- Achieve a **resource recycling society**, leave **zero environmental impact**, and revive the global environment through our corporate activities
- Continue to be chosen by our local communities and customers, and ensure the **well-being\*** of our employees






\*Well-being is the state of being physically, mentally, and socially comfortable. In addition to being happy (through health management), it represents a condition in which employees live with a sense of purpose through a range of different workstyles and platforms to succeed.

### Key challenges

#### Areas of contribution

#### (Specific contributions to future society)

#### Relevant SDGs

<p><b>Decarbonized society</b></p>	<ul style="list-style-type: none"> <li>• Use of 100% renewable energy</li> <li>• Zero GHG emissions</li> <li>• Supply of local energy for local consumption</li> </ul>	
<p><b>Resource recycling society</b></p>	<ul style="list-style-type: none"> <li>• Provision of collection, refining, and purifying systems for industrial emissions</li> <li>• Recycling of all waste</li> <li>• Creation of recycling-oriented supply chain</li> </ul>	
<p><b>A society in which humanity and nature coexist</b></p>	<ul style="list-style-type: none"> <li>• Effective use of water resources and protection activities</li> <li>• Thorough management of chemical substances and zero use of plastics</li> <li>• Provision of solutions to minimize natural disaster-related risks</li> </ul>	
<p><b>Smart society</b></p>	<ul style="list-style-type: none"> <li>• Provision of products and services that contribute to improved social infrastructure and systems</li> <li>• Promotion of smart factories and agriculture</li> <li>• Promotion of ICT-driven workstyle reform and health management</li> </ul>	
<p><b>A society with healthy longevity</b></p>	<ul style="list-style-type: none"> <li>• Provision of products and services that contribute to the advancement of medical care</li> <li>• Provision of products and services that facilitate self-medication</li> <li>• Provision of food products that are safe, reliable, and healthy</li> </ul>	

## In This Time of Huge Change, We Will Quickly Drive Reform for the Next Ten Years

# CEO MESSAGE

### Laying the Groundwork for Further Growth in the Post-COVID Era

My key challenges as CEO of the Air Water Group are to get the best out of our workforce and our wealth of data. I am therefore engaged in various activities to make this a reality.

Although the COVID-19 pandemic has been a menacing presence, for me personally, it has been a good opportunity to pause and reconsider my own ways and those of the company. Once again, I realized the significance of the Air Water Group's work in supporting people's lives through industrial and medical gas, energy, agriculture and food, logistics, medicine and hygiene, and disaster preparedness. Precisely because we are in the midst of a pandemic, we can, and must, demonstrate the true value of a conglomerate and provide both economic and social value.

I have also seen that the various change brought about by the pandemic has led to transformations in conventional values and business mechanisms. If we consider these changes as we look toward the next 10 years, it is clear that "technology," "global," and "digital" will be the three key themes.

At the Air Water Group, we are currently working toward the targets set out in NEXT-2020 Final, our mid-term management plan. By the final year of the plan in fiscal 2021, we hope to achieve 1 trillion yen in revenue and 60 billion yen in operating profit. At the same time, while taking into consideration the insights gained through the pandemic, we are building a growth strategy for the 10-year phase after our mid-term management plan, and making great efforts to lay the groundwork for reform that will drive this growth.

### Reforming Our R&D Structure to Generate Technological Innovation

Part of our groundwork for growth in the next 10 years will be reform in our R&D structure.

Looking ahead, to add more value to our products and services, and to create solutions to our customers' needs, it is paramount that we reinforce our R&D capabilities. Creating new businesses through outstanding technologies is key to driving our corporate development, while technology's role in propelling success in global expansion and M&As means it will be a fundamental aspect of our growth.

If we were to give a stern, overall assessment of our current R&D structure, a number of issues would come to light—not only are our R&D departments split across our various group companies, there is a clear lack of integrated planning, management, and cooperation among them. In response, in February 2020 we established a Corporate Technology Strategy Center (CTSC) to lay the foundations for technological innovation. To ensure the most effective use of our R&D resources, the CTSC promotes cross-functional collaboration and serves as the group's platform for technological advancement. The CTSC also oversees progress and provides objective assessments of R&D themes, and works to accelerate and improve the precision of commercialization projects. In addition, it promotes strategic alliances with universities and other research institutes, and contributes to enhanced intellectual property and design strategies.

Another measure we are considering following our R&D reform is the establishment of an engineering center. In the same way as the CTSC, this new center would bring together the engineering technologies, expertise, and personnel that are currently spread across the group, and function as a platform for integrated management and monitoring of our resources. The center would also oversee personnel development and assessment through



**Kikuo Toyoda**

Chairman and CEO

rotation, transform us into a comprehensive engineering company, and enhance our cost competitiveness for the global market.

### **Consolidating Eight Regional Business Companies into Three to Ensure Sustainable Growth of Our Domestic Businesses**

Another reform that will lay the groundwork for our 10-year growth strategy is the launch of three new regional business companies to drive our domestic businesses. Although the group is currently implementing various strategies to achieve high growth overseas, this growth will only be achieved after we have created a stable business portfolio which facilitates domestic profitability and sustainable growth. In other words, without advancement in our domestic businesses, we cannot hope for strong growth across the whole group. That is to say, progression in our domestic businesses is a key element of our overall growth strategy.

Through development of its initial businesses—industrial and medical gases—the Air Water Group has built locally rooted foundations across Japan. Now, as domestic markets mature in various industries due to decreasing populations and other factors, regardless of the industry, regional businesses that accurately respond to local customers' needs are seen as key to driving sustainable growth. As such, recognizing that regional businesses are essential to building a profitable foundation, we have consolidated eight of our regional business companies into three, bringing together our management resources into these three core companies so that they can lead the group's domestic businesses. To ensure they get off to a good start, we have improved and strengthened the organization of each company so that they comprise marketing, technological development, and other functions.

While utilizing the strengths of the Air Water Group's diverse

businesses, the three new companies are working to enhance our existing businesses and maximize synergy among them. In addition, they embody our SDG initiatives and are striving to create businesses that can help to solve local issues. Ultimately, each one of these companies aims to become an entity that is chosen and required by their local communities.

### **Enhancing Governance to Create an Even Stronger Organization**

We are also making efforts to strengthen our management structure, one of which has been to reinforce our corporate governance. Specifically, to clearly separate our supervisory and business execution functions, in June 2020 we reduced the number of directors from 20 to 9 (of which 3 are outside directors) to enhance the decision-making and supervisory functions of the board of directors. In addition to ensuring a more robust corporate governance structure, this move will allow operating officers from each department to move away from supervision and focus solely on business execution.

At the same time, in our domestic businesses, we are integrating and reorganizing our group companies. Up until now, M&As have driven the rapid corporate growth of the Air Water Group. As a result, however, there are areas in which the functions, roles, domains, and markets of our group companies overlap. Integrating and reorganizing our group companies will rectify this situation, and contribute mainly to improved profitability and governance.

In our global business, we have established the Office of Global Business Administration, a dedicated organization tasked with reinforcing risk management and governance at our overseas subsidiaries. Together with the Global Business Strategy Office—which supports overseas development from a strategic and specialist standpoint—the Office of Global Business Administration will lead to an improved management and promotion system for our global business.

### Creating Mechanisms to Utilize the Diversity of Our Workforce to Maximum Effect

Another key element to reinforcing our management structure is the creation of mechanisms that allow us to utilize our diverse workforce.

As the group has achieved business growth through numerous M&As, its corporate climate brings together diverse personnel and an array of corporate cultures—this diversity is one of our most important resources. To utilize this diversity to maximum effect, we have launched something called a “group personnel bank.” Through this system, we make a list of leadership candidates from among our diverse workforce, and train them up to be future managers. As a next-generation management training platform, it is playing a useful role in utilizing and training personnel across the group based on objective data. Further, in addition to promoting young employees to management positions at an early stage, we are also focusing on increasing our organizational strength through diversity, and are seeing a steady increase in the number of female employees in managerial and superintendent positions, as well as in the number of globally capable employees.

### Utilizing the Pandemic as an Opportunity to Accelerate Digital Innovation

Another aspect I wish to emphasize is the importance of business reform as we live alongside the virus. COVID-19 has drastically transformed our notions of workstyles, lifestyles, and sales activities, and with no sign of normality returning, we are now getting used to a new normal. This has provided us with the perfect opportunity to drive our long-overdue digital innovation. To open up

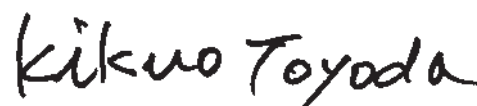
a new future of our own accord, we must reconsider our business from an entirely different viewpoint and mindset. To do just this, in June 2020 we set up the Corporate Business Innovation Division. Data-based management, workstyle reform, and sales reform are the three main themes of our Work Style Reform Project, and we are fully utilizing this opportunity to go about our efforts with a sense of speed.

### Maintaining Our Current Endeavor and Continuously Working to Be a Company Needed by Society

Looking ahead, we will pour further effort into our SDG initiatives. Moreover, to provide solutions to society's issues through our business, in 2020 we formulated our long-term Sustainability Vision.

As we work to solve today's global environmental issues through our wide-ranging business activities, we will also engage in efforts to reduce our own environmental burden, something we have been working on from the outset. In particular, as a group that has always used a huge amount of energy to produce mainly industrial gas, reducing our GHG (CO<sub>2</sub>) emissions is of the utmost priority.

Needless to say, our work to solve issues in regional societies, utilize and develop a diverse workforce, and undertake business reform alongside COVID-19, are all linked to the targets of the SDGs. As businesses become increasingly diverse, with an eye on the future and the SDGs guiding us forward, we will roll out a range of initiatives unique to the Air Water Group as we aim for further development.



Chairman and CEO

### 20 years of Air Water: Our journey so far and the next 10 years

	Stage 1 (2000–2009)	Stage 2 (2010–2019)	Stage 3 (2020–2029)
Historical background	<b>Industry reorganization</b>	<b>Post-2008 financial crisis</b>	<b>COVID-19 financial crisis</b>
Main policies	<b>Success of mergers/diversification</b> ❶ Creation of new business fields ❷ Expansion and enhancement of existing business domains, including industrial gas	<b>1-trillion-yen corporate vision</b> ❶ Conglomerate management Eight businesses and eight regions	<b>Third start</b> ❶ Creation of new businesses using technology ❷ Expansion of global businesses ❸ Digital innovation
Growth strategies	❶ M&A strategy and capital investment ❷ Downstream strategy ❸ Improved standing as plant manufacturer ❹ Technology-driven company (Establishment of Comprehensive R&D Institute)	❶ Proactive M&A activity and capital investment ❷ Creation of regional business companies (Transferal of branch functions) ❸ Global expansion ❹ Development of agriculture and food, logistics, and seawater businesses	❶ Enhanced investment in technological development ❷ Creation of three new regional business company system (Enhanced profitability in Japan and creation of new businesses) ❸ Increased investment in global businesses ❹ Investment in digital, technological, and global personnel

# Achieving Sustainable Growth through Accurate Investments and Precise Execution While Enhancing Profitability of Existing Businesses with Detailed Measures

Kiyoshi Shirai  
President and COO



## COO MESSAGE

### Steadily Implementing Measures to Advance Our Business Based on Enhanced Domestic Profitability and Global Growth

The basic management policies of the Air Water Group are currently based on three themes: Enhanced profitability in domestic businesses, improved global businesses to drive group growth, and expansion of regional business fields in Japan. To enhance profitability in our domestic businesses, in April 2020 we established the Gas Products Center. This facility was set up to facilitate horizontal collaboration in all aspects of management related to our industrial gas business, from production, security, quality control, and logistics—all of which were previously managed by individual business divisions—and streamline operations. With particular emphasis on IoT-based integration of our industrial gas production departments, as well as the streamlining of our logistics operations, the aim is to reform our production and sales processes. We will continue to improve our business infrastructure to cater to structural changes in industrial gas demand—such as by deploying high-efficiency, compact liquefied oxygen/nitrogen production plants (VSUs) nationwide, and increasing the number of gas filling stations—as we work to create a even more robust earnings base for our domestic industrial gas business.

We are also moving forward with various measures in our many other businesses. One example is the groupwide structural reform of our logistics system, through which we are working to both shift transportation and warehousing operations in-house and integrate their management. We have already begun an in-house project, and are steadily bringing inventory into our own warehouses. In particular, we are making drastic changes in our agriculture and food business departments, where much of the work is outsourced. Here, by joining forces with the logistics departments, we are moving forward with the creation of a new logistics system that can improve profitability.

Meanwhile, we are also working to improve our global businesses to drive group growth. This is partly down to the rapid global development we saw last fiscal year. The once-in-a-lifetime opportunity we had last year to merge with a global industrial gas giant

succeeded, and we have now extended our global industrial gas business to India. With the world as our playing field, we also acquired a high-power uninterruptible power supplies (UPS) system business, an area with huge growth potential. With these successes as our springboard, we are progressing with various other initiatives that will push global sales to account for 10% of our total revenue. In our industrial gas business, we made an engineering company—which began as a merger with another company—into a wholly owned subsidiary, and acquired a technology that enables us to produce a full range of small to large cryogenic air separation units, establishing our position as a comprehensive plant manufacturer. Looking ahead, we will work to ensure that we can stand toe-to-toe with major global industrial gas suppliers, and roll out activities that will help us acquire orders from India, the US, and other nations for new plant installations.

### Enhancing Awareness of Cash Flow and Capital Efficiency to Secure Sustainable Growth

Air Water has diversified and grown mainly its domestic business through proactive investment in M&As. As a result, we have succeeded in establishing a portfolio that will enable us to grow in a stable manner.

In the future, to further improve our profitability, we will be more careful in our selection of domestic investments than ever before. We will also work to raise awareness of cash flow and capital efficiency, ensure employees thoroughly monitor the degree to which we are achieving our initial business targets, and implement improvement measures. This will ensure that we are more likely to achieve the targets in our ensuing investment plans. By carefully managing our investments, we will be able to maintain our financial footing and implement growth investments to improve our productivity, and secure sustainable growth.

*Kiyoshi Shirai*  
President and COO

# Aiming to Be a Company with Enduring Growth

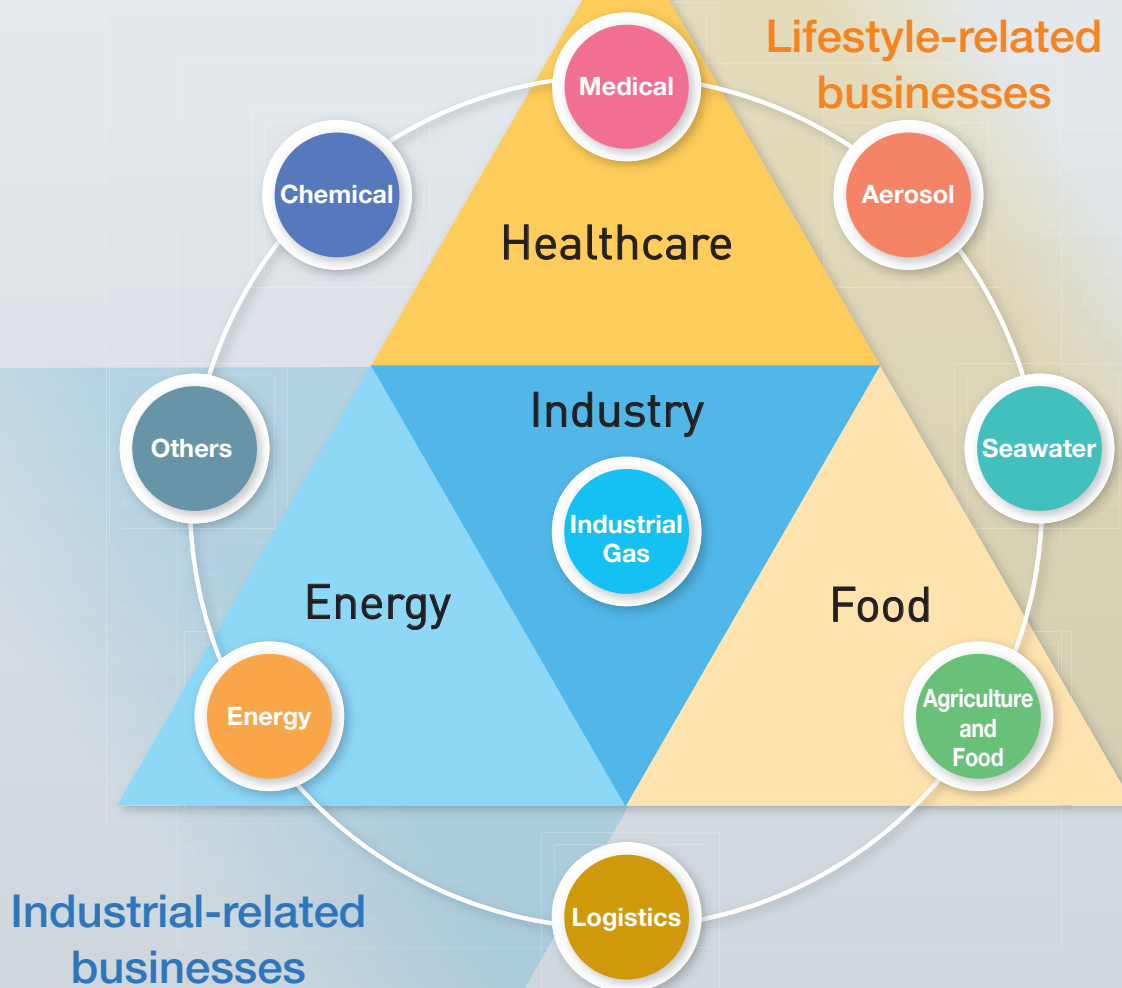
## Air Water's Business Foundation and Growth Strategy

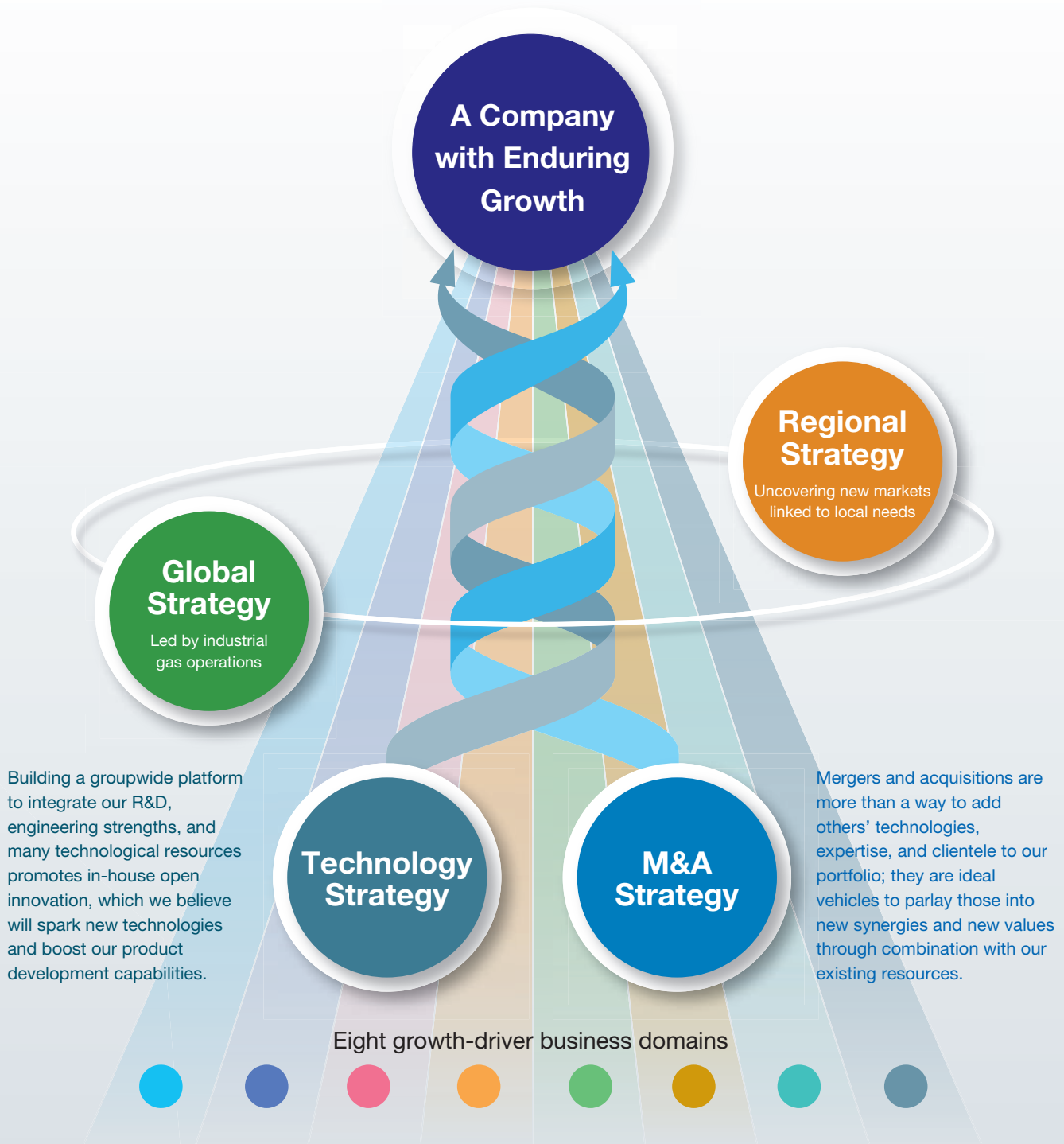
### Business Foundation

### A Broad Portfolio Across Four Domains to Generate Stable Growth

Continuity and development are the overriding obligations of every company. One of the ways we have striven to ensure the continuity and development of the Air Water Group is our All-Weather Management System, which provides stability in all conditions. Thus, in an age when many companies are streamlining and concentrating their operations, we seek diversity by acquiring a variety of businesses to complement our core Industrial Gas Business. Today, our portfolio goes far beyond industrial-related businesses such as gas and energy to include lifestyle-related businesses like medical, agriculture and food, and seawater. The result is the resilience to withstand the impact of business climate fluctuations.

Straddling four domains (industry, energy, healthcare, and food) ensures our portfolio is balanced across stable markets—not just manufacturing and industry but also those related to daily life. In establishing a conglomerate-based operating structure supported by eight core businesses, we have brought to fruition our long-standing desire to create an All-Weather Management System.





## Growth Strategy

## M&A and Technology Strategy Driving Balanced Local and Global Growth

The Air Water Group's more than 280 companies contain many SMEs that seek growth through independent management. On the other hand, organic grouping of these units helps us sustain overall growth as a collective. We call this independent-but-grouped approach the Order Rodentia Style of Business, and have adopted it as a central part of our management. Under this unique system, the group's growth is pulled along by two strategies: our technology strategy and our M&A strategy.

The technology strategy integrates our huge range of technological resources spread across many business domains

into a common platform, thereby enabling the creation of new growth drivers. Meanwhile, the M&A strategy provides for the sharing of the Air Water Group's management philosophy and code of conduct among companies that join the group while respecting their independence. We seek to maximize synergies through appropriate combination of the workforces and technical resources they bring to the mix. By blending these strategies with our community-focused regional and expanding global strategies, we are determined to explore new growth.

# Rooted in and Growing with Local Communities

## Regional Strategy

At the Air Water Group, based on a unique management strategy—our regional business company system—we have achieved growth through business development which has been closely tied to local communities. This regional business company system began in 1995, when we established central sales companies in each region and began sales of predominantly industrial and medical gas, developing our business to cater to local communities. And now, more than 25 years later, we have grown into a conglomerate engaged in a wide variety of businesses.

To ensure sustainable growth as domestic markets continue to mature, it is paramount that we take in customer needs from a much closer position, and really consider the needs of the market as we advance our business. Further, using our community-oriented business foundations, and through careful organization of our diverse technologies, products, and services, we can create new businesses that respond to local issues and demonstrate the true value of the Air Water Group. The superiority of a company is apparent when it is required by and firmly rooted in local communities, and this superiority can drive sustainable growth.

To maximize the strengths of these regional business companies, and to ensure they form the foundations to propel domestic profitability and sustainable growth, on October 1, 2020, we consolidated our eight regional business companies and launched three new regional entities.

### New Regional Business Companies That Will Lead the Group's Domestic Businesses

Consolidation of our eight companies has given the three new regional companies a stable financial footing, as well as a substantial size that enables them to demonstrate their presence in each region. We have also drastically overhauled the organizational structure of each company, reinforcing both their size and quality, and creating central entities that are well-suited to shouldering the domestic earnings base of the Air Water Group.

The management divisions in each company comprise internal audit departments, compliance departments, and SDG promotion departments to facilitate integrated management with Air Water. Further, to transform them from companies predominantly engaged in sales to more manufacturing-oriented organizations, we have set up dedicated R&D and business planning departments. Marketing and M&A functions, which were previously controlled by Air Water HQ, have been moved to each regional business company, and thus we have established a system through which each of these companies can function independently and with a sense of speed.





# Regional strategy



Meeting society's needs with nature's blessings.

## **AW** AIR WATER HOKKAIDO INC.

Representative	President Yuji Kitagawa (Managing Executive Officer, Air Water Inc.)
Head office	3-1 Kita Sanjo-nishi, Chuo-ku, Sapporo, Hokkaido
Capital	2 billion yen
Revenue	81,335 million yen
Operating profit	5,291 million yen
No. of employees	1,493
Originating company	Hokkaido Air Water Inc.

\*Revenue, operating profit, and no. of employees are simply aggregate totals that include affiliated companies, etc. (As of March 31, 2020)

Meeting society's needs with nature's blessings.

## **AW** AIR WATER EAST JAPAN INC.

Representative	President Minoru Nagata (Senior Managing Executive Officer, Air Water Inc.)
Head office	3-18-19 Toranomom, Minato-ku, Tokyo
Capital	2 billion yen
Revenue	63,995 million yen
Operating profit	4,725 million yen
No. of employees	733
Originating companies	Tohoku Air Water Inc. Kanto Air Water Inc. Koshinetsu Air Water Inc. Chubu Air Water Inc.

\*Revenue, operating profit, and no. of employees are simply aggregate totals that include affiliated companies, etc. (As of March 31, 2020)

Meeting society's needs with nature's blessings.

## **AW** AIR WATER WEST JAPAN INC.

Representative	President Toshinobu Doshi (Managing Executive Officer, Air Water Inc.)
Head office	4-4-21 Minami-semba, Chuo-ku, Osaka
Capital	2 billion yen
Revenue	52,807 million yen
Operating profit	4,726 million yen
No. of employees	714
Originating companies	Kinki Air Water Inc. Chushikoku Air Water Inc. Kyushu Air Water Inc.

\*Revenue, operating profit, and no. of employees are simply aggregate totals that include affiliated companies, etc. (As of March 31, 2020)

# Regional Strategy

## Achieving Growth While Coexisting and Co-creating with Local Communities

Close links to regional communities are key to the group's regional businesses. The very reason we have formed these regional business companies is to independently seek growth in each area from a regional standpoint. The goal of each company is to "work for the benefit of the region."

Using its strengths as a conglomerate that supports people's lives through various business domains such as industrial gas, medicine and hygiene, energy, agriculture and food, and logistics, as well as its locally rooted business foundations, the Air Water Group will look to enhance its existing businesses and increase business collaboration within the group. In addition, the group will actively work to contribute to regional development by creating new businesses that solve the long-standing issues local communities face, and that respond to local demand. Each regional business company will strive to become one that is needed by their local community.

## M&A Strategies in Regional Business Companies

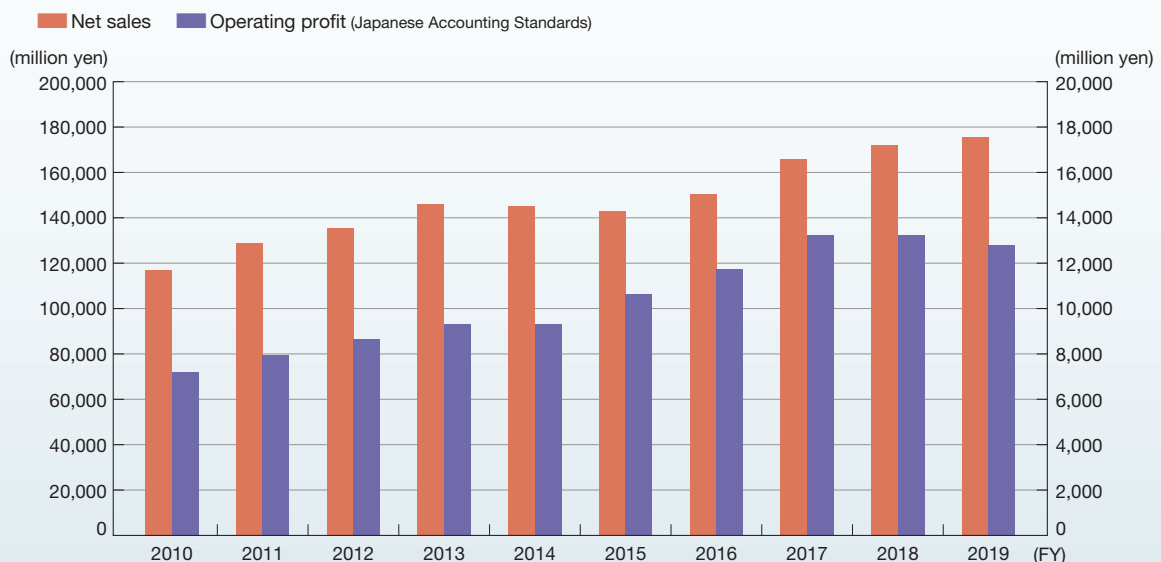
Up until now, Air Water has expanded the scale of its businesses and created synergies under its M&A strategies, and will continue to do the same with its regional business companies. M&As are an effective means of business creation and expansion, and so we will work to maximize our accumulated expertise in M&As, as well as our social standing, in our regional strategies. Specifically, we will focus on M&A projects which directly lead to improved profitability—such as with industrial gas producers, medical device dealers, and other areas in which we can generate synergies with our regional business companies—while also looking at M&As in regions that lack successors in a fair manner.

M&As are an important business approach not only for Air Water but also for the regional business companies. Both will continue to grow under the same strategies.

### Regional business company changes



### Regional business company results \*Total from eight regional business companies



Meeting society's needs with nature's blessings.

## AIR WATER HOKKAIDO INC.

### Enhancing Profitability and Expanding Our Businesses to Become a Company That Can Contribute to Its Local Communities



**Yuji Kitagawa**  
President  
Air Water Hokkaido Inc.

Using its area-wide network, Air Water Hokkaido's vision is to become a company that can provide a stable supply of energy and related services, generate businesses and employment opportunities catered to Hokkaido, and protect people's lives in a reliable manner. To do exactly this, we are currently moving forward with structural reform. Step 1 is to enhance profitability in our existing energy, industrial, and medical businesses, and Step 2 is to contribute to our communities and seek business expansion.

In our energy business, we will work to bring LPG filling functions and inventory management functions in-house, and in turn improve our cost competitiveness. Further, by installing low-power wide-area (LPWA) networks, we will look to reduce manpower in our meter-reading operations, and optimize energy distribution. In our industrial business, meanwhile, we will aim to strengthen our engineering functions. In our analysis business, which responds to the needs of diverse industries through advanced, specialized technologies, we will look to improve profitability by revising the prices of our consignment work, and reinforcing our analysis of functional ingredients for food and other high-value-added analysis operations. In our medical business, in addition to expanding sales of our infection prevention products, we will enhance our ability to propose devices and services optimally suited to the Hokkaido region, such as remote medical support systems.

These initiatives will help us improve profitability, and, with a firm eye on regional contribution and the SDGs, we will also consider new businesses in the biogas and agricultural fields.

A new business closely tied to the local community

By treating the organic waste generated from livestock and food processing industries using methane fermentation, we are generating renewable energy and promoting environmental conservation.



Biogas plant for small dairy farms

Meeting society's needs with nature's blessings.

## AIR WATER EAST JAPAN INC.

### Establishing Our Presence in the Region and Promoting Local Employment



**Minoru Nagata**  
President  
Air Water East Japan Inc.

Air Water East Japan is in charge of a huge market that covers the Tokyo metropolitan and Chubu areas. The area is unique in that it boasts higher corporate growth potential than elsewhere. With this in mind, we are forming and promoting business strategies closer to the frontlines of our operations, and pouring our efforts into enhancing our existing industrial gas, medical, and energy businesses. At the same time, as we aim to become a company that can contribute to local communities, we are working to expand our new businesses and enhance our presence in these new regions.

In our existing industrial gas business, we are progressing with the expansion and improvement of our production and supply hubs in each region. The aim is to increase our market share, build business infrastructure that will enable us to offer a stable supply of gas even during large-scale disasters, and promote local employment opportunities. In our medical business, we will look to expand our advanced, acute-phase treatment business predominantly in university hospitals; our medical services, which will soon include a clinical record management business; our medical gas and sterilization business; our equipment installation business; and our cardiovascular business. In addition to expanding sales of LPG and related equipment in our energy business, we will also work to launch new solutions such as an emergency assistance service, which will cater to single-person households, as well as emergency power generators and other disaster response equipment.

Regarding new businesses, we will launch a food service business for care facilities mainly in the Koshin'etsu region, as well as a power generation business using woody biomass, a renewable energy source that can be circulated within the region. Through these and other measures, we will work to solve the issues of our local communities.

A new business closely tied to the local community

By operating a woody biomass power generation business, which uses a renewable energy source, we are aiming to reduce CO<sub>2</sub> emissions and contribute to the development of local forestry industries.



Compact woody biomass power generation plant (Azumino, Nagano Prefecture)

Meeting society's needs with nature's blessings.

## AIR WATER WEST JAPAN INC.

### Creating an Independent Company that Develops Alongside the Region



**Toshinobu Doshi**  
President  
Air Water West Japan Inc.

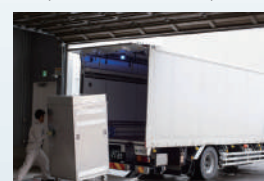
Previously, Air Water West Japan mainly functioned as a sales company. We have now revised our roles and responsibilities, and are aiming to transform into a company that also undertakes manufacturing.

In our industrial business, we are making efforts to expand sales of industrial gases—mainly oxygen, nitrogen, and argon—while we are also focusing on sales of original products, such as gas application equipment. In the medical business, we are looking to maximize the strengths of the Air Water International Advanced Medical Center—an R&D hub for products and services that improve people's lives—convey the comprehensive capabilities of the Air Water Group, and expand our medical gas, equipment, and service businesses. In our energy business, meanwhile, we are promoting the switch from heavy oil to LPG and LNG, and using our tank trucks to reinforce our industrial-use LPG business.

For new businesses, we will proactively invest in fields in which we can achieve maximum synergy between the Air Water Group and the local business foundations of Air Water West Japan, and create new businesses that allow us to coexist and co-create with our local communities. Further, we will move forward with a range of businesses that can help solve local issues—we will make use of the rich agricultural lands of Kyushu for our food products business, cooperate with Air Water Group construction companies for urban development, and engage in the collection and transport of medical waste in anticipation of a recycling-oriented society.

A new business closely tied to the local community

To enhance our medical services business, we are creating a high-quality logistics system which will allow us to collect infectious waste from medical institutions and transport it to treatment companies.

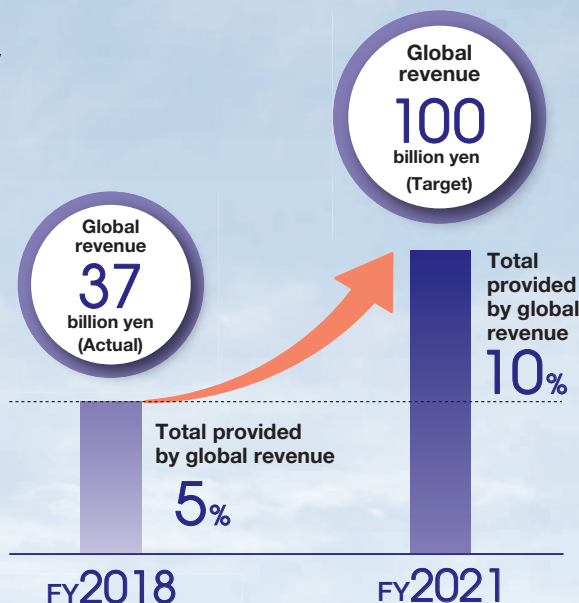


Temperature management in a dedicated container

# Global Strategy

## Global Expansion and Future Approach

To date, the Air Water Group's growth has been founded on a strategy of diversification within Japan. That strategy has worked, and we now have a business portfolio that can facilitate stable growth in all business environments. By the end of our current mid-term management plan (FY2019–2021), we will have almost completed the nationwide roll-out of VSU plants—a central strategy for our Japanese industrial gas business—and begun the full-scale roll out of our power generation business, through which we expect to achieve stable revenues for 20 years. In that sense, the end of the current plan marks a major transition point for the group's domestic business. Moving forward, as a conglomerate engaged in wide-ranging business domains and regional strategies, we are determined to continue pursuing solid domestic growth. On the other hand, we will also pursue substantial growth in our global business, where market expansion and high profitability is forecast.



### Basic Policy of Global Expansion

#### Fundamentals of global expansion

- A strong domestic track-record, and strong businesses and products that can be rolled out overseas
- A foundation of businesses and products that can generate new businesses in the future
- Businesses and products that will grow due to increased demand

#### Initiatives to drive global business

<b>Industrial gas business</b>	Expansion of industrial gas supply business in India and Vietnam
<b>Engineering business</b>	Creation of a foundation for the equipment and engineering business to supply industrial gas in North America
<b>High-power UPS system business</b>	Global expansion of the high-power UPS system business mainly in Europe and Asia

#### Key elements of global expansion

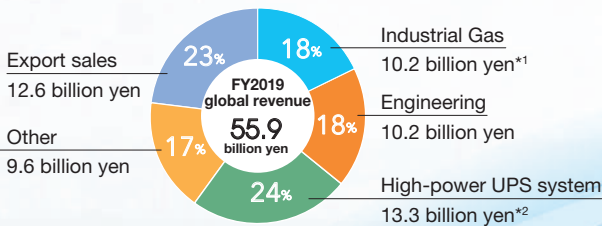
Due to the wide-ranging regions to which we supply industrial gas, we are lucky to have connections with customers in diverse industrial fields. It is precisely because we built our domestic foundations on the industrial gas business that we were able to diversify and expand into medical, energy, and other domains. As we have done in Japan, in our global business we will also build our foundations on locally rooted industrial gas, and then expand into medical, energy, and other areas.

### Air Water Group Global Operations

\*As of March 31, 2020

- Business sites: 65 sites in 17 countries
- Revenue: 55.9 billion yen (FY2019)
- Workforce: 4,825 (incl. 68 on secondment from Japan)

### Breakdown of global revenue (FY2019) \*Based on subsegments of disclosed financial results



\*1: The East India business was included in our consolidated results from 2Q of FY2019. The South India business was included in our consolidated results from 3Q of FY2019.

\*2: Hitec Holding (the Netherlands) was included in our consolidated results from 3Q of FY2019.

#### Other businesses

##### Medical Business

In Singapore, an advanced medical nation, we are engaged in the hospital facility construction business. In addition, we sell Japan-made injection needles in Europe, as well as in Asia, South America, the Middle East, and other regions with growing markets.



##### Agriculture and Food Products Business

In Ecuador, we undertake everything from the cultivation, freezing and processing, and sales of broccoli and other vegetables in-house. Making use of the country's outstanding geographical conditions—some areas sit at an elevation of 2,800 m—we grow high-quality broccoli all year round, and produce frozen broccoli at the processing facility next to our broccoli farm. In addition to exporting these products—mainly to Japan, North America, and Europe—the facility functions as a supply hub for agricultural products produced overseas.



##### Energy Business

In Vietnam, where steady increases in LPG demand are expected due to economic growth and a rising population, we are moving forward with our LPG business. In the future, we are also looking at extending our operations to surrounding ASEAN member states.



##### Seawater Business

- Production and sales of magnesia for heaters (China)
- Production and sales of magnesia-based ceramics (US)

##### Other businesses

- Production and sales of O-rings (China)
- Electronic materials (China and Southeast Asia)
- Metal surface treatment (Philippines and Indonesia)



# Global strategy

## Industrial Gas Business (India and Vietnam)

In India, where we expect high economic growth in the mid- to long-term, we are engaged in an on-site gas supply business for steelmakers—which we acquired from Praxair (USA) and Linde (Germany) in 2019—as well as a cylinder and tank truck business, mainly through a subsidiary we acquired in 2013. In our on-site gas supply business, we are making use of the track record and expertise we acquired through on-site gas supply to steelmakers in Japan, and helping to streamline plant operations. In our cylinder and tank truck business, we inherited liquefied gas production and supply hubs in East and South India as part of our acquisition of the above on-site gas supply business. These hubs are a source of argon gas, and we are aiming to extend sales to new users such as those in the automotive industry. In Vietnam, since installing our first overseas cryogenic air separation unit in 2014, we have since been seizing opportunities for growth and expanding our business.



On-site gas supply for the Jamshedpur steelmaking plant



## Engineering Businesses (North America)

In North America, we are working hard to establish an equipment and engineering framework with a view to pursuing industrial gas supply.

Specifically, through M&As, we are building a foundation of unique products including carbon dioxide equipment and low-temperature transportation equipment. We are also focusing on enhancing product development and sales in areas related to food and drink, healthcare, and hydrogen. At the same time, while reinforcing our engineering functions, we are working to increase our presence and build partnerships with dealers in the industrial gas market in the US, and create forward momentum for our gas supply business.



A tank truck from Tomco2 Systems, a company engaged in the production of CO<sub>2</sub> equipment



## TOPICS

### Reinforcing Operations in Industrial Gas Engineering Through Plant Manufacturing Technology

In October 2019, we acquired all shares in Kobelco Air Water Cryoplant, which was previously owned by Kobe Steel, and launched Air Water Cryoplant (AWCP). This move gave Air Water the technology required for global expansion as an industrial gas manufacturer—the ability to manufacture a full range of small to large cryogenic air separation plants. Looking ahead, we will use the AWCP to reinforce our engineering system in India and North America, and work to acquire new orders for on-site gas supply projects.



## High-power UPS System Business

Utilizing the global business framework of Hitec Holding (the Netherlands)—a manufacturer of rotary-type, high-power uninterruptible power supplies (UPS)—and Power Partners (Singapore)—which undertakes engineering work on UPS mainly in Singapore—we are working to enhance our ability to secure orders for UPS projects, such as those for data centers. Moreover, through integrated management of both manufacturing and engineering functions, we will look to reduce product costs and enhance our competitiveness. In Japan, we will use the Air Water Group's engineering hubs to build a maintenance system, and work with the fire-extinguishing equipment business of Air Water Safety Service to increase use of high-power UPS in the domestic market.



▶ For more information, please see special feature 1 on p. 23—Responding to Rising Global Demand for Uninterruptible Power Supply.

# Technology Strategy

To roll out an array of businesses, and to ensure the continuous development of our robust, regional business foundations, we will share our technology strategies across the group, assess our development activities, and establish highly competitive technological development capabilities.

## Technological development reforms

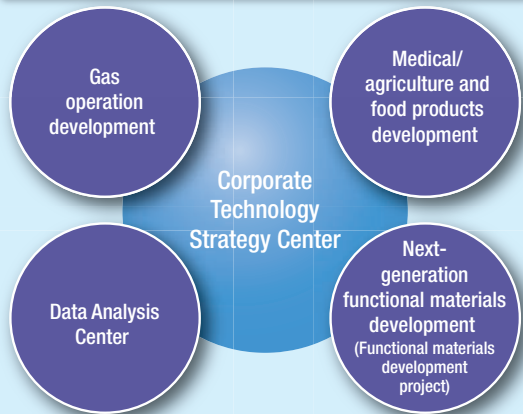
### Establishment of Corporate Technology Strategy Center

There are more than 34 R&D departments in the Air Water Group, with each undertaking research and development in a wide range of fields. However, due to a lack of steady mechanisms for cooperation, the achievements of each department were not shared properly, and the group's technological resources were not sufficiently used. Further, company policy to check the progress of research projects and manage research themes was not being implemented thoroughly across the group.

In light of this situation, in February 2020, the group established a Corporate Technology Strategy Center (CTSC) to bring about technological innovation. The CTSC serves as the group's technology strategy platform, and facilitates cross-functional collaboration and provides progress management and support. In doing so, the CTSC promotes effective use of the group's R&D resources, and aims to support marketing and development activities.

The CTSC hosts a Groupwide Technology Conference through which the technology strategies of the whole group are shared. Further, we have deployed three chief technology officers to manage several businesses each and facilitate the formulation of cross-divisional strategies. Meanwhile, as each business formulates their technology strategy in line with their own marketing policies, the CTSC will reevaluate their progress management, marketing, and development activities. And, by assessing development to improve use of resources, the CTSC will support the group's development of technologies.

### Major Research and Development Themes



With the Corporate Technology Strategy Center as the nucleus, looking ahead, we will undertake cross-divisional R&D in our priority fields: gas operation, medical/agriculture and food products, and data analysis. In addition, in June 2020 we began our functional materials development project. The project seeks to bring together technology and expertise on electronic materials and environmental/recycled materials from our industrial gas, chemical, and seawater businesses, as well as from more than 20 group companies. By combining these resources, the project aims to develop next-generation functional materials for the electronics and environmental segments.

### Mid- to long-term R&D themes

To create a recycling-oriented society through coexistence with the earth and local communities, Air Water has formulated a Sustainability Vision for the year 2050. To make this vision a reality, we are engaged in a wide range of research and development themes.

#### Environmental system business in collaboration with local communities

Contributing to the creation of a recycling-oriented society through local activities

##### Decarbonized energy

- Hydrogen society infrastructure
- Biomass power generation
- Methanation
- Energy and heat storage

##### Resource recycling and use

- Carbon recycling
- Wastewater and waste gas treatment
- Waste treatment
- Marine resource collection

##### Sustainable food

- Smart agriculture
- Agricultural biotechnology

#### Wellness business for better lifestyles

Working with local governments to respond to social issues

##### Smart healthcare city

- Real-time sensing
- Oral hygiene, foot hygiene
- Functional food products

##### Home care solutions

- Remote rehabilitation
- Home care
- Delivery of medical treatment meals

##### Disaster preparedness and medical platform

- Remote medical infrastructure
- Public health

### Underlying technologies supporting our business

Bioprocess technology  
Decarbonization/  
resource recycling technology

Functional food products, emergency meals,  
alternative proteins, agricultural biotechnology

Ultra-labor-saving smart agriculture  
to cater to climate change

Constant-temperature, heat-storage and  
heat-saving technology  
Clean transportation

Functional materials  
Device process technology

Environmentally friendly production  
and process technologies

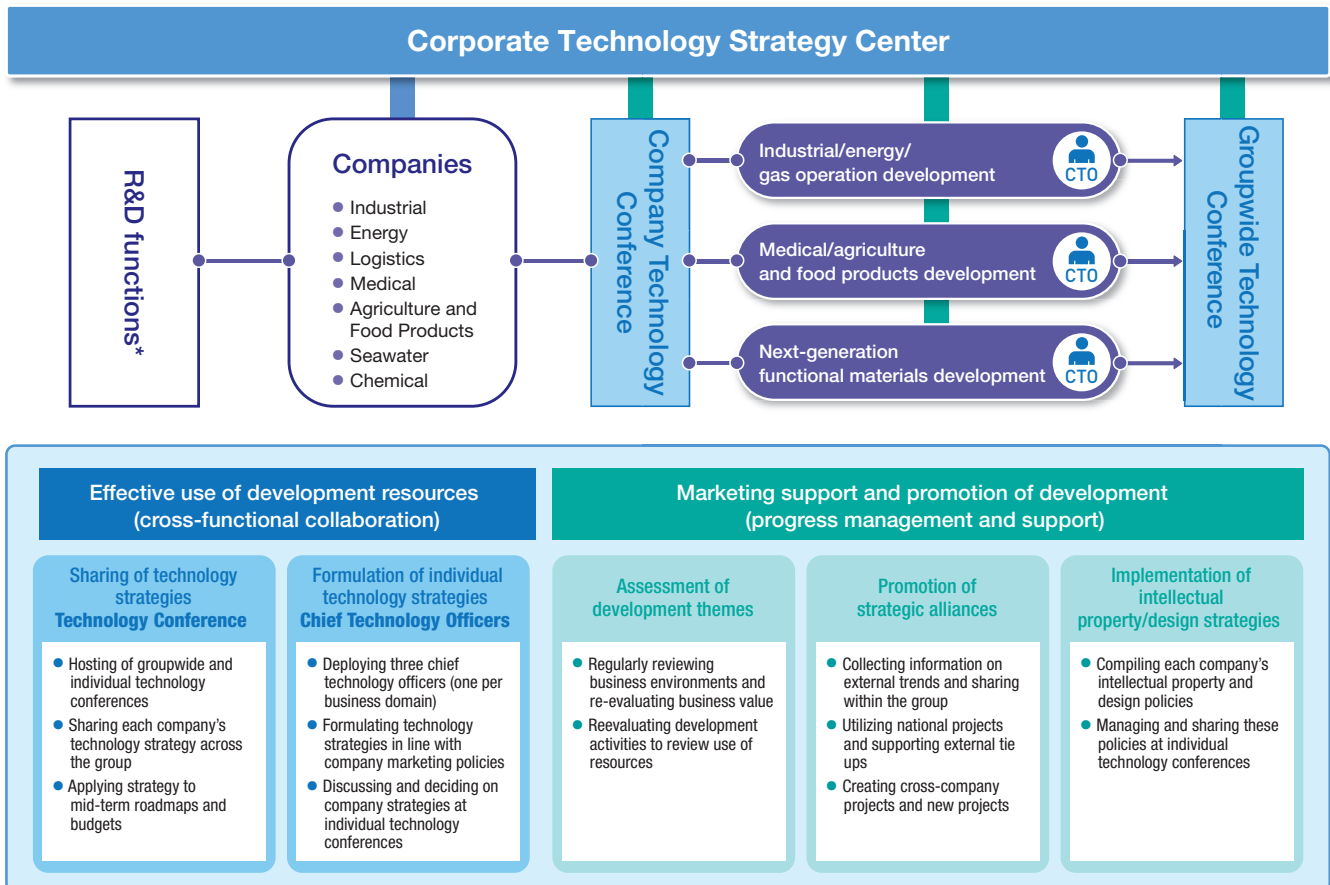
Data analysis/AI  
DX platform

Sensing/robotics  
8K and image processing

# Technology strategy

## Enhanced technological development capabilities

Up until now, Air Water has developed and applied the core technologies accumulated in its industrial gas business to medicine, agriculture, and a range of other fields. Moreover, through open innovation, we have proactively introduced new technologies, and achieved continuous technological growth and strong development. Strong technological development capabilities are what allow us to add value to our products and services and find solutions to customer needs. And now, as we begin our 10-year growth strategy, technological development is more important than ever before. Technological development is also key to global business expansion and successful M&As. To achieve corporate growth, therefore, we will continue to enhance our technological development capabilities.



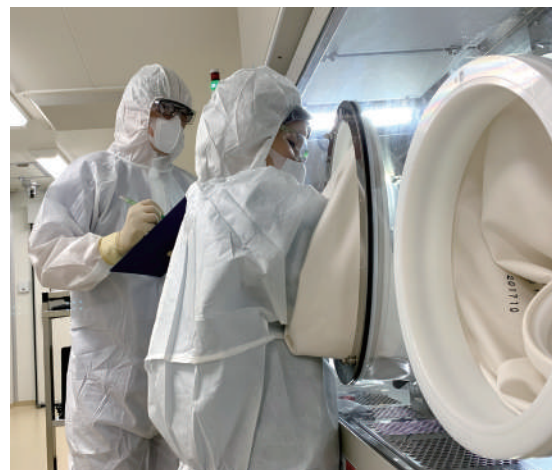
\*R&D on industrial gas and energy is undertaken at the Industry & Energy Gas Operation Development Center; agriculture and food products at the Agriculture and Food Institute; and seawater at the Comprehensive Seawater R&D Institute. Air Water Biodesign specializes in contract product development of medical, healthcare, agricultural, and food products.

## TOPICS

### Beginning the world's first dental pulp regenerative treatment using dental pulp stem cells

In June 2020, Aeras Bio—an Air Water Group company engaged in the planning and promotion of dental pulp-related businesses—began offering the world's first dental pulp regenerative treatment using dental pulp stem cells. First, dental pulp is extracted from nonessential teeth, and the stem cells within are cultured. These stem cells are then transplanted into teeth whose nerves have been damaged due to cavities (irreversible pulpitis, etc.) to regenerate the dental pulp. Aeras Bio is the first company in the world to successfully commercialize this treatment.

Not only does this treatment method extend healthy longevity by regenerating nerves and blood vessels and recovering dental health, dental pulp stem cell culture has huge potential to contribute to a range of other regenerative treatments for nerves, blood vessels, organs, and more. Moreover, in September 2020, Aeras Bio launched Aeras Bio Dental Pulp Stem Cell Bank. Under carefully managed conditions, this facility enables long-term frozen storage of these stem cells in liquid nitrogen. Aeras Bio will continue to contribute to healthy lifestyles through its dental pulp business.



# Boosting Utility Solutions through Global Expansion of High-power UPS Systems

The Air Water Group has particular strengths in UPS solutions designed for high-power output above a certain level. These solutions are used mainly in data centers and large-scale semiconductor and pharmaceutical factories. In these facilities, UPS solutions play a key role in mitigating the risk of damage to equipment and products caused by power outages and low voltages to ensure a continuous stable power supply. Demand for UPS is increasing, and seeing their social and growth potential, as well as the possibility for synergy with its existing businesses, in 2018 and 2019, Air Water joined forces with a manufacturing company and a system engineering company to launch a high-power UPS business with potential for annual sales of 20 billion yen. With accelerated digitalization spurring demand, we have taken a strong step forward toward the creation of a comprehensive UPS business.

## Entering the High-power UPS System Business

As an industrial gas supplier since its founding, Air Water's mission has always been to ensure a stable supply of gas and other utilities even in times of emergency. High-power UPS systems are installed on-site, and through continued maintenance and long-term operation, provide customers with a constant supply of power. Air Water's desire to supply stable sources of energy is what led it to the high-power UPS system business.

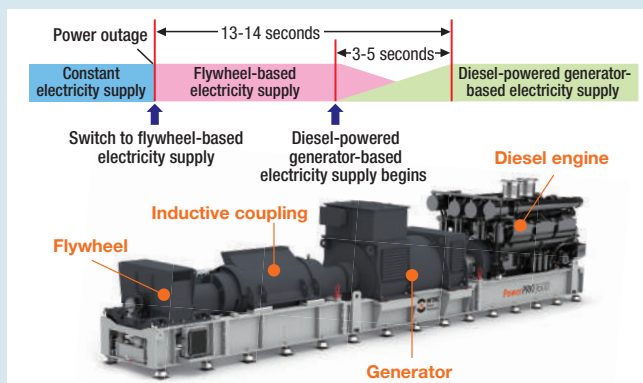
Of our high-power UPS customers, 60% are data centers and 30% are semiconductor manufacturers. Data centers are the main customers of Air Water Safety Service, providers of fire-extinguishing equipment, and semiconductor manufacturers are the main customers of Air Water, providers of industrial gas, and so there is high potential for intra-group synergy. Globally, the high-power UPS market is expected to grow by 6% every year, and with digitalization advancing due to the COVID-19 crisis, the social significance of UPS is rising.



### Reasons for entering the high-power UPS system business

- 01 The UPS system business follows the same ideal as our industrial gas business: contribution to business continuity
- 02 Main customers overlap with our existing customers, such as data centers and semiconductor manufacturers
- 03 The global high-power UPS market is expected to grow by more than 6% each year

### Dynamic Rotary Uninterruptible Power Supplies: DRUPS



In normal times, electricity continuously drives a flywheel. During power outages or any other abnormal situations, momentum keeps the flywheel moving for a few seconds, and in that time the diesel-powered generator is activated to maintain the supply of electricity. The DRUPS supplied by Hitec Holding, a member of the Air Water Group, use a power-controlled reactor (PCR) to maintain and improve power quality in both times of normality and abnormality.





## DRUPS: A superior choice in the high-power UPS market

In addition to rotary-type UPS, battery-type UPS are another option on the market. Rotary-type UPS have a long history in Europe and continue to be the favored choice today, but in North America and in Japan, both of which have leading heavy machinery manufacturers, battery-type UPS are the leading option. An objective comparison of the two shows that rotary-type UPS are superior in a range of ways for high-power output above 1,500 kVA.

The first is their long life (more than 20 years) and low environmental load. In comparison, the lead batteries in battery-type UPS must be replaced approximately every five years, leading to a huge amount of waste, of which the majority is lead. Moreover, rotary-type UPS are highly cost effective, and are up to 20% cheaper when considering whole-life cost. They can also save up to 40% space when installed.

## Integrating manufacturing and engineering functions to become the world's leading supplier of high-power UPS systems

In addition to the UPS apparatus itself, high-power UPS systems comprise a whole package of auxiliary equipment such as electrical devices and cables. It is only when all these elements are put together that the system can begin operation. For Air Water, a DRUPS manufacturer and an engineering company with outstanding system integration capabilities were essential to growing the UPS system business. Acknowledging that only when these two functions were put together could we provide competitive energy solutions, we did just this—acquiring a DRUPS manufacturer and, from among many distributors, a first-class engineering company.

In the future, battery-type UPS are expected to become more competitive due to the decreasing costs and improved safety of lithium batteries. As such, through the integration of these companies, we will look to enhance the quality of our solutions and our cost competitiveness. And, in both North America and Japan, where battery-type UPS are mainstream, we will endeavour to build a direct sales network.

## Seizing new growth opportunities through the commercialization of our utility solutions

As an industrial gas supplier, Air Water provides utility solutions to a range of different customers. Through these solutions, we have continued to offer a stable supply of utilities and supply equipment, both of which are essential to production activities. However, what differentiates us from our competition is not the utility itself, but the innovations and proposals that facilitate this stable supply. These endeavors have allowed to create strong, long-lasting relationships of trust with our customers.

Now, as we enter the high-power UPS market, we will attempt to create even more innovative utility solutions. High-power UPS are significant in that they protect key social infrastructure from power outages, while spreading use of rotary-type UPS will help us do our part for the environment. Looking ahead, as we strive to contribute to the growth of the group, we are considering switching to environmentally friendly LNG and hydrogen energy for emergency power generation.



### DRUPS superiority \*Compared to battery-type UPS

Environmental impact	The environmental impact of DRUPS is low. While DRUPS last for more than 20 years, the batteries used in battery-type UPS must be replaced approximately every five years, with each replacement generating waste (the majority of which is lead).
Cost effectiveness	Up to 20% cheaper when considering whole-life cost.
Compact	As DRUPS are compact systems, they can save up to 40% space when installed.



### Power Partners Private Limited

Power Partners is one of the distributors of Hitec Holding—a company with 29 group companies worldwide—and is the largest and most capable engineering company in the group. Based in Singapore, Power Partners is currently expanding its business across the whole of Southeast Asia. Their strengths are in integrating auxiliary equipment into DRUPS systems, and delivering products that are ready to operate instantly.





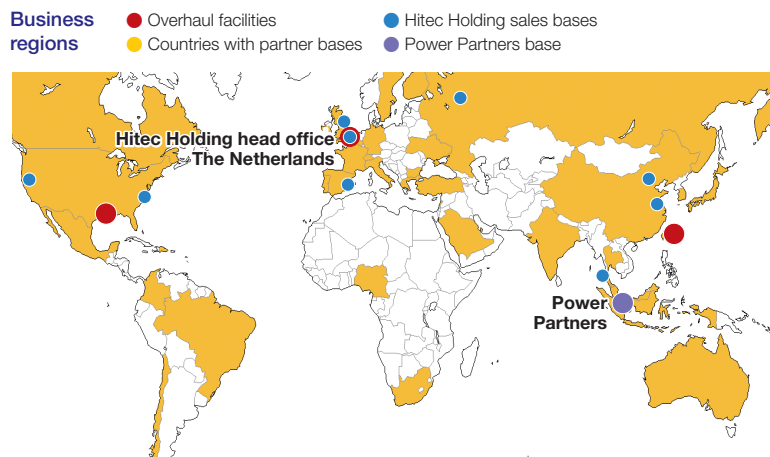
### Hitec Power Protection B.V.

Hitec Power Protection is a DRUPS manufacturer with its head office and factory in the Netherlands. The company is approximately 130 years old, and holds the second largest share in the global DRUPS market. With maintenance hubs in Taiwan and the US, and sales bases in China, the UK, and Russia, Hitec Power Protection conducts business on a global scale.





Air Water has dispatched a Japanese CEO to Hitec Holding who works with a local CFO to ensure accurate control of the organization. Both are working with a sense of speed as they seek to generate synergies and reform through management integration with Power Partners.



# Striving to Build a Regional Energy Usage Model through Small-scale Woody Biomass Power Generation

As an industrial gas producer, Air Water consumes a vast amount of energy. To ensure a baseload of power during emergency situations including mega disasters, we have launched our own power generation business using a renewable energy source. For our highly efficient power generation projects, we are taking advantage of Feed-in Tariffs (FIT) to build a regional energy utilization model that facilitates energy generation from local resources. We are also looking at various other resource recycling opportunities that can support regional development. Our first move has been made and it is gradually taking shape in Azumino, Nagano Prefecture.

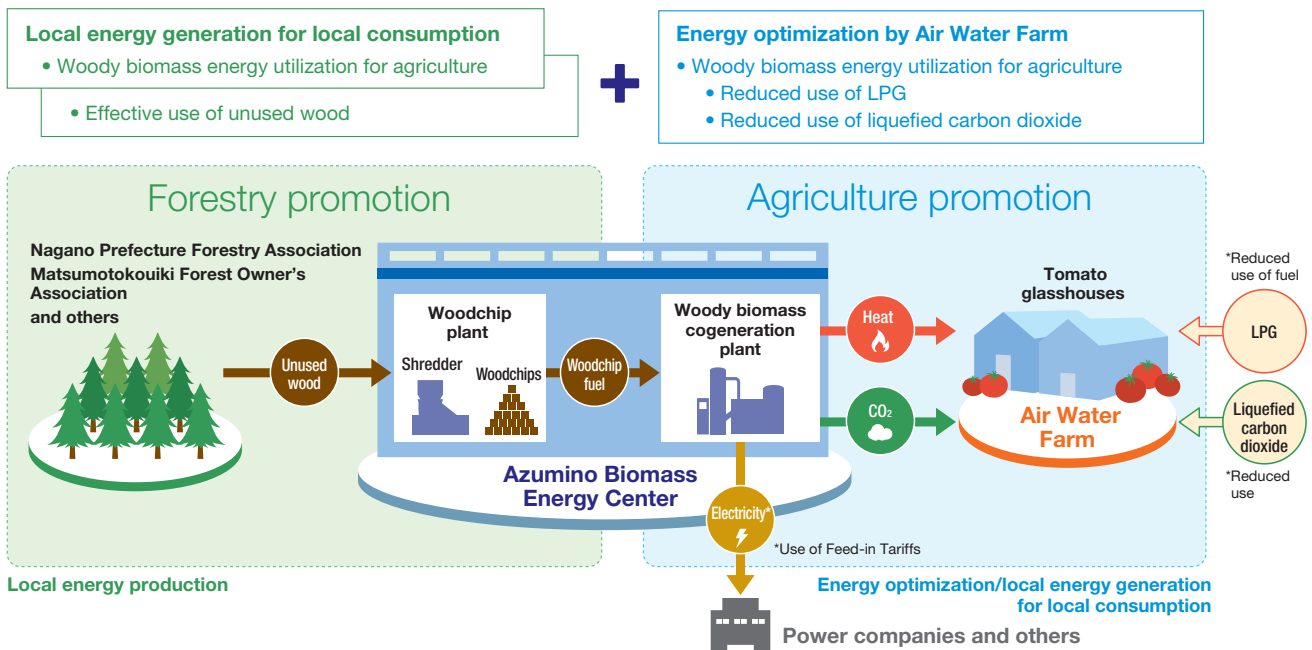
## High Efficiency Biomass Cogeneration Systems Contributing to Forestry and Agriculture Promotion (Azumino, Nagano Prefecture)

At the foot of the Northern Alps in Azumino, Nagano Prefecture, Azumino Biomass Energy Center is located within the premises of Air Water Farm, a group company engaged in tomato cultivation. There, we have installed a woody biomass gasification plant for small-scale power generation and started biomass cogeneration in favor of the local community. Utilizing unused wood for power generation will contribute to the local forestry, while the heat generated in the process contributes to the local agriculture by keeping the tomato greenhouses warm. We are also looking at ways to take advantage of the purified waste gas emitted from the power generation process, which contains a high concentration of CO<sub>2</sub>, to boost plant photosynthesis.

### Features of compact woody biomass cogeneration systems

- Supply of waste heat** ▶ Reduction of fuel expenses for Air Water Farm greenhouses
- Use of local woody biomass** ▶ Forest conservation/regional revitalization/creation of local employment opportunities
- Supply of waste gas (Future plan)** ▶ Emitted gas (mostly CO<sub>2</sub>) for photosynthesis promotion

### Overview of regional energy usage model using woody biomass



## Effective use of unused wood to solve local issues and ensure a stable supply of biomass fuel

Wood from forest thinning and certain parts of trees can only be used as woodchips because of their small diameter. However, as demand for woodchips is low, most of the above are thrown away leading to a loss of resources. Now this is changing as woody biomass power generation plants consume huge amounts of these woodchips as fuel.

Receiving a steady supply of woodchips from local forestry is crucial since procuring unused wood from distant places is costly and ineffective. In other words, the scale of woody biomass power generation is determined by the availability of local resources. The Azumino Biomass Energy Center began with an output of 1 MW. After accumulating the relevant expertise, in fiscal 2020 the output will be raised to 2 MW, aiming to further increase unused wood consumption and create local employment opportunities.

## The regional strategy of Air Water, aiming to solve local issues

Since its founding, Air Water has been focusing on reinforcing downstream operations in its industrial gas business and has prioritized close ties with its local communities. In October 2020, the company consolidated its eight regional business companies into three to go beyond conventional business frameworks and create businesses that respond to local needs. Our highly efficient biomass power generation business, a locally rooted project which creates a circular economy within the region, is a representative example of our regional strategy. Rural exodus, aging populations, and the ensuing decline in economic activities are pressing issues for Japan's rural villages. To bring new energy to these areas, it is necessary to utilize their unique resources—including ones from agriculture and forestry—in creating powerful local economies within the areas in question. Through its efforts at the Azumino Biomass Energy Center, Air Water is committed to supporting sustainable agriculture and effective use of forestry resources to promote regional development and creating stable local employment opportunities. Once we have built a successful model at the Azumino Biomass Energy Center, we will look to build similar facilities nationwide that are optimized for every location.



Azumino Biomass Energy Center

**“We look forward to Air Water making efficient use of our trees, bark, branches, and rootstocks in the near future.”**



Tadahiko Fujiwara

Director/Chairman  
Nagano Prefecture Forestry Association

“Up until now, we have sold our unused wood as woodchip for papermaking. Due to the sharp price fluctuations, we would leave our unused wood on the mountain when the price was low. Recent demand for unused wood as biomass fuel has driven us to harvest such abandoned wood. Since this region is particularly rich in Japanese red pine trees, woody biomass is a highly effective means of utilizing these trees with damages. We look forward to further progress in forest management planning for stable supply of biomass fuel applicable to the FIT scheme.”



Unused wood from mainly Azumino supplied as fuel for woody biomass power generation

## Tri-generation system—supporting tomato cultivation at the Azumino Farm

Air Water Farm cultivates tomatoes at the Azumino Farm, in its expansive greenhouse facility covering 5.3 hectares. In addition to using LPG to supply hot water and control the temperature and humidity, the facility also purchases liquefied carbon dioxide to promote photosynthesis. In the future, we hope to replace these with the waste heat and waste gas (CO<sub>2</sub>) generated from woody biomass power generation, and create a tri-generation system that creates electricity, heat, and carbon dioxide. Use of waste heat has already begun, and we are starting initiatives to make use of the carbon dioxide.



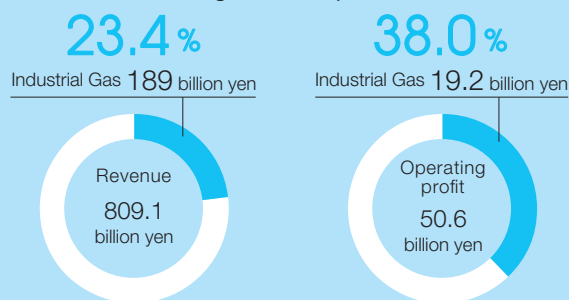
Air Water Farm's Azumino Farm



# Industrial Gas Business



The Industrial Gas Business delivers a stable supply of industrial gases, such as oxygen, nitrogen, argon, and carbon dioxide, by the optimum supply method, ranging from supply using cylinders or tank trucks to on-site supply. The Industrial Gas Business also offers gas applications, as well as industrial gas equipment and engineering services, by making effective use of technologies developed in-house.



FY2019 (IFRS)

## Review of FY2019

Revenue in this segment stood at 188.965 billion yen, which marked an 8.5% increase over the previous term, while operating profit was 19.246 billion yen, a 15.1% increase over the previous term.

On-site gas supply for steelmakers increased due to the operation of new blast furnaces among our major clients, but a decrease in production of crude steel from the second half of the fiscal year meant that sales volumes were sluggish, and so figures were marginally lower than last year. Gas supply for electronics manufacturers was solid thanks to increased sales volumes. Driven by new data centers and increased demand related to new 5G data standards, this rise was due to gradual increases in operational efficiency among our major clients, who sought to enhance production capacity through capital investments. In our tank truck and cylinder supply business, we worked to expand our share of the market based on increased roll out of high-efficiency, compact liquefied oxygen/nitrogen production plants (VSUs), as well as new filling stations and enhanced collaboration with influential local gas dealers. We also sought to revise our trade terms due to rising logistics costs. Supply of carbon dioxide and dry ice progressed well thanks to efforts to ensure stable supplies. Globally, the industrial gas

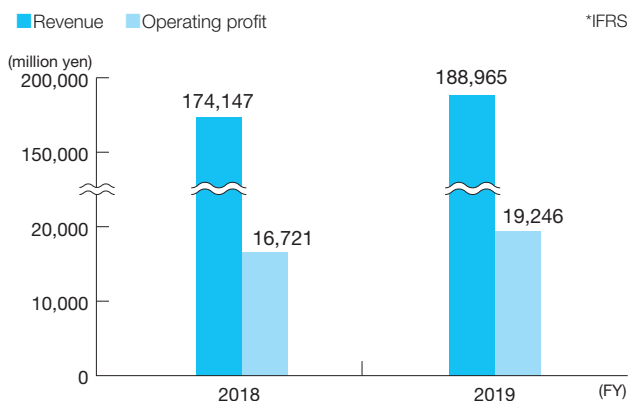
business we acquired in India last fiscal year saw solid growth thanks to vigorous local production of crude steel.

In equipment and construction, sales of related equipment grew due to increased gas supply for electronics manufacturers, while the consolidation of Nichinetsu Holdings, which we acquired last fiscal year, into accounts led to steady growth.

## Outlook for FY2020

In Japan, we expect a decrease in gas sales volumes in our on-site gas supply for steelmakers due to suspension of blast furnace operations among our major clients. However, with the roll out of 5G networks, an increase in remote work, and other digital transformations, we forecast increased demand from electronics manufacturers, driven by the gradual response to expansion and enhancement work by semiconductor manufacturers. In equipment and construction, meanwhile, we anticipate solid sales of high-precision heating and cooling components for semiconductor manufacturers, and for electronics manufacturers, equipment to supply special materials.

Globally, although demand for industrial gas temporarily dropped in the first quarter in India due to the nationwide lockdown, our major business—on-site gas supply for steelmakers—which we acquired in fiscal 2019, recovered in the second quarter. In the tank truck and cylinder supply business, recovery in demand from construction and automotive sectors, as well as increasing demand for medical oxygen, is expected to lead to steady growth. In Vietnam, we will move forward with the expansion of Air Water Vietnam, which we consolidated this fiscal year.



\*IFRS

Relevant SDGs



## Transformation of our business portfolio —enhancing our earning power in Japan, and seeking expansion and growth through electronics and global business

Yoshio Shiomi  
President, Industrial Company

In our global business, we will expand our presence in India mainly through the industrial gas business we acquired in 2019. At Air Water Vietnam, a company we consolidated this fiscal year, we will work to reinforce existing businesses and seek further business expansion.

In electronics, where we expect significant growth, we will seek to expand the scale of our business pinned on large-scale gas supply to world-class manufacturers, as well as the provision of various other products including special chemicals and related equipment.

In our domestic gas business, we will work to rebuild our earnings base and deep-mine the market by reinforcing two key elements: making power and selling power. The former entails the creation of VSUs, filling stations, and other gas supply infrastructure, and the latter involves increased sales of

industrial gas and equipment, improved product value, and new business creation. With regards to our production, storage, and logistics hubs, we will expand and reinforce our network to cover the whole of Japan, and through optimal positioning of these hubs, reduce delivery distances and streamline logistics operations. At the same time, we will integrate management of production technology, quality, personnel, and logistics—which were previously controlled by individual business divisions—to reduce energy use, lower CO<sub>2</sub> emissions, cut costs, ensure business continuity, and engage in other efforts to contribute to the SDGs.

The Industrial Gas Business is a shared platform for our customers, markets, and communities, and we will move forward with the transformation of our business portfolio as we aim for further growth.

### Major Measures in FY2020

#### 01. Building foundations for our global business

- Establishing business foundations in India and acquiring new orders
- Reinforcing engineering business mainly through roll out of small to large cryogenic air separation units

#### 02. Responding to increased capital investment by clients in electronics

- Catering to demand from clients expanding facilities for 5G networks, new data centers, and mobile devices
- Enhancing supply of gases and special chemicals, and increasing presence in related equipment and other related fields

#### 03. Deep mining the domestic industrial gas market

- Reinforcing cost competitiveness through optimal positioning of production, storage, and logistics hubs
- Expanding infrastructure such as VSUs and filling stations, and reinforcing sales

### Business Facts

- Increasing demand for industrial gas and related equipment due to growth in semiconductor and other electronics markets
- Slump and recovery in domestic manufacturing industries, mainly automotive and steel production, due to the effects of COVID-19
- Growing manufacturing industries in India, mainly automotive and steel production
- Increasing demand for stable supply systems and business continuity planning due to frequent typhoons, earthquakes, and other natural disasters



A VSU in Sagae, Yamagata Prefecture, that began operation in June 2020

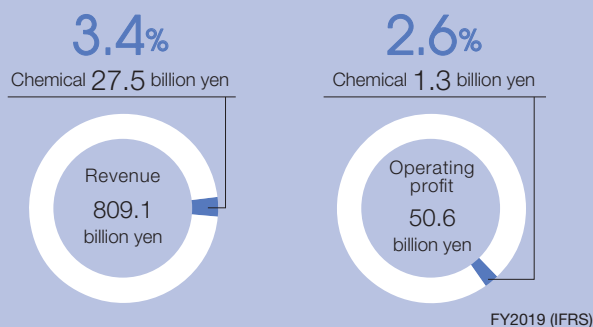


The industrial gas business in India we acquired in July 2019 (on-site supply for the Jamshedpur steelmaking plant)

# Chemical Business



From electronic materials and pharmaceutical and agricultural chemical intermediates, to quinone-based products (produced by Kawasaki Kasei Chemicals) and phthalic anhydride, we produce and offer a stable supply of various high-value-added chemical products. Further, in 2019, we acquired Daito Chemical, a leading manufacturer of sodium acetate, and FILWEL, a manufacturer of precision polishing pads.



## Review of FY2019

Revenue in this segment stood at 27.479 billion yen, for a 19.9% increase over the previous term, and operating profit increased 145% over the previous term to 1.338 billion yen.

In addition to continued suspension of operations at our Chinese production plants due to environmental regulations across the whole of the Jiangsu industrial zone, sales of high-performance circuit products for machine tools decreased due to a drop in capital investments caused by US-China trade frictions. As a result, our functional chemicals business was negatively impacted. On the other hand, sales of electronic materials continued to increase thanks to new applications in displays, while initiatives to streamline production and reassessment of unprofitable products led to improved profitability, and the business as a whole achieved solid growth.

Kawasaki Kasei Chemicals, meanwhile, saw a decline in sales of naphthoquinone, their main product, due to suspension of operations at their clients' plants. This together with a drop in the selling price of phthalic anhydride caused by a weakening market meant that their final results fell short of last fiscal year's.

Results in the Chemical Business as a whole benefited greatly from the consolidation of Daito Chemical, a leading domestic manufacturer of sodium acetate, and FILWEL, a manufacturer of precision polishing pads and artificial leather. A gain on bargain purchase of 2.051 billion yen was included in the business' results due to the acquisition of Daito Chemical. Meanwhile, Chinese authorities called for the closure of our Chinese production plants. In light of uncertainties surrounding their restart, the acquisition of Daito Chemical meant that we could transfer their functions to the company's plant in Japan. We therefore determined to withdraw from business in China, and thus recorded a 1.277 billion yen loss with the liquidation of that business.

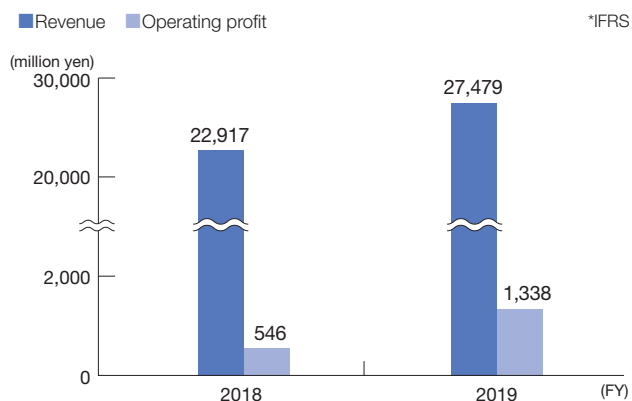
## Outlook for FY2020

Due to the increase of remote work and the spread of 5G and IoT technologies, demand is expected to increase for electronics products, such as semiconductor memory for data centers. We will therefore work to enhance sales of electronic materials used in semiconductor substrates and displays.

As a chemical group, we will strive to generate synergy between the production sites of Daito Chemical and Sun Chemical, and optimize production systems across the business.

Regarding investments, we are working in stages to expand our production facilities for naphthoquinone, which is growing in popularity as a photosensitizer, succinic acid, which is used in the production of biodegradable plastics, and sodium acetate, which is used both as a food preservative and in dialysis.

In development, seizing the rapid digitalization of society as an opportunity, we are working to develop new applications and products using electronic materials such as low dielectric polyimide resins and naphthoquinone.



Relevant SDGs



## Furthering structural reform and transforming the electronic materials business into a growth driver

Kazuya Mizuno  
President, Chemical Company

At the Chemical Company, we see the implementation of 5G and the rapid transformations aimed at the creation of a smart society as an opportunity to grow. We will therefore maximize use of the Air Water Group's electronics-related technical resources and customer base to develop new electronic materials, and transform the electronic materials business into a growth driver for the entire group.

Meanwhile, we will aim to rebuild production systems across all of our chemical-related businesses, while working to expand our production capacity and optimize our production and logistics systems to cope with

heightened demand for electronic materials.

Further, for organic acids and other general-purpose chemicals, we are aiming at further structural reform. Specifically, we will ensure our business structure is compatible with smart society and the SDGs, and gradually build a stable earnings structure. This stable earnings base will be key as we carry out growth investments to expand the electronic materials business, and so we will strive to build a well-balanced structure that contributes to future growth.

### Major Measures in FY2020

#### 01. Improving profitability by optimizing production systems

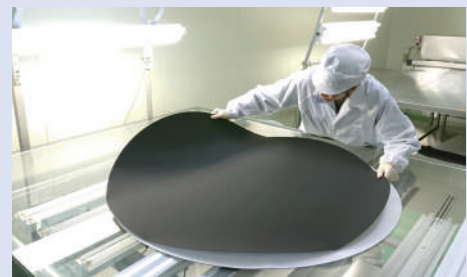
- Closing Chinese production plants due to the long-term suspension of operations brought on by environmental regulations
- Rebuilding domestic and global production systems using the production hubs of overseas companies and Daito Chemical
- Expanding production facilities to cope with increasing demand for photosensitizers, sodium acetate, and succinic acid

#### 02. Maximizing the effects of M&As and reinforcing business alliances

- Generating synergy with Daito Chemical and FILWEL
- Optimizing production of thermally expandable graphite (through a joint venture between Toyo Tanso and Nankai Chemical)
- Advancing structural reform in the general-purpose chemicals business

#### 03. Building foundations to expand the electronic materials business

- Launching new products into the 5G market



FILWEL is engaged in the production and sales of precision polishing pads



Sodium acetate produced by Daito Chemical

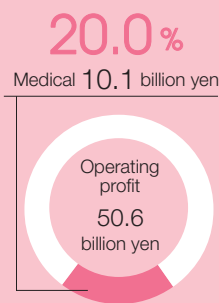
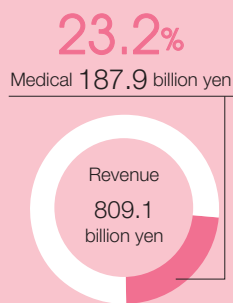
### Business Facts

- Increasing demand for electronic materials in line with digitalization. Technical reform to ensure high-performance products will be essential
- Domestic market for organic acids and other general-purpose chemicals is shrinking
- US-China trade frictions and environmental regulations in China pose a risk

# Medical Business



We offer a broad spectrum of products and services, from sophisticated medical solutions underpinning the increasingly advanced medical sector to lifestyle medical solutions. The former includes state-of-the-art medical facilities, medical gas supplies, contract hospital services, and equipment maintenance, while the latter includes dental supplies, sanitary products, injection needles, and other items needed by local clinics and home care providers.



FY2019 (IFRS)

## Review of FY2019

Revenue in this segment saw a 7.9% increase over the previous term to 187.913 billion yen, while operating profit decreased 2.4% to 10.109 billion yen.

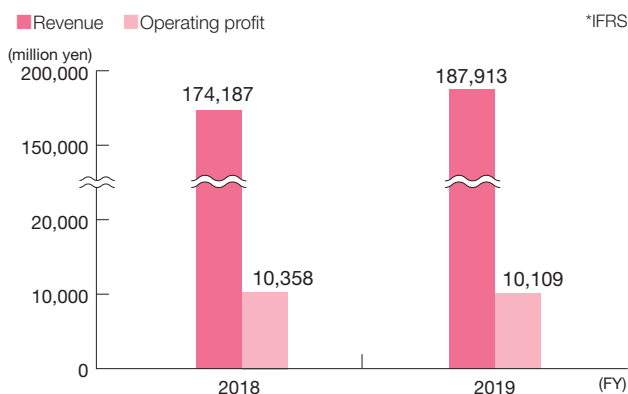
The equipment business was adversely affected by a continued drop in new orders for hospital equipment installations, mainly for operating rooms, as well as installation delays brought on by COVID-19. As such, results continued to suffer.

The medical-related services business, meanwhile, progressed steadily thanks to new orders for SPD (Supply, Processing and Distribution) services, and streamlined materials procurement and price revisions.

Despite a gradual decrease in the use of medical oxygen, sales volumes in the medical gas business stayed on par with the previous fiscal year thanks to the acquisition of new customers.

The medical equipment business also saw solid growth owing to increased sales of ventilators for newborns and infants, and growing use of nitric monoxide in inhalation therapies.

Unfortunately, results in the home medical care business fell short of last fiscal year's due to stagnant growth in rentals of oxygen concentration equipment.



Sanitary products, however, saw firm growth thanks to growing orders for contract production of medical consumables, rising sales of protective equipment, optimization of production plants, and other factors.

Results in dental and injection equipment also progressed strongly. The former saw rising sales of materials for artificial teeth in line with advances in orthodontic technology, while the latter benefited from the introduction of cutting-edge production equipment. Further, results in the two businesses also benefited from the consolidation of a company we acquired in fiscal 2018.

Note that up-front expenditures were incurred for R&D on perioperative medicine support systems and regenerative treatments using dental pulp stem cells, as well as improvement of R&D facilities.

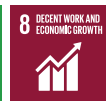
## Outlook for FY2020

Due to the spread of COVID-19, we anticipate delays in hospital facility construction and maintenance and inspection work. On the other hand, to counter the spread of the virus, we expect heightened demand for infection prevention products, such as sanitary products and UV sterilization devices. Moreover, needs are increasing for optimized hospital services and higher performance medical equipment due to labor shortages and other issues on the frontlines of medicine. In response, we will increase production of face masks, protective equipment, and hand sanitizer, establish new sterilization centers, place remote medical support systems on the market, and work in other ways to respond to this new demand.

Meanwhile, to cater to surging demand for injection needles in ASEAN and South America, in June 2020 we completed construction of a new injection needle production plant. We also established a new plant to produce dental materials compatible with CAD and CAM systems, and will continue making efforts to reinforce and optimize our production systems.



Relevant SDGs



## Seizing the opportunity for growth and utilizing our comprehensive strengths to conduct business in a diverse range of fields

**Kosuke Komura**  
President, Medical Company

Against the backdrop of low birthrates and a super-aged society, medical institutions are being called upon to facilitate wide-ranging functional cooperation and build efficient operating systems in the mid- to long-term, such as by separating functions in acute-care hospitals and promoting comprehensive community care systems. Further, with the COVID-19 pandemic causing huge changes in business environments, infection prevention measures have become a matter of urgency in domestic medical systems.

As we learn to live alongside the virus, demand for products such as face masks, protective equipment, and hand sanitizer is increasing. Further, in the mid- to long-term, we can also expect increasing demand for remote medical support systems, new ICUs, and facility improvement work to isolate

areas treating infectious diseases.

As a company engaged in a wide range of fields, such as medical gas, medical facility construction, sanitary products, contract sterilization and SPD solutions, this sort of business environment is precisely where we can demonstrate our comprehensive strengths. We will thus work to provide an array of solutions to cater to increasing demand for infection prevention measures, optimized hospital services, and more.

Further, not only will we aim to improve profitability in all of our business fields, we will strive to develop businesses in new areas. Specifically, we will use IT technologies to develop devices such as 8K rigid endoscopes, and seek to promote regenerative treatment using dental pulp stem cells.

### Major Measures in FY2020

#### 01. Demonstrating our comprehensive strengths to respond to diverse market needs

- Acquiring comprehensive orders for medical facility constructions, medical equipment, medical-related services, and more, through the Air Water International Advanced Medical Center in Kobe
- Developing new products and reinforcing sales systems in the dental and oral care segments
- Increasing share in medical gas market through enhanced collaboration with gas dealers

#### 02. Improving profitability

- Revising prices and improving procurement costs in medical-related services
- Improving productivity through operation of new injection needle and dental material plants

#### 03. Creating new businesses

- Utilizing IT technologies such as remote medical support systems in the advanced medical care segment
- Commercializing regenerative treatment using dental pulp stem cells

### Business Facts

- Growing needs for infection prevention measures
- Growing needs for higher performance medical equipment and optimized hospital services in the advanced medical care segment
- Growing needs for long-term care and preventive medicine



NOALON, a remote medical support system that went on sale in May 2020

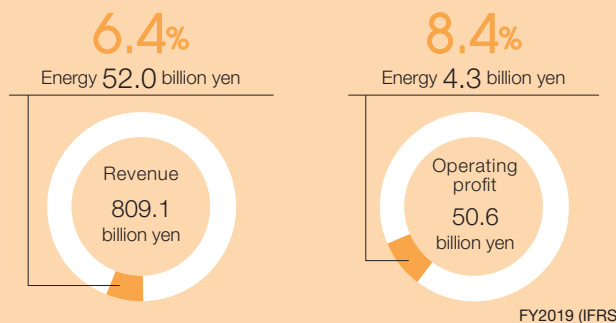


Misawa Medical Industry's new plant, completed in June 2020, undertakes production of injection needles

# Energy Business



The Energy Business supplies LPG and kerosene as daily energy to general households, commercial facilities, hospitals, and other public facilities, and also as energy for industrial uses to plants. The business is also engaged in the supply of LNG, as well as the manufacture and sale of LNG-related equipment, playing an essential role in community life.



## Review of FY2019

Revenue in this segment decreased 1.4% over the previous term to 51,969 billion yen, while operating profit rose 9.6% to 4,251 billion yen.

Sales in the LPG business were adversely affected by fluctuations in import prices and the ensuing drop in sales prices. However, the acquisition of distributors' commercial rights and the promotion of loyalty point services saw a rise in the number of civil-use LPG customers. For industrial-use LPG, sales rose mainly in the West Japan region thanks to the deployment of additional in-house tank trucks and other initiatives. As a result, both sales volumes and direct-sales ratios increased, ensuring that profits remained robust. A warm winter, meanwhile, led to a decrease in sales volumes of kerosene. The equipment and installation business saw solid growth thanks to increased sales of residential-use hybrid water supply and heating systems, as well as of LPG-based mobile power source cars and emergency-use power generation units.

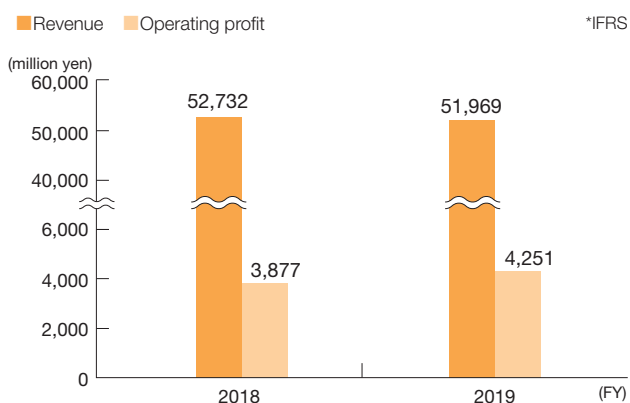
The natural gas business also progressed well owing to increased sales volumes of LNG and growing sales of LNG tank trucks.

## Outlook for FY2020

The environment surrounding civil-use LPG is increasingly severe due to falling populations and fierce competition in the electricity and city gas markets. Against this backdrop, we will continue to make steady progress in the acquisition of distributors' commercial rights, and work to improve direct-sales ratios and expand sales volumes. As demonstrated by our full-fledged entry into the electricity retail market in July 2020, going forward our aim is to become a comprehensive energy service company and expand sales in all of the services we provide.

Further, with global action to minimize carbon dioxide emissions, we will promote the switch from heavy oil to cleaner fuel such as LNG and LPG, and further engage in the development and sale of LNG-related equipment, such as satellite supply systems.

In Vietnam, the market is expected to grow on account of the nation's rising population and strong economic growth. In December 2019, we acquired a company in the country to mark our first global expansion in the LPG business. In addition to thorough safety and quality control, we will move forward with business expansion in Vietnam based on the supply technologies we have accumulated in Japan.



Relevant SDGs



## Reinforcing direct-sales of LPG to steadily expand earnings: Achieving new growth through global expansion and LNG, demand for which is set to increase as we shift toward a low carbon society

**Katsumi Kajiwara**  
President, Life Solution & Energy Company

In Japan, we will work to expand our share of the market and improve our earning power by reinforcing direct-sales of LPG. In recent years, LPG has once again come to the fore as a clean source of energy that is resistant in the face of disaster. As such, using the characteristics of LPG we are expanding our disaster prevention business, such as by installing laundromats that can be used in times of disaster and increasing sales of mobile power source cars (emergency-use power generation units). Alongside our electricity retail business, new efforts such as these will allow us to provide a comprehensive range of energy services essential for daily life. This will enable us to achieve robust increases in customer numbers and sales volumes, both of which are paramount to business growth. And, taking the effects of the COVID-19 pandemic into account, we will optimize our

distribution methods by installing IoT-based residual quantity monitoring equipment and automatic meter-reading systems for LPG and kerosene.

The use of LNG, meanwhile, is expected to grow on a global scale due to shifts toward a low carbon society. Led by our LNG tank truck business, for which we boast an overwhelming domestic share, we will look to expand our operations based on the development of new LNG-related equipment utilizing our low-temperature gas technologies. This will include satellite supply equipment, bunkering equipment, and mobile power generation stations. Moreover, to achieve global expansion in our LPG business, we will adapt the expertise we have accumulated in Japan to the needs of each locality. In Vietnam, which will be the touchstone of these efforts, we will focus on establishing a robust business foundation.

### Major Measures in FY2020

#### 01. Maintaining our top share of the Hokkaido market through thorough increases in customer numbers and sales volumes

- Enhancing direct-sales ratios through the acquisition of distributors' commercial rights, and improving profitability
- Increasing customer numbers by offering a diverse range of products as a comprehensive energy service company (electricity retail, sales of new hot water supply and heating systems, laundromats, etc.)
- Improving distribution through the installation of IoT-based residual quantity monitoring equipment

#### 02. Expanding industrial-use energy business

- Promoting fuel switches mainly in Honshu
- Supplying LNG, a clean energy source, and expanding sales of LNG equipment

#### 03. Building foundations for our global business

- Establishing a foundation for the wholesale of LPG in our new Vietnam business



Laundromats that can be used in times of disaster



Pacific Petro, a Vietnamese company we acquired in December 2019

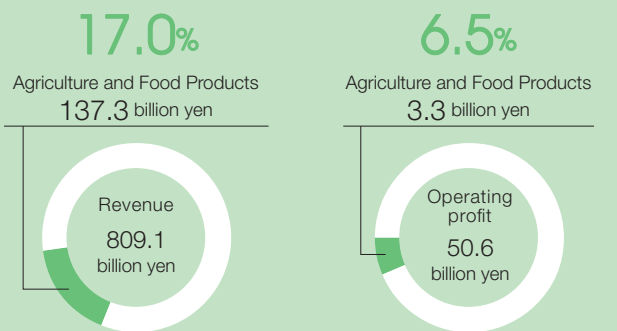
### Business Facts

- Decreasing use of LPG and kerosene due to declining populations and global warming
- Lack of successors for LPG retail businesses
- Switch to clean energy in anticipation of a low carbon society
- Mergers of major wholesalers

# Agriculture and Food Products Business



The Agriculture and Food Products Business started with sales of frozen foods utilizing liquid nitrogen. Through the integration into the Air Water Group of functions ranging from vegetable production to the distribution of processed foods and beverage products across Japan, the Agriculture and Food Products Business is creating a new value chain that maximizes group synergies.



FY2019 (IFRS)

## Review of FY2019

Revenue in the Agriculture and Food Products Business saw a 0.6% increase over the previous term to 137.298 billion yen. Operating profit, meanwhile, fell 22.1% to 3.282 billion yen.

The agricultural and processed foods business continued to face a harsh business environment due to rising ingredients costs, logistics costs, and personnel costs. Adding to this unfavorable situation, ham and deli meats, as well as sweets, were adversely affected by intensifying market competition, while demand for frozen and processed food products mainly for use in restaurants, hotels and school meals fell rapidly due to the COVID-19 pandemic. The sector of this business involved in the cultivation, processing, and sales of vegetables was also negatively impacted by huge harvests that sent market prices of its main products (potatoes and pumpkins from Hokkaido) plummeting.

Results in the beverages business fell far short of the previous fiscal year due to a cool summer (during which demand is usually highest), a slump in demand for vegetable drinks, and rising logistics costs.

Although vegetable retail suffered from low market prices and reduced shop hours and closures brought on by the pandemic in the first half of the

fiscal year, steady efforts to improve profitability at our existing stores meant that profits exceeded those of the previous fiscal year. In the agricultural machinery business, sales of weeding and other agricultural equipment progressed steadily.

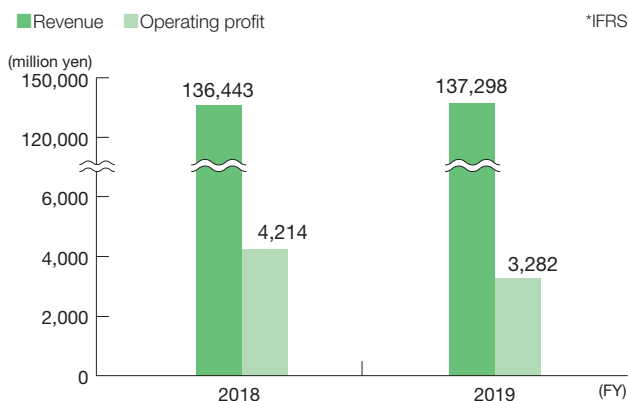
Results in the agricultural and processed foods business benefited from the consolidation of Ecofroz, an Ecuadorian company engaged in the production and sale of broccoli we acquired in fiscal 2018.

## Outlook for FY2020

Although the COVID-19 pandemic has led to a decrease in demand for frozen and processed food products for restaurants and hotels, it has also led to rising demand for delivery meal ingredients due to the increasing number of people staying at home. In the sweets business, meanwhile, which was in a tough position, efforts to improve profitability will continue through thorough cost-cutting measures and the reassessment of unprofitable products. In vegetable retail, despite the impacts of reduced shop hours and closures brought on by the pandemic, a review of store success and reductions in sales losses have meant that profitability is continuing to improve.

In our ingredient vegetable business, in addition to the establishment of a stable earnings structure, a pressing issue has been the creation of a robust, domestic and global procurement system that is unaffected by irregular weather. On top of the broccoli procurement hub we acquired in Ecuador in 2019, we will continue working to decentralize our producing regions with the acquisition of a new ingredient procurement hub in Kyushu.

In our beverages business, a new plastic bottle-filling line began operation at our Hokkaido Eniwa Plant in February 2020, and thus we anticipate an increase in contract production volumes and improved profitability.



\*IFRS

Relevant SDGs



**Focusing on the increasingly in-demand vegetable processing business based on our ability to procure a stable source of ingredient vegetables, optimizing our production and logistics systems, and improving our earning power**

**Takeo Kashima**  
President, Agriculture and Food Products Company

During the pandemic, there has been a sharp increase in demand for simple, delicious home meals. Further, in line with a rise in health consciousness, demand for high-quality processed vegetables that can be prepared quickly is also rising. Looking ahead, in the mid- to long-term, we believe that a shortage of personnel will lead to heightened demand for frozen vegetables and frozen cooked meals that can be served quickly with minimal need for cooking or preparation.

In light of these circumstances, perhaps our business' biggest strength is its ability to procure a stable source of good-quality ingredient vegetables through partnerships with producers boasting more than 10,000 hectares of agricultural land. Moreover, while utilizing the group's product development capabilities, we will focus our efforts on two growth markets—pre-made

meals and home-use ingredients—with a particular emphasis on commercial-use products used to prepare side dishes and delivery meals. We will strive to expand the business by providing optimally processed vegetables products for these uses.

We will also continue with efforts to reinforce our ability to procure a stable source of ingredient vegetables by decentralizing our producing regions. This will help us to reduce the impact weather has on market prices and ensure a stable income. Furthermore, we will strive to enhance our earning power by developing advanced processing technologies (such as cutting and freezing technologies), optimizing our production and logistics systems, developing products for health-conscious customers, and taking an omni-channel approach to sales.

**Major Measures in FY2020**

**01. Reinforcing our ability to procure a stable source of ingredient vegetables**

- Strengthening our fresh vegetable business and expanding in-group collaboration with the processing business
- Newly acquiring an ingredient procurement hub in Kyushu (decentralizing our producing regions)
- Strengthening our stable procurement system through EcoFroz, a company we acquired in Ecuador

**02. Strengthening foundations of the beverages business**

- Expanding contract production business through operation of new plastic bottle-filling line at the Hokkaido Eniwa Plant

**03. Improving profitability in ham and deli meats and sweets**

- Improving production plant efficiency
- Promoting cross-group product development and enhancing sales structure



New plastic bottle-filling line at the Hokkaido Eniwa Plant



Our broccoli procurement hub in Ecuador (EcoFroz)

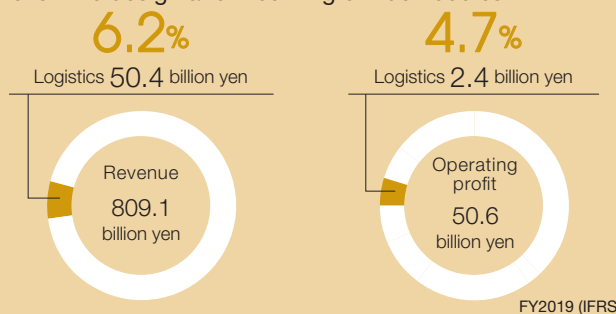
**Business Facts**

- Declining Japanese population leading to lower consumption and labor shortages
- Changes in food perceptions (health-conscious diets, demand for convenience)
- Irregular weather is making procurement of vegetables difficult
- Stagnant growth in restaurant and tourism industry due to COVID-19, and increasing demand for at-home meals

# Logistics Business



The Logistics Business started with the transportation of high-pressure gases, such as industrial and medical gases. Today, utilizing its low-temperature management and transportation technologies, the business has expanded into a variety of fields, including food logistics (mainly third-party logistics [3PL]) and medical logistics for the transportation of blood, as well as general cargo transport, container transport, and even the design and mounting of truck bodies.



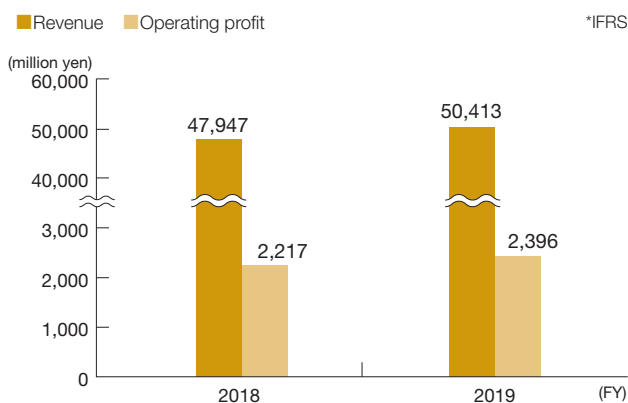
## Review of FY2019

Revenue in the Logistics Business rose 5.1% compared to the previous term to 50.413 billion yen, and operating profit increased 8% to 2.396 billion yen.

In the transport business, thanks to the acquisition of new clients mainly in Hokkaido, freight volumes of livestock feed, construction materials, and other cargo increased. However, due to a slowdown in production activities throughout the manufacturing industry in the second half of the fiscal year, the movement of goods stagnated, and growth was sluggish. Overall, however, the business performed well on account of new delivery management systems that helped to streamline deliveries, and cost improvements that came hand in hand with a drop in diesel prices.

Our 3PL business, which mainly involves food transport, also progressed well. This was down to a number of factors, including increased freight volumes at a new low-temperature logistics center and the start of convenience store deliveries in new areas, as well as correct pricing and enhanced warehouse productivity, both of which offset rising costs associated with labor shortages.

Our vehicle body business, which is in charge of designing and mounting truck bodies and chassis, also performed well due to strong demand for improvement work, as well as increased sales of truck trailers.



## Outlook for FY2020

Although a slowdown in economic activity is expected to lead to lower volumes of automobile- and construction-related freight, for the most part, we expect food logistics for supermarkets and other facilities to perform strongly. We also expect to be able to cut costs as a result of lower diesel prices.

Amid these circumstances, the market for low-temperature logistics is forecast to grow, and so we will move forward with the upscaling of our business foundations mainly through the construction and expansion of low-temperature logistics centers. In December 2019, we began operation of a new low-temperature logistics center in Chitose, Hokkaido, and at our central low-temperature logistics facility in Sapporo, we are making progress with facility expansion work. We are also working to reinforce our logistics arrangement based on ferry transport between Hokkaido and Honshu, and in September 2020, we began construction of a new logistics center in Tomakomai, Hokkaido.

Further, in April 2020 we acquired Katsura Commerce, a company with strengths in the low-temperature transport of vegetables and other products, which helped to reinforce our logistics structure in West Japan.



The Nishiwaki Fulfillment Center of Katsura Commerce, a company we acquired in April 2020

Relevant SDGs



## Providing added-value logistics services through the expansion of our low-temperature logistics business and the creation of an in-house network

Toshiyuki Mukaide  
Acting President, Logistics Company

Looking ahead, growth in the low-temperature logistics segment will be our main priority. We will therefore look to expand our food logistics business, mainly the transport of frozen and chilled foods, using our technologies and expertise in multi-temperature management and other areas.

Further, through well-balanced positioning of our logistics hubs from Hokkaido all the way down to Kyushu, we will organize a central network and build a business platform that ensures stable profits all year round. In addition, through the centralization of group-wide logistics functions, we will seek to optimize costs, streamline warehouse operations, and bring warehousing work in-house. Meanwhile, we understand that areas such as agriculture and food products, as well as health and hygiene materials, are

essential for our customers' daily lives, and so from a business continuity perspective, stable logistics infrastructure in these fields is paramount. In response, in areas such as these where there is high demand, we will look to bring operations in-house where possible, and streamline outsourced work through centralized management and operation. At the same time, we will work to revise rising logistics costs caused by workstyle reforms among truck drivers.

Regarding new endeavors, we will place particular focus on "venous" fields such as disposal, collection, and returns, and make new efforts in growing markets that contribute to the creation of recycling-oriented local societies, through use of food residue and medical waste.

### Major Measures in FY2020

#### 01. Creating an in-house logistics network

- Reinforcing logistics to the metropolitan area based on ferry transport and through utilization of newly established logistics centers in Atsugi, Chitose, Ibaraki, and Tomakomai (currently under construction)
- Expanding business foundations in West Japan using the logistics infrastructure of Katsura Commerce, a company we acquired in April 2020

#### 02. Expanding business predominantly in low-temperature logistics

- Further expanding our 3PL business
- Promoting further streamlining and labor savings in transport operations
- Promoting correct pricing

#### 03. Taking on new business fields

- Developing new businesses using food residue
- Reinforcing medical waste collection business



Ferry transportation between Hokkaido and Honshu (containers)

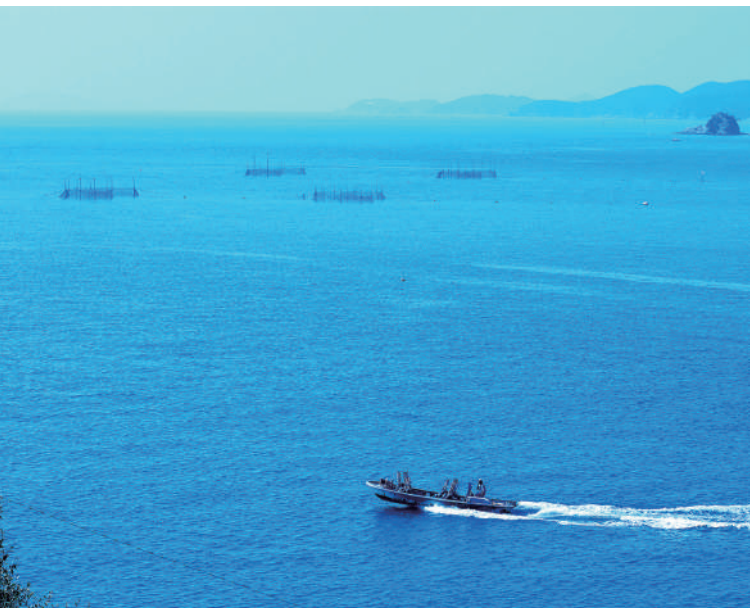


Operations have begun at the Kita-Kanto Logistics Center in Ibaraki

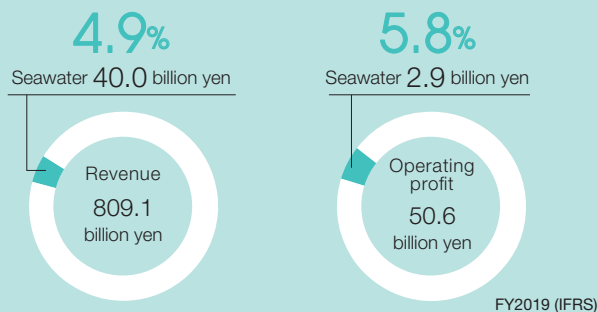
### Business Facts

- Catering to workstyle reforms; shortage of truck drivers
- Long-term declining trend in Japanese freight transport; average annual growth rate of 2% in the low-temperature food logistics market
- Diversifying cargo owner needs and advanced quality control requirements
- Increasing importance of "reverse" fields in anticipation of a society that recycles the earth's resources

# Seawater Business



Our Seawater Business is based on a long tradition of salt production, and we are proud to hold the top share of the Japanese industrial and household salt markets. Our operations in this segment are aimed at upholding the stable supply of this basic necessity, and providing seawater-derived foods and environmental products. Beyond these, we pursue a variety of activities aimed at extracting maximum potential from seawater. For instance, our crystal control technologies enable us to develop high-value-added magnesia products.



## Review of FY2019

Revenue in the Seawater Business was 39,986 billion yen, marking a 0.6% decrease over the previous term. Operating profit rose 24.4% to 2,935 billion yen.

The salt business performed well thanks to growing sales of specially manufactured salt, enhanced production efficiency, and price revisions of industrial salt—an initiative we began last fiscal year. In the environmental business, a large drop in sales of magnesium hydroxide, which is used for the desulfurization of flue gas, meant that results suffered. In our power generation business, meanwhile, a higher ratio of under-utilized materials in our woody biomass fuel led to improved profitability and steady growth overall. The food products business also progressed well due to the start of operations at a new plant and enhanced production efficiency, as well as an increase in sales of seaweed products for convenience stores. The sewage pipe renewals business also performed well.

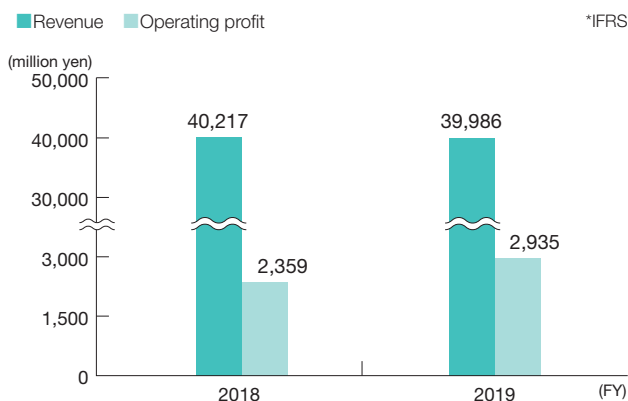
In our magnesia business, although sales fell for general ceramic magnesia products, such as those for fire-resistant bricks, profits remained robust thanks to heightened global sales of magnesia for magnetic steel

sheets, and profit improvements brought on by a drop in price of the raw materials used to produce fused magnesia for heaters.

## Outlook for FY2020

Due to the impacts of the COVID-19 pandemic, we anticipate a drop in sales of industrial salt, environmental products such as magnesium hydroxide, and magnesia for heaters. However, on the back of increased demand brought on by stronger global environmental regulations, we will work to expand sales of environmental products such as water and soil treatment agents, predominantly in Taiwan and Southeast Asia. Regarding our electricity business, in January 2021 we began operations at the Aiko No. 2 Biomass Power Station (Aiko, Hyogo), which we anticipate will contribute to stable profits. We also expect steady growth in our city infrastructure operations, which include water treatment facilities and sewage pipe renewals. We will also work to expand sales of magnesia for magnetic steel sheets in China and other countries, and make efforts to enhance production efficiency to improve profitability.

Mainly in our environmental businesses, we will endeavor to develop new businesses that contribute to the achievement of the SDGs.





Relevant SDGs



## Expanding our activity in and pushing back the frontiers of the seawater industry through the development of new seawater-based products and new business creation

Masahiro Kanazawa  
President, Seawater Company

Led by businesses in which we have a high market share, such as industrial salt and magnesia for magnetic steel sheets, our strengths lie in an array of seawater-derived operations, such as those relating to the environment, food products, electricity, and city infrastructure (water treatment and sewage pipe renewals).

Although we expect stable growth in all of these businesses, in our environmental business, which makes advanced use of seawater separation and extraction technologies accumulated in our seawater business, we expect high growth going forward due to increased product demand. Specifically, stronger environmental regulations in Asia and other regions are

expected to drive sales of magnesium hydroxide for the desulfurization of flue gas, as well as READ (rare-earth) absorbents used in wastewater treatment. Looking ahead, Air Water has positioned these operations as growth pillars, and will place particular focus on them as it aims to become a company that provides comprehensive environmental solutions.

Further, as we aim to push back the frontiers of the seawater industry, we will make multilateral, dynamic efforts to create new seawater-derived products and businesses, such as the aquarium business (based on our artificial seawater), magnesium supplements, chemical thermal storage materials, and thermally conductive semiconductor materials.

### Major Measures in FY2020

#### 01. Expanding our electricity business

- Beginning operations at the Ako No. 2 Woody Biomass Power Station (scheduled for January 2021)

#### 02. Expanding our environmental business

- Expanding the water treatment facility business, mainly in public construction works
- Expanding global sales of water treatment agents, mainly in Taiwan and Southeast Asia

#### 03. Expanding our magnesia business

- Expanding sales of magnesia for magnetic steel sheets in China and Eastern Europe



The Ako No. 2 Woody Biomass Power Station, which began operations in January 2021



Water treatment and absorbent agent produced by Nihonkaisui

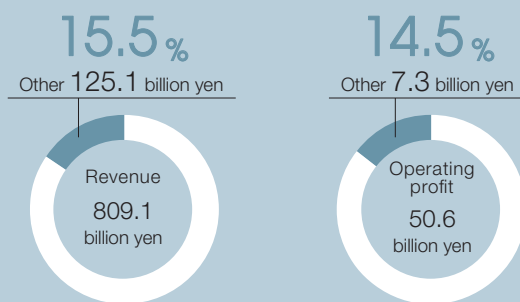
### Business Facts

- Declining demand for salt due to falling population and low-sodium diets
- Expanding environmental product market due to stronger environmental regulations
- Expanding demand for infrastructure improvements (e.g., water supply and sewer systems)
- Expanding demand for magnetic steel sheets due to advances in global electricity infrastructure

# Other Businesses (incl. Aerosol Business)



With unique technologies and products such as aerosols, electronics materials, and O-rings, operations in this segment underpin the growth of the Air Water Group. We are also taking on new fields such as woody biomass power generation and global engineering.



FY2019 (IFRS)

## Review of FY2019

Revenue in this segment stood at 125.057 billion yen for a 33.5% increase over the previous term, while operating profit increased 116.1% to 7.338 billion yen.

In the aerosol business, soaring demand in China the previous fiscal year saw a drop in contract production of UV cut sprays, while increases in depreciation and other costs due to the start of operations at a new factory meant that, overall, results suffered.

The electronics materials business felt the impact of a deceleration in economic activity in China, and sales of wire harnesses and other products for automobiles decreased. In Japan, however, sales of chemicals and other products for semiconductors and chemical industries were robust, while equity profits of our overseas subsidiaries increased. As such, results in the electronics materials business overall were on par with the previous year.

Our global engineering business performed well thanks to a number of factors—the industrial gas equipment segment saw steady sales of low-temperature liquefied gas tanks and carbon

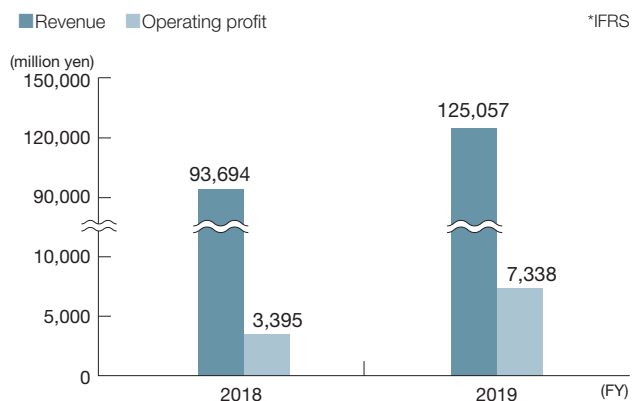
dioxide equipment in North America, while enhanced efficiency and lower procurement costs mainly at our production sites in Malaysia also contributed. High-power UPS systems also saw solid results owing to increased demand for their use in data centers in Singapore. Results in this segment also benefited from the consolidation of Hitec Power Protection in the Netherlands, a high-power UPS manufacturer we acquired this fiscal year.

Elsewhere, continued stable operations at our woody biomass and coal co-fired power generation plant in Hofu, Yamaguchi, which began operating in July of last year, led to solid results in our electricity business.

## Outlook for FY2020

In the aerosol business we expect further demand for contract production of infection prevention products such as alcohol-based disinfectant. Meanwhile, although the global engineering business is likely to be affected by delays to high-power UPS projects, integrated management of the two companies we newly acquired will enable us to create a cost-competitive global sales and engineering framework, which will allow us to cater to increasing demand from the growing data center and semiconductor markets. In the industrial gas equipment segment, we forecast steady sales of liquefied hydrogen tanks and other equipment in the North American market.

In electricity, not only will we continue with stable operation of our woody biomass and coal co-fired power generation plant in Hofu, Yamaguchi (which began operation in July 2019), we are also moving forward with construction of a woody biomass mono-fired power plant in Iwaki, Fukushima, where we hope to begin operations in April 2021. In the O-ring business, which produces and sells machine-use seal components, we anticipate steady sales for semiconductor manufacturing systems.



Relevant SDGs



Major Measures in FY2020

Global Engineering

- Building foundations for the gas business in North America, and expanding sales of low-temperature equipment, etc.
- Establishing a global sales framework for the high-power UPS system business

Electronics Materials

- Expanding sales of automotive electronics materials

Aerosol

- Increasing contract production of infection prevention products, such as alcohol-based disinfectant

Other

- Stable operation of woody biomass plant, and construction of new power plant to be launched next fiscal year
- Expanding sales of seal components for semiconductor manufacturing equipment

Global Engineering

Engineering and Equipment

In the North American market, we produce and sell industrial-use low-temperature equipment—both stationary-type and those for transport—and carbon dioxide equipment, while we also undertake engineering work for industrial gas production plants. Through these businesses, not only are we increasing the presence of the Air Water brand, by reinforcing partnerships with gas dealers, we are building an industrial gas business especially for the North American market.



High-power UPS Systems

High-power uninterruptible power supplies (UPS) are essential for avoiding power supply issues—such as voltage dips and power outages—and ensuring stable operation in semiconductor factories and data centers. Through Power Partners (Singapore) and Hitec Holding (the Netherlands), we are providing safe and reliable, optimal UPS solutions to our customers.



Electronics Materials

Leveraging its global network, Air Water offers a wide range of chemical products for various industries, from basic chemicals to high-purity chemicals, electric insulating materials and resin molded items for the electronics field. Air Water also jointly develops materials for customer products with manufacturers and provides state-of-the-art information and materials.



Aerosol

Air Water conducts a broad range of businesses on an OEM/ODM basis, flexibly responding to diverse needs of customers by manufacturing aerosol products and other liquid-filled products in both large and small lots, from items for the human body and household commodities to paint, automotive parts, and industrial items.



Other

Electricity

To ensure business continuity in all circumstances, including major disasters, we believe it is crucial to become self-sufficient by securing baseload power. To this end, we have begun power generation using woody biomass, a renewable energy source. We plan to operate four power generation units by 2023, and when all are running, they will generate the equivalent of 80 percent of the Air Water Group's power consumption. We are also engaged in small-scale power generation using woody biomass, and are working to establish a renewable energy use model for local communities.

Air Water & Energia Power Yamaguchi (Hofu City, Yamaguchi)



Woody biomass and coal co-fired power generation  
Generation capacity: approx. 112,000 kW  
(Began operations in July 2019)

Air Water & Energia Power Onahama (Iwaki City, Fukushima)



Woody biomass mono-fired power generation  
Generation capacity: approx. 75,000 kW  
(Start of operation scheduled for April 2021)

O-rings

Air Water manufactures and sells various types of seal materials such as rubber O-rings and other rubber products for industrial use. For semiconductor manufacturing systems, we offer a lineup under the Pororoca brand of ultra high-performance rubber O-rings. We also sell O-rings made of perfluoroelastomer (FFKM), which have the world's highest level of heat resistance, and O-rings made from general-purpose fluoroelastomer rubber (FKM).



# Air Water's Approach to ESG

The origins of our business can be found in its name, which consists of two words: "air" and "water." Our aim is to create businesses by making use of these natural resources and thereby contribute broadly to society and everyday life. This means that our business activities are closely linked to ensuring social and environmental sustainability.

As our group companies cooperate in conducting diverse businesses to support social development and enriched living, we bear responsibilities toward a broad range of our stakeholders; namely, the "responsibility of a company" to aim for growth together with its employees, shareholders, investors, suppliers, and other business partners through the sustainable growth of our group companies, and the "responsibility of a corporate citizen" to contribute to sustainability in our global environment and local communities.

To ensure sustainable growth alongside our stakeholders, we must proceed with ESG-driven management, placing the utmost importance on the environment, society, and corporate governance. At Air Water, sustainability is an integral criterion of our business, and ESG management will lead us toward sustainable growth.

Being constantly aware of its multifaceted responsibilities, Air Water will drive ESG management from the standpoint of its stakeholders to raise its corporate value.



## Enhancement of ESG Management

Environment



Social



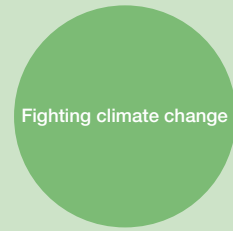
Governance





The Air Water Group's business activities are founded on harnessing natural resources like air and water. As such, not only is environmental conservation essential to sustainable corporate growth, but it is only right that we lead efforts to preserve the global environment for future generations. To that end, we have brought the issue front-and-center by establishing our key environmental challenge as "fighting climate change" in 2019, and the whole group is working hard to reduce greenhouse gas emissions.

Key environmental challenge

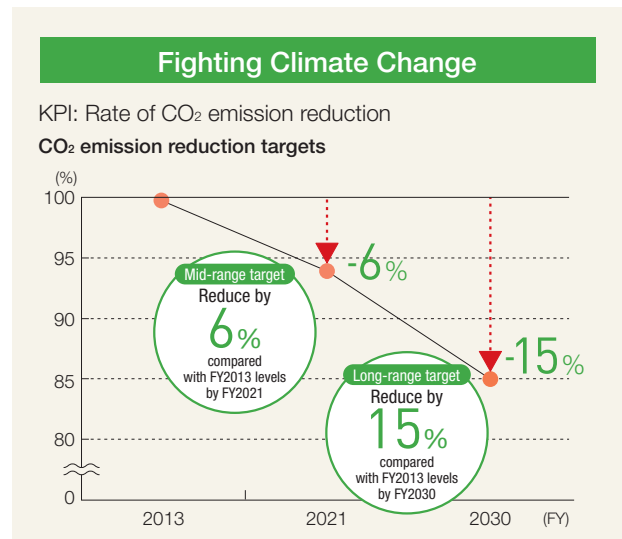


## Key Performance Indicators

Air Water has established "fighting climate change" as its key management challenge. Further, we have also established a greenhouse gas (i.e., carbon dioxide) emission reduction target to chart our progress, and announced that target as one of the group's KPIs in NEXT-2020 Final, our mid-term management plan.

To hit this target, we are working to reduce our CO<sub>2</sub> emissions by making capital investments in high-efficiency equipment, implementing thorough energy-saving activities through operational improvements, and proactively developing personnel to lead the next generation of energy-saving measures.

In addition to our own efforts, we are working to calculate emissions throughout our supply chain, beginning by gauging the CO<sub>2</sub> emissions (Scope 3) of our clients and customers.



## Environmental Management

### Air Water Group Basic Environmental Policy

The Air Water Group's business activities have been founded on harnessing natural resources like air and water. As such, seeing environmental conservation as essential to sustainable corporate growth, we have long worked to reduce our environmental impact. To guide us in the right direction, in 2000 we formulated the Air Water Group Basic Environmental Policy, and have been working as a group to preserve our natural environment.

### Environmental Management System

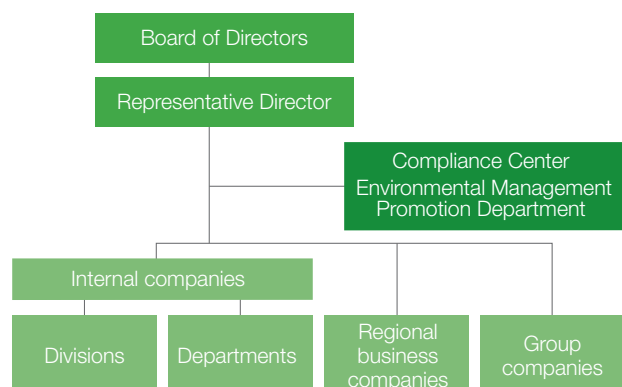
The Air Water Group's representative director works as the chief executive of environmental management. Each Company, business division, plant, and group company nominates an environmental officer to minimize environment-related risks. Specifically, environmental officers ensure strict compliance with environmental laws and regulations, and strive to reduce our environmental impact by cutting back greenhouse gas emissions and promoting effective use of water resources. At companies and plants that use a particularly large amount of energy within the group, legally appointed managers ensure strict energy usage management.

Further, through the environmental officers at each group company and plant, the Compliance Center's Environmental Management Promotion Department provides guidance on compliance with laws and regulations, and promotes activities to reduce environmental impact. In addition, mainly at plants with a high risk of environmental noncompliance, we carry out regular

environmental audits and check whether appropriate environmental management is in place. We also host annual training seminars where we develop individuals that can take charge of risk minimization. Elsewhere, we host annual liaison meetings with our energy management staff as one of our efforts to fight climate change and develop our personnel. Here, we offer the relevant education to managers of plants and companies that use large amounts of energy, and provide a platform for information exchange.

Moreover, 33 Air Water Group companies have acquired environmental management certifications that include ISO 14001, EcoAction 21, and Green Management. Through external examining authorities such as these, we are working to further enhance the efficiency of our environmental management.

### The Air Water Group's Environmental Management System



## Air Water Group Basic Environmental Policy

### Basic Philosophy

We are concerned not only with harnessing air and water resources to make products that benefit industry and lifestyles, but also with ensuring our manufacturing benefits nature itself. Having served their commercial purpose, those resources should return gently and cleanly to their original

environment. As a company founded on the laws of nature and the cycle of natural life, acting in accordance with this philosophy is our responsibility to future generations.

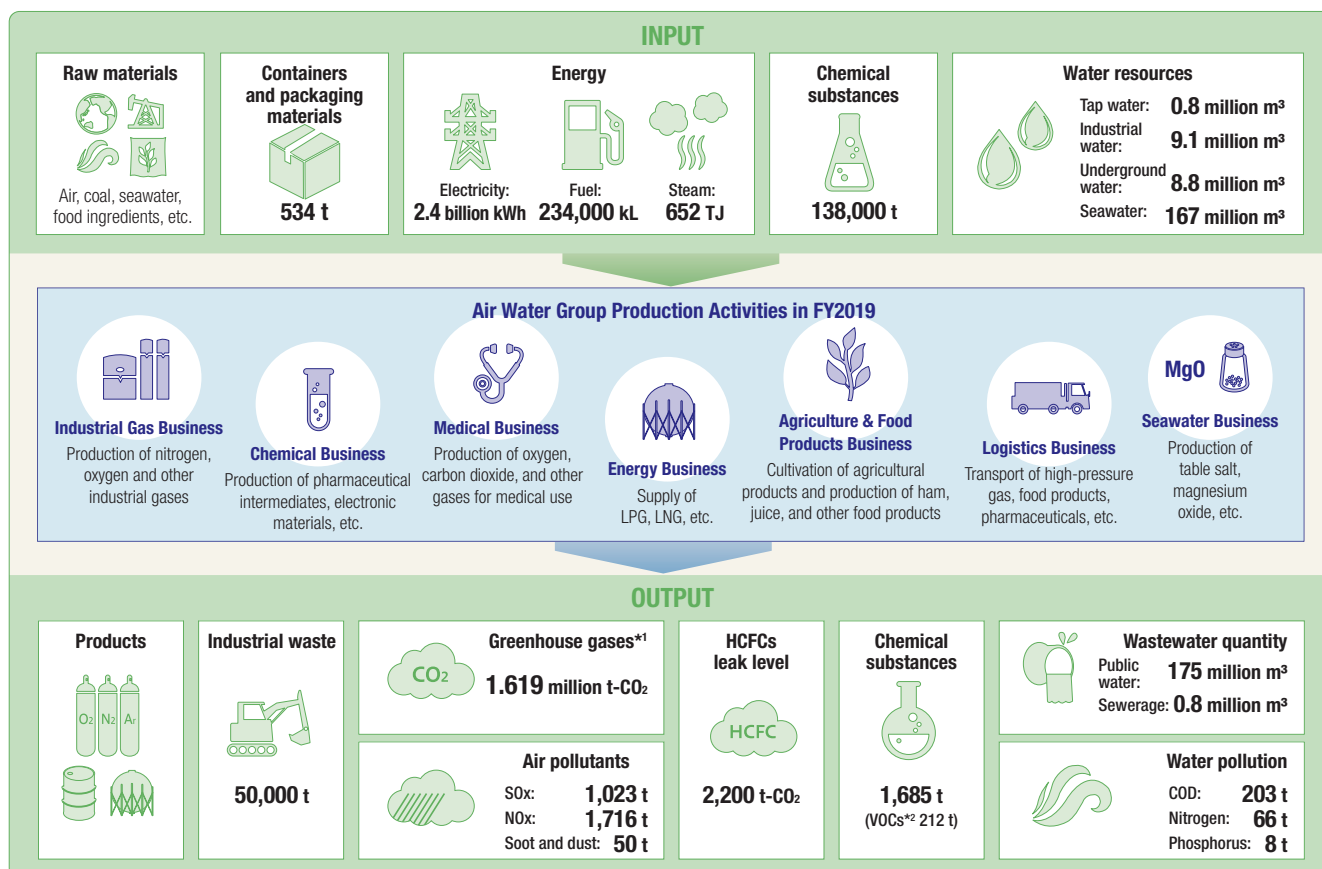
### Basic Policy

- 1 We work on prevention of environmental pollution, global warming countermeasures (mitigation of and adaptation to 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. 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 effect on local residents and employees.
- 5 Our research & development gives consideration to the environment, safety, and quality, and provides products and goods and develops technologies that contribute to the environment.
- 6 We promote acquisition of the ISO 14001 international standard for environmental management systems, and arrange structures for implementing our Basic Environmental Policy.
- 7 We use internal publicity and other activities to boost the understanding and awareness of all employees regarding the Air Water Group Basic Environmental Policy. We disclose this Basic Environmental Policy to the general public.

### Material Balance

The Air Water Group works to reduce its environmental load by tracking its total environmental impact (material balance), from inputs like resources and energy to outputs like greenhouse gases and waste at our major plants. Specifically, we collect the

following data from group companies with high environmental impact who by law are required to submit reports (CO<sub>2</sub> emission coverage: 95% or more).



\*<sup>1</sup> Energy-derived greenhouse gases \*<sup>2</sup> Volatile organic compounds

#### Scope of collection of environmental performance data

82 domestic plants of Air Water and 37 consolidated subsidiaries with high environmental impact\* in FY2019 (38 companies in total)

Industrial Gas: 16 companies; Chemical: 4 companies; Medical: 2 companies; Agriculture and Food Products: 8 companies; Logistics: 1 company; Seawater: 2 companies; Other: 4 companies

\*Definition of plants with high environmental impact

Act on the Rational Use of Energy: Energy management industries; Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof: Plants that release and transfer more than one ton of Class I designated chemical substances into the atmosphere; Waste Disposal Law: Businesses discharging large amounts of waste; Act on Improvement of Pollution Prevention Systems in Specified Factories: Specified plants

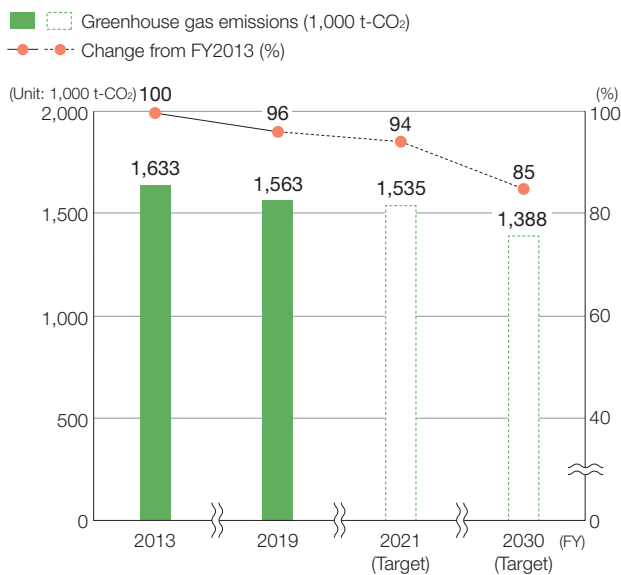
## Fighting Climate Change

In December 2015, the United Nations Climate Change Conference adopted the Paris Agreement, which aims to limit the average global temperature increase to below 2°C above preindustrial levels. At the Air Water Group, we use vast amounts of energy in our business activities—such as in the production of oxygen and nitrogen at industrial gas plants—and emit large volumes of carbon dioxide. We understand that climate change is a huge risk associated with our continued business activities, and are thus making groupwide efforts to reduce the amount of CO<sub>2</sub> we release into the atmosphere.

## Reducing CO<sub>2</sub> Emissions

At the Air Water Group, we are striving to meet our CO<sub>2</sub> reduction targets through efficient plant operations and by installing the latest high-efficiency equipment. In fiscal 2019, emissions by our group companies classified as Specified Business Operators under the Act on the Rational Use of Energy were 4.3% lower than fiscal 2013 levels (reduction of 70,000 t-CO<sub>2</sub>). We will continue to strengthen our efforts to reduce CO<sub>2</sub> emissions.

### CO<sub>2</sub> emission reduction targets



Scope of collection: Companies classified as Specified Business Operators under the Act on the Rational Use of Energy (Air Water and 31 group companies [32 companies in total])

## Major Initiatives Aimed at Reducing CO<sub>2</sub> Emissions

At the Air Water Group, particularly at energy-hungry group companies classified as Specified Business Operators under the Act on the Rational Use of Energy, we have formulated a mid-to-long-term plan which sets forth actions such as capital investment and improved operations. Through this plan we aim to reduce CO<sub>2</sub> emissions in the mid to long term. Key initiatives stipulated in the plan for fiscal 2020 are shown in the following table.

### The Air Water Group's Mid-to-Long-Term Plan to Cut CO<sub>2</sub> Emissions (From FY2020 onwards)

Business area	Major initiatives	Reduction (t-CO <sub>2</sub> /year)
Industrial	<ul style="list-style-type: none"> <li>Improve equipment for reuse of nitrogen plant waste gas</li> <li>Upgrade compressor equipment</li> </ul>	8,881
Seawater	<ul style="list-style-type: none"> <li>Improve firing efficiency through installation of new kilns</li> <li>Upgrade ion exchange membranes</li> </ul>	2,660
Agriculture and Food Products	<ul style="list-style-type: none"> <li>Collect heat from warm wastewater</li> <li>Save energy used for drying machines by reducing ratio of sludge water</li> </ul>	2,444
Chemical	<ul style="list-style-type: none"> <li>Install waste heat collection equipment</li> </ul>	1,620
Other	<ul style="list-style-type: none"> <li>Switch to inverter pumps</li> </ul>	114
<b>Total</b>		<b>15,719</b>

Please see our website for more details on our fight against climate change.

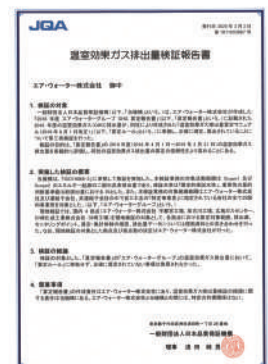


Initiatives to fight climate change  
<https://www.awi.co.jp/esg/environment/save.html>

## Third-party Verification of Greenhouse Gas Emissions

The Air Water Group discloses greenhouse gas emissions in the Air Water Report and on its website. To ensure that the data we provide are highly transparent and verified from an independent, objective perspective, we have received third-party verification for our greenhouse gas emissions since fiscal 2017.

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



Greenhouse Gas Emission Verification Report

## CDP Evaluation

The Air Water Group takes part in surveys by the CDP,\* an organization that collects information on and evaluates climate change activities by major global companies. As a result, we were rated A- for our outstanding climate change efforts and information disclosure.



\*An international non-profit organization based in London. Aiming to promote corporate efforts toward a low-carbon society, CDP considers climate-related management risks, collects, analyzes, and evaluates climate change information from major global companies, and discloses the results to institutional investors.

## Supply Chain CO<sub>2</sub> Emissions

In recent years, calls for corporations to disclose their indirect CO<sub>2</sub> emissions—that is, throughout their supply chain—have been growing louder. As such, in addition to the CO<sub>2</sub> emissions from its own energy usage (Scope 1 and 2), the Air Water Group has also begun calculating emissions throughout its supply chain (Scope 3).

Based on the Ministry of the Environment's Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain, CO<sub>2</sub> emissions are calculated by category.

	CO <sub>2</sub> emissions (1,000 t-CO <sub>2</sub> )	Notes
Scope 1	289	Direct emissions generated through use of in-house fuel, etc.
Scope 2	1,274	Indirect emissions generated through use of electricity, steam, etc., from other companies
Scope 3	2,366	Indirect emissions generated through business activities across the supply chain

### Calculated Scope 3 emissions

Category		CO <sub>2</sub> emissions (1,000 t-CO <sub>2</sub> )
1	Purchased goods and services	493
2	Capital goods	191
3	Fuel and energy-related activities not included in Scope 1 or 2	206
4	Transportation and delivery (upstream)	32
5	Waste generated in operations	15
6	Business travel	2
7	Employee commuting	4
8	Leased assets (upstream)	-
9	Transportation and delivery (downstream)	-
10	Processing of sold products	-
11	Use of sold products	1,422
12	End-of-life treatment of sold products	-
13	Leased assets (downstream)	-
14	Franchises	-
15	Investments	-
<b>Total</b>		<b>2,366</b>

\*Due to calculation difficulties, categories 10 and 12 are currently not included in the total. None of the Air Water Group's businesses are relevant to categories 8, 9, 13, 14, or 15.

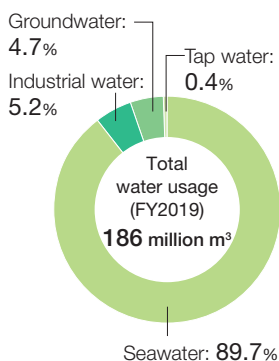
## Use of Water Resources

At the Air Water Group, our manufacturing processes rely heavily on water.

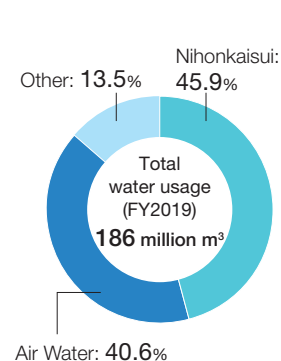
Around 90% of the water we use is seawater, an almost infinite resource. Further, Nihonkaisui and Air Water account for more than 80% of the group's water usage.

Nihonkaisui uses seawater to produce table salt, while Air Water uses seawater to cool compressed air when producing industrial gases such as oxygen, nitrogen, and argon at the Kashima Plant. Although this seawater doesn't come into contact with any chemical substances and is thus almost never contaminated, based on the Water Pollution Control Act we analyze water quality and confirm its safety before releasing it back into the sea.

### Water Usage (by source)



### Water Usage (by company)



## Reducing Water Usage and Promoting Effective Use

Having upgraded the pure water generation equipment at its Ako Plant, in fiscal 2019 Nihonkaisui reduced its tap water usage by approximately 10%. In fiscal 2020, Nihonkaisui begun work to reuse drain water—a product of the steam used for salt production—to cool its Ako No. 2 Biomass Power Station. This reused coolant is equivalent to around 1% of the Air Water Group's annual freshwater\* usage.

Further, the distilled water generated through salt production at Nihonkaisui's Sanuki Plant is utilized as a freshwater resource to produce safe drinking water. This drinking water is sold as AW Water through our water delivery service. Moreover, as the product started as seawater, there is no risk of depletion, and we can continue to ensure a stable supply going forward.

\*Tap water, industrial water, and groundwater



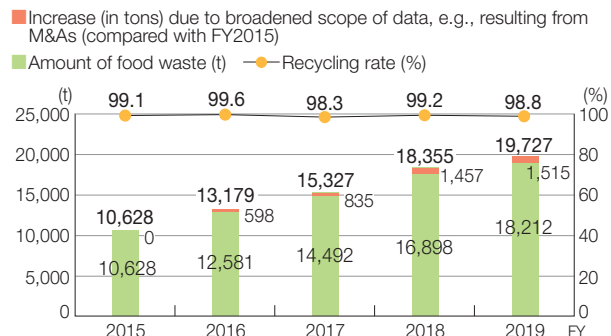
AW Water sold through our delivery service



## Effective Use of Food Waste

The food waste generated through agriculture and the production of food products at the Air Water Group's plants is recycled according to Japan's Food Recycling Law. Our food recycling rate exceeds the 95 percent target set by the government, and thus we are making steady contributions to a recycling-oriented society.

### Food Waste and Recycling Rate



Scope of collection: Businesses generating large amounts of food waste under the Food Recycling Law

## Generating Biogas through Methane Fermentation

Air Water has been working to develop a methane fermentation plant which uses food waste from the production of agriculture and food products. Since September 2018, we have been carrying out tests at a demonstration plant. Currently, we are reusing food waste such as coffee grounds and the discarded portions of apples from two manufacturing plants of Gold-Pak (a group company engaged in the contract production of beverages based in Azumino and Matsumoto, Nagano Prefecture) to generate biogas. In the future, in addition to food waste, we hope to use crop stems and other agricultural waste to generate biogas which can be used for power generation or as boiler fuel. We also plan to treat and use the fermentation residue. In fiscal 2022, meanwhile, we plan to open a commercial methane fermentation plant which we forecast will be able to treat more than 10 tons of waste per day, more than ten times our current capability. With the cooperation of our local communities, we will continue to look for ways to make effective use of agriculture and food waste.



Methane fermentation demonstration plant

## TOPICS

### Eligibility for the DBJ Environmentally Rated Loan Program

In March 2020, Air Water was ranked as "a company with excellent advanced environmental initiatives" by the Development Bank of Japan (DBJ). We were highly rated in a number of areas, such as our firm implementation of environmental management across the group, our efforts to reduce the environmental impact of our business activities through endless improvements and ongoing investments in environmental conservation, and our development of businesses that contribute to the solution of social challenges. This ranking made us eligible for loans under the DBJ Environmentally Rated Loan Program.



2019

In March 2020, Air Water received a Development Bank of Japan loan based on the DBJ Environmentally Rated Loan Program.

\*A global first, DBJ offers preferential loans based on the degree to which corporations carry out environmental management.

### Succinic Acid Production for Biodegradable Plastics

In addition to its main application in bathing agents, the succinic acid produced by Kawasaki Kasei Chemicals, an Air Water Group company, is also used to produce biodegradable plastics. Although used in the same way as regular plastics, biodegradable plastics have minimal impact on the environment. That is, they can be decomposed by microorganisms into water and carbon dioxide. With heightened demand for succinic acid in recent years, Kawasaki Kasei Chemicals is upgrading its facilities to boost production capacity.



Kawasaki Kasei Chemicals

### Initiatives to Reduce Plastic Use in the Beverages Business

Gold-Pak is an Air Water Group company that undertakes contract production of beverages for leading drinks manufacturers. In February 2020, the company installed a new production line at its Eniwa Plant (Eniwa, Hokkaido) capable of making plastic bottles that cut plastic use by approximately half compared to conventional bottles.

An essential element of this new equipment is the aseptic filling line. Conventionally, drinks were put into their containers at high temperatures before being sterilized. With this new line, however, drinks that have already been rapidly sterilized at high temperatures are instantly cooled, and then put into their containers in an aseptic environment. This means that plastic bottles and caps do not need to be as thick, which has enabled the use of bottles that are made with just half the amount of plastic.

In addition to the aseptic filling line, the plant also installed new blow-molding equipment that can form plastic bottles from preforms as small as test tubes. Although previously ready-made plastic bottles would be delivered to the plant, this new equipment has allowed them to be produced in-house. As large volumes of these bulky plastic bottles no longer need to be transported, the CO<sub>2</sub> emissions from transport operations have been reduced.

In this way, Gold-Pak is also engaged in initiatives to reduce the environmental impact of its logistics activities.



Plastic bottles on the aseptic filling line are formed from test tube-size preforms and use half the amount of plastic compared to regular plastic bottles

# Social

Products and services provided by Air Water contribute to people and society in broad fields, such as manufacturing, medical and nursing care, food, energy, and logistics. NEXT-2020 Final, the mid-term management plan we launched in fiscal 2019, obliges the group to take action to address workforce potential (diversity and promotion of women's participation and advancement), elimination of industrial accidents, and improved compliance relating to quality.

## Key social challenges

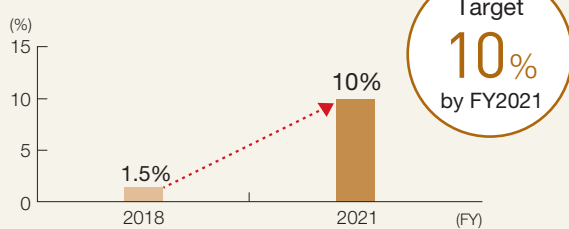


## Key Performance Indicators

Targets for improving the gender balance of management-level employees and reducing the frequency rate of accidents associated with days away from work are set as KPIs in NEXT-2020 Final, our mid-term management plan for fiscal 2019–fiscal 2021.

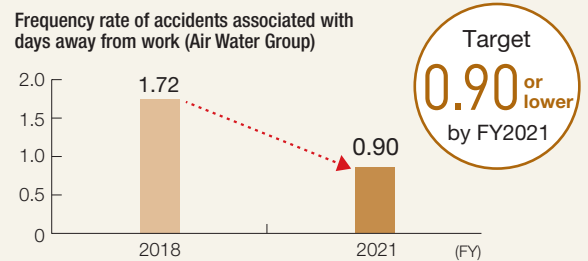
### Promotion of Women's Participation and Advancement

KPI: Gender balance of management-level employees  
% of women in managerial positions (Air Water only)



### Elimination of Industrial Accidents

KPI: Frequency rate of accidents associated with days away from work\*



\*Number of people involved in an accident per one million total working hours

## Workforce Diversity (Commitment to Employees)

### Basic Policy on Human Resources (Respect for Diversity)

The Air Water Group comprises 281 group companies from 17 different countries, with a global workforce that exceeds 20,000. Each and every one of our employees is given a platform to succeed regardless of their gender, age, race, nationality, or any other individual characteristic, accompanied with full respect for their fundamental human rights. We therefore promote diversity throughout the group, and engage in personnel development that maximizes the diverse characteristics of our workforce.

#### 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, gender 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.

## Promotion of Personnel Reform

The Air Water Group understands that a diverse workforce is essential if it is to continue its wide-ranging global business activities and achieve corporate growth. As such, to make the most of our employees' diverse ideas and abilities, we are implementing reforms in the following four areas: Employment; Personnel development and utilization; Compensation and systems; and Education/training and health management.

### Concurrent growth of personnel and businesses

- Developing next-generation group senior management
- Enhancing education and training systems
- Promoting groupwide health management
- Promoting employment of new graduates and mid-career professionals
- Reinforcing employment systems to drive global expansion



## Employment

### Reinforcing Employment Systems to Drive Global Expansion

In fiscal 2019, the Air Water Group launched the Global Challenge Recruit program in order to hire new graduates and mid-career professionals capable of supporting the group's global growth. In addition to the special selection of personnel with outstanding language, interpersonal, and fundamental skills, the group is offering attractive employment conditions to acquire leaders who can drive future global expansion of the Air Water Group.

## Personnel Development and Utilization

### Promoting Cross-department and Cross-company Transfers

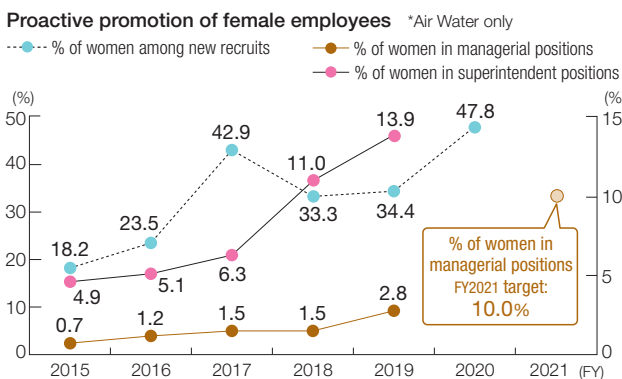
As we aim to maximize the diversity of our workforce and improve results, one of the challenges we face is enhancing workforce mobility and revitalizing the organization. We have therefore established a set of criteria for the number of years served at our departments and group companies, and are promoting the transfer of long-term employees.

Further, to promote independent career development, every two years our employees can request transfers through our Career Path Design System, while they are also able to hold discussions with their managers regarding their future. In these and other ways we are supporting employees' endeavors in diverse fields.

### Promoting Women's Participation and Advancement

The Women's Participation and Advancement Promotion Project was launched in 2016 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. As one part of this project, we are constantly working to gauge conditions in our workplace environments and make the necessary improvements. For example, in September 2019 we held a "workplace culture survey" with around 800 Air Water employees. The results helped us to make improvements, such as the establishment of an outside consultation desk.

Further, in our NEXT-2020 Final mid-term management plan, we set ourselves a target to raise the percentage of female managers from 1.5% in fiscal 2018 to 10% in fiscal 2021, and are actively promoting women who are motivated to succeed. In addition, as a result of efforts to raise the percentage of female employees among new recruits to more than 30%, in fiscal 2020 we exceeded this target, with women making up more than 40% of all new recruits.



\*Figures for % of women in managerial positions and superintendent positions are current as of the end of the fiscal year.

## Compensation and Systems

### Encouraging Early Promotion to Managerial Positions

To encourage the early promotion of young employees to managerial positions, we revised our personnel systems and lowered the age requirement for managers to 33, an age we will look to lower even further in the future.

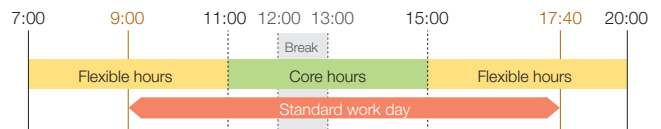
## Promoting a Healthy Work-Life Balance

### Flexible Working Options

We have in place an array of systems that enable employees to continue working at Air Water. These include a flex time program, a leave of absence program to be used upon a spouse's transfer, a job return program, and support programs for nursing care leave. In addition, we encourage male employees to take childcare leave, and have established our own program through which employees can use the annual paid-leave they have accumulated through a separate program together with their childcare leave.

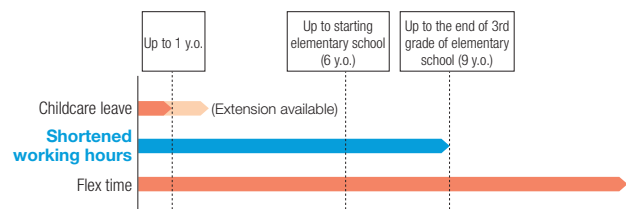
#### 1. Flex Time

(Eligibility: From October 2020, applies to all Air Water employees who are not shift workers)



#### 2. Shortened Working Hours

(Available until employee's child finishes 3rd grade of elementary school)



### Annual Paid-leave Program

Aiming to have our workforce use more than 60% of their paid leave, we are promoting the use of our annual paid-leave program. Looking ahead, we will continue working to raise the rate of employees using their paid leave.

**Annual paid leave acquisition ratio** % using more than 60%

FY2015	FY2016	FY2017	FY2018	FY2019
40.3%	45.9%	47.0%	51.4%	53.9%

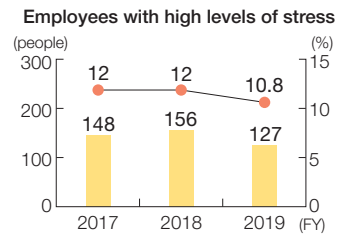
\*Air Water employees only

\*Excluding mid-year retirees and employees assigned from group companies

### 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. In fiscal 2019, 1,178 employees underwent stress checks, and of those 127 (10.8%) were determined to be under high levels of stress.

The results of the stress check are conveyed directly by the outside professional organization to the employees checked, and employees are also able to consult with specialists via an outside consultation desk without going through the company. Employees who do report to the company are able to talk with an industrial physician or other specialist and receive guidance, and we are working to ensure that these efforts lead to the early detection and treatment of mental health issues.



\*Air Water only

### Outside Consultation Desk

At Air Water, we have established an outside consultation desk to support the physical and mental well-being of our employees. In the strictest confidentiality, employees and their immediate families can speak with professional counsellors free of charge regarding any troubles or worries with home or work. In these and other ways we are striving to create a comfortable working environment for all our employees.

## Education/Training

### Employee Training

In addition to rank-specific training, which is provided based on individual skill-levels, Air Water offers an array of other training programs that help employees acquire the expertise and skills necessary for their business or department. Rank-specific training is offered to every employee, from new recruits all the way up to managers.

In fiscal 2020 we launched the Air Water Group Academy, a new training system for new recruits headed by the president. New recruits undergo training here for two years, during which they are expected to develop an understanding of the company and of their work, as well become able to independently develop their own careers. In the mid to long term, this new academy will facilitate development of the next generation of Air Water Group leaders.

Elsewhere, in addition to sector-specific specialist training, such as that held by the Compliance Center and continuous MR training held by medical departments, we also are also expanding our range of language training courses.

### Training structure (as of September 2020)

	Rank-specific training	Language skills training	Manufacturing skills training	Sector-specific specialist training	Skill development assistance
Managerial staff	New manager training	Language training (by invitation)	Worksite supervisor training	<ul style="list-style-type: none"> <li>Industrial</li> <li>Chemical</li> <li>Medical</li> <li>Energy</li> <li>Agriculture &amp; food</li> <li>Logistics</li> <li>Seawater</li> <li>Research</li> <li>Administration</li> <li>Etc.</li> </ul>	Assistance system incentives for distance learning & qualifications
General (i.e., not managerial) staff	New post training				
	Management skills development training	Group language training for young employees	How to be a manufacturing worker	<ul style="list-style-type: none"> <li>Specialist skills</li> <li>Task-related skills</li> </ul>	
	Group leader training				
	Grade-1 employee training	Language training for new recruits			
	Year 2 follow-up training				
	New recruit training				

### FY2019 participants in major training programs

(Unit: people)

	Air Water	Group Companies	Total
Rank-specific training (New recruit training, Year 2 follow-up training, Management skills development training, New manager training, etc.)	206	351	557
Group language training for young employees	65	—	65
Worksite supervisor training	4	10	14

## Rewarding Workplace (Commitment to Employees)

### Safety and Health Basic Policy

No company can thrive without a safe, secure work environment, and workplace safety is our overriding priority. Under this ideal, and based on our Safety and Health Basic Policy, we are aiming to eliminate industrial accidents.

#### 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, and occupational health, as well as safety and disaster prevention.

Under the above Basic Policy, through providing safety and health education, we raise the awareness of each employee and promote the creation of a corporate culture that places the highest priority on safety and health.

### Safety and Health Structure

At Air Water, we have established a Central Safety and Health Committee to secure workplace safety and health. The committee meets regularly under the supervision of the director of the Safety and Health Management Headquarters.

The supervisory executive of the Administrative Division acts as the director of the Safety and Health Management Headquarters, and is responsible for governing safety and health groupwide, and for eliminating work-related accidents. Meanwhile, the general manager of the Compliance Center functions as the assistant director of the Safety and Health Management Headquarters, and assists the director.

In addition, committee members responsible for safety management and health, and the heads of the various safety and health departments, form the Central Health and Safety Committee, and labor union representatives also participate to reflect the workforce's views in proceedings.

The central committee meetings minutes are disclosed internally to ensure broad dissemination of information.

### Safety and health structure chart



### Work-related Accident Reduction Initiatives

In fiscal 2019, the group's priority focus was on preventing work-related accidents involving falls from height, limbs pinched or caught in machinery, and falls. We also introduced a VR safety simulation system, and in addition to renting the system out to workplaces within the group, we began a new type of simulation-based training using the new equipment.

**Activities to Reduce Work-related Accidents in FY2019**

**① Preventing work-related accidents involving falls from height, limbs pinched or caught in machinery, and falls**

- Set daily and intensive training month (June) activities, and communicated them to each company and department
- Distributed disaster prevention/educational posters and work-related disaster prevention check sheets to each company and department

**② Segment-specific safety training**

- Hosted safety training sessions especially for departments involved in agriculture and food products and logistics

**③ Risk-assessment training**

- Hosted risk-assessment training sessions for machinery and work processes (at 3 worksites)
- Hosted risk-assessment training sessions for chemicals (at 3 worksites)

**④ Other**

- Hosted training sessions for employees involved in high-pressure gas safety and engineering (September)
- Hosted training sessions to prevent work-related accidents in non-routine work (at 3 worksites)
- Hosted simulation-based safety training sessions using VR and compact, portable equipment (at 7 worksites; 205 participants)
- Provided thorough guidance on the three basic safety rules for machinery and equipment (through safety inspections, etc.)

**Work-related Accident Statistics**

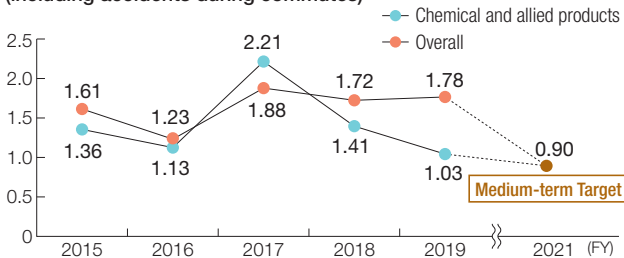
At the Air Water Group, we have set ourselves a mid-term target to reduce the rate of accidents associated with days away from work\* to 0.90 or less by fiscal 2021, and we are currently engaged in efforts to achieve this goal. This figure was set based on the frequency rate target for “Chemical and allied products” industries, as defined in the work-related accident statistics of the Ministry of Health, Labour and Welfare (MHLW). The Air Water Group’s businesses correspond to the following categories outlined by the MHLW: Chemical and allied products; Manufacture of food; Road freight transport; Wholesale trade, general merchandise; and Miscellaneous manufacturing industries. For “Chemical and allied products,” in fiscal 2019 we achieved a frequency rate of 1.03, and are gradually moving toward our mid-term target. Meanwhile, the total number of accidents in all of the above industries in fiscal 2019 was 85, which was almost the same level as the year before when there were 83. The frequency rate of accidents associated with days away from work was 1.78, which was marginally higher than the 1.72 recorded the previous year.

\*The number of people involved in accidents resulting in death or injury per one million total working hours. 
$$\left( \text{Frequency rate} = \frac{\text{Deaths and injuries resulting from work-related accidents}}{\text{Total working hours}} \times 1,000,000 \right)$$

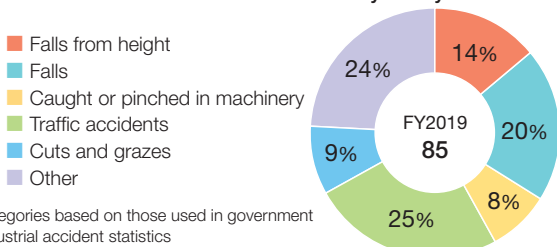
**Priority for FY2020**

In fiscal 2020 we will promote activities to prevent accidents involving falls from height, limbs pinched or caught in machinery, and falls

**Frequency rate of accidents associated with days away from work (including accidents during commutes)**



**Breakdown of accidents associated with days away from work**



\*Categories based on those used in government industrial accident statistics

**Offering Safe and Secure Products and Services**  
(Commitment to Customers)

**Company-wide Policy on Quality**

To provide products and services that meet its customers’ high expectations and earn their trust, in 2012, Air Water formulated the Company-wide Policy on Quality. Through this policy, we are promoting quality assurance and raising employees’ awareness of the importance of quality. We have also set a Company-wide Quality Target as a means of improving quality levels and reducing quality risks. We are making groupwide 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.

**Company-wide Quality Target**

Follow the Quality Compliance Guidelines and reduce quality risks in Air Water Group products.

**Improved Compliance Relating to Quality**

**Quality Compliance Guidelines**

To prevent wrongdoing, major complaints, large-scale recalls and any other issues that may undermine society’s trust in us and cause untold economic losses, we instituted the Air Water Group Quality Compliance Guidelines in 2018. The guidelines stipulate the basics of the group’s activities toward reducing quality compliance risks, and set forth policies for departments and group companies to improve their risk management.

**Quality Risk Surveys**

Based on our Quality Compliance Guidelines, once a year we carry out quality risk surveys. Through these self-assessment surveys, each business division and group company determines the size of compliance risks associated with product quality from a material, human, and economic perspective. Audits are conducted at departments and companies that are deemed to pose a high risk, and measures to reduce risks are put in place.

**Employee Workshops**

The Air Water Group regularly holds quality assurance workshops to effectively promote quality assurance measures. In fiscal 2019, we hosted a workshop on streamlining quality management systems. We also held a workshop on quality compliance to raise awareness of violations associated with product quality. Both workshops were held in Sapporo, Tokyo, and Osaka, with a total of 50 and 77 participants respectively.

## Fair Business Practices across the Supply Chain (Commitment to Suppliers)

### Basic Policy on Purchasing Activities

For the continued growth of its business, Air Water considers it of the utmost importance to comply with laws, observe agreements with customers and suppliers, and to maintain and improve trust-based relationships with its stakeholders. We thus promote fair business practices across the supply chain. As one part of our efforts, we formulated the Purchasing Management Regulations, a set of 11 provisions that applies to all purchasing activities within the group. These regulations aim to ensure transparency in the management and use of information relating to purchasing, sales, and supply, and encourage open, fair purchasing activities. In particular, we are working to ensure that our clients are in thorough compliance with Provision 4 of the above regulations, which outlines our purchasing approach.

#### Purchasing Approach (Excerpt)

- Air Water builds long-term relationships of mutual trust with its suppliers based on free competition on an equal footing. As valued partners, both Air Water and its suppliers will seek to form a mutually beneficial relationship that enables both parties to maximize their individual strengths.
- 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 own regulations and circulars are fully understood and observed.

### Fair Dealings

#### Strict Compliance with the Antimonopoly Act

The Antimonopoly Act aims to promote fair and free competition, and those engaged in corporate activities must be in strict compliance with its principles. At the Air Water Group, we fully understand the importance of the Antimonopoly Act and are working to ensure thorough compliance throughout the group. Moreover, compliance with the Antimonopoly Act is raised in the Air Water Group Code of Ethical Conduct, which prohibits market monopolization, unfair transactions, and improper transaction methods. We have also created an Antimonopoly Act Compliance Manual, which we have distributed to our employees to ensure fair practices across the group.

#### Compliance Training Seminars

Maintaining and developing good relations with suppliers based on fair dealings is not only the bedrock on which our business is founded, it is also key to enhancing compliance.

In fiscal 2019, we held a total of five compliance training seminars in Sapporo, Tokyo and Osaka for group company representatives and compliance officers. Expert consultants provided lectures mainly on the measures, systems, and awareness necessary to prevent violations before they occur. After each seminar, the content was shared across each company, serving to reinforce compliance throughout the group.

#### Compliance training in FY2019

Location/No. of times held	Sapporo 1; Tokyo 2; Osaka 2
Total no. of participants	Sapporo 31; Tokyo 56; Osaka 53
Training time per seminar	3 hours 30 minutes (lectures/group work)

### Promoting Green Procurement

Some Air Water Group companies promote “green procurement” practices as a means of reducing their environmental footprint. These companies consider environmental factors of the goods and services which they procure in addition to quality, price, and delivery time and thus endeavor to purchase raw materials, chemical additives, fuels, packaging materials, product transport, and products from suppliers that work proactively to preserve the environment.

#### Principles in Selecting Goods

We adopt the following principles in order to select goods that have little environmental impact in all stages of manufacturing, use, and disposal.

- |                                                   |                                        |
|---------------------------------------------------|----------------------------------------|
| (1) Raw materials                                 | (4) Durability                         |
| (2) Controlling use of hazardous substances, etc. | (5) Packaging materials                |
| (3) High reusability and recyclability            | (6) Energy-saving                      |
|                                                   | (7) Low environmental load in disposal |

### Building Relationships of Trust through Appropriate Disclosure of Information (Commitment to shareholders and investors)

#### Disclosure Policy

Air Water endeavors to ensure prompt information disclosure to its shareholders and investors based on the principles of transparency, fairness, and continuity. In disclosing information, we comply with the Rules on Timely Disclosure of Corporate Information by Issuers of Listed Securities of the Tokyo Stock Exchange (hereinafter, “Timely Disclosure Rules”). We also endeavor to proactively disclose information not subject to the Timely Disclosure Rules in a timely manner.

#### Communication with Shareholders and Investors

In order to make it easier for shareholders to have their say, we publish convocation notices regarding meetings quickly on our website, and allow online voting. For institutional investors and analysts, we hold quarterly teleconferences and individual meetings, and organize semiannual briefings led by the president. Moreover, we endeavor to strengthen direct communication with overseas investors through overseas roadshows and conferences for institutional investors, again with the participation of the president. We also provide relevant information in a timely manner to individual investors through various means, including informational events and our well-maintained website. We will continue to communicate proactively, and to maintain and develop stable, long-term, trust-based relationships with our shareholders, investors, and analysts.

#### Main outreach activities in FY2019

- |                                                           |     |
|-----------------------------------------------------------|-----|
| ◎ Communicating with institutional investors and analysts |     |
| ● Briefings.....                                          | 2   |
| ● Teleconferences .....                                   | 3   |
| ● Conferences hosted by securities firms .....            | 2   |
| ● Individual meetings.....                                | 202 |

## Promoting Social Contribution Activities (Commitment to Society)

### Basic Approach to Society

Made up of over 280 companies in diverse industries, the Air Water Group understands the importance of developing alongside society, and reflects this in its business activities. Further, in addition to enhancing communication with its local communities and building strong relationships of trust, the group is working to solve social issues through its social activities.

#### Educational Support

As part of our educational support program, each worksite holds classes and experimental workshops at local schools.



Employees from Tateho Chemical Industries teaching children about magnesium oxide



Shinano Acid employees teaching a science class

#### Hosting Tours of Air Water Plants and Facilities

The Air Water Group hosts tours of its plants and facilities to enhance understanding of its business activities and its efforts to promote safety and protect the environment.



Air Water & Energia Power Yamaguchi's woody biomass and coal co-fired power generation plant



A tour of the R&D Center at Air Water Safety Service

#### Promoting Sport and the Arts

The Air Water Group is helping to promote sport and the arts through sponsorship of local sporting competitions and art events.



The Northern Alps Art Festival



Sponsoring the High School Japan Cup 2020, a national fencing competition



Sponsoring the Matsumoto Marathon

### Supporting Measures to Prevent the Spread of COVID-19

The Air Water Group provided an array of support to help prevent the spread of COVID-19.



Through the Japanese embassy, the Air Water Group donated 60,000 pairs of medical gloves from Kawamoto Corporation to Wuhan City in China.



Air Water Sol provided a total of 1,920 bottles of TePure alcohol-based hand disinfectant gel to the four municipalities in which its plants are based (480 each). Here, employees of the Sanyo Plant in Kato City, Hyogo Prefecture, can be seen alongside the city's mayor, Masayoshi Yasuda (second from left).

### TOPICS

#### Initiatives for the SDGs

To reinforce its efforts to tackle issues associated with the SDGs, in April 2020 Air Water established an SDGs Promotion Division. Headed by the senior managing executive officer, this new organization will promote groupwide SDG activities. To date, we have aligned individual SDG targets with each of our businesses, and formulated our Sustainability Vision for the year 2050 (see p. 7) as we aim to solve social issues through their activities. As we strive to achieve our vision, we have also established a set of key challenges (see p. 8), and efforts are underway to address them.

We are also working to enhance understanding of the SDGs across the group. For example, we have distributed an SDG badge (made using the eco-friendly ECOROCA® material produced by Air Water Ecoroca) to our approximately 15,000-strong workforce, put up SDG posters at around 550 of our worksites, and we are also communicating SDG-related information through our in-house newsletter. At the same time, we are hosting training seminars to enhance employees' awareness of their roles and to encourage independent action.

Looking ahead, we will continue to promote SDG activities across the group, and do our part to contribute to a sustainable society.



SDG training seminar



SDG badge



SDG poster

# Governance

The Air Water Group believes that conducting fair business activities, using general common sense, and gaining trust from all stakeholders is essential for continuous business growth and the maximizing of corporate value. To this end, we believe that our most important management task is to make ceaseless efforts to establish comprehensive corporate governance by enhancing the internal control system, enforcing compliance, and reinforcing risk management.

## Corporate Governance

### Corporate Governance Code

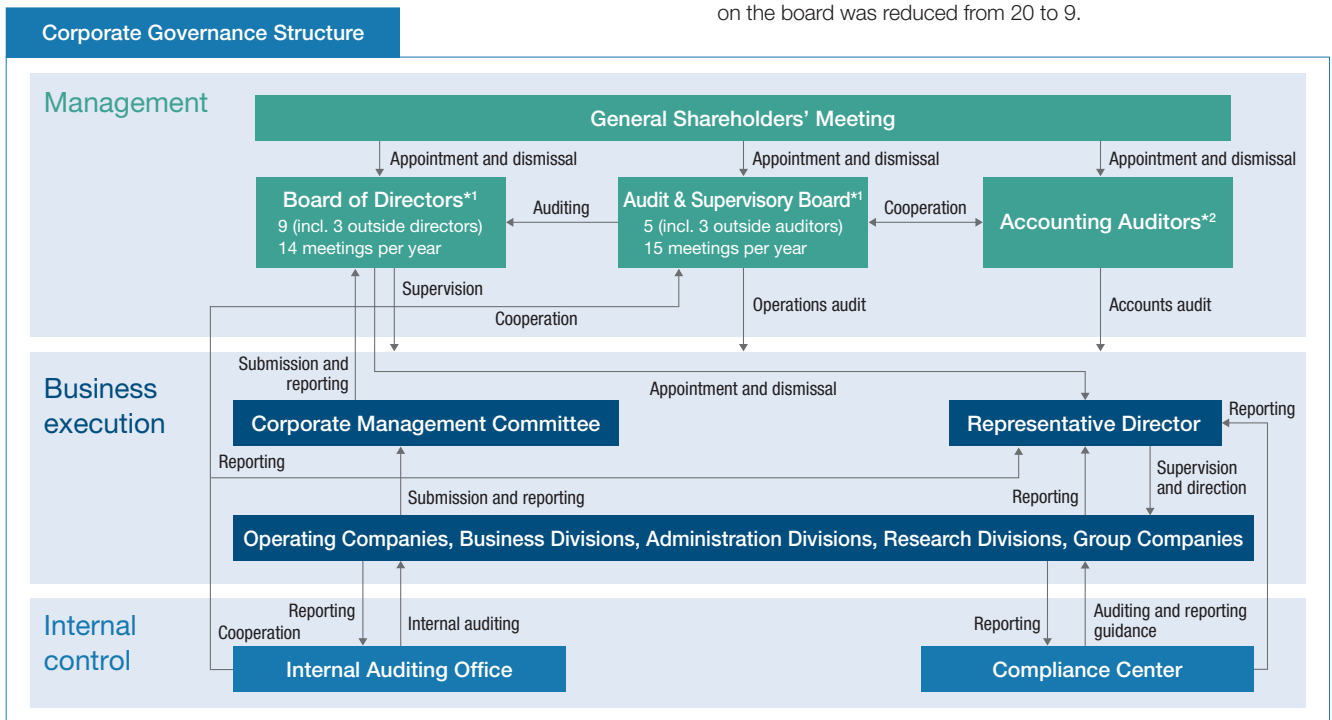
Details regarding some of Air Water's activities in line with Japan's Corporate Governance Code—established by the Tokyo Stock Exchange, effective June 1, 2015—are reported in our Corporate Governance Report, which is available to the public on the Air Water website.

 Corporate Governance Report  
<https://www.awi.co.jp/english/esg/governance/>

### Summary of Corporate Governance System

Air Water is a company with an Audit & Supervisory Board, where 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. This management framework ensures appropriate decision-making and prompt business execution by directors while enabling proper supervision and monitoring of each director's performance of duties.

In June 2020, to separate decision-making and business execution functions, and to enable more agile, rapid decision-making by the Board of Directors, the number of directors on the board was reduced from 20 to 9.



\*1 Board meeting frequency based on FY2019 numbers.

\*2 Auditing of accounts is carried out by KPMG AZSA LLC, with whom we have an auditing agreement.

### Summary of Corporate Governance System

- One third of the Board of Directors is made up of outside directors
- One of the Board of Directors is female
- Three fifths of the Audit & Supervisory Board are made up of outside auditors

### 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 comprises the general managers of each business division and other key managers, and in principle meets once a month. The committee conducts advance deliberations on the agenda items of the Board of Directors, and also deliberates on important items related to the Air Water Group's business execution.



## Internal Auditing Office

Internal audits are conducted regularly by the Internal Auditing Office, the company's internal auditing unit, on the Air Water 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, Air Water has established the Compliance Center as the dedicated department for cross-group management and governance in connection with compliance, disaster prevention, and environmental protection. When facts are found through internal audits that have the potential to seriously impact Air Water's management, there is a system for appropriately reporting them to the Audit & Supervisory Board and the representative director.

## Gauging the Board's Efficacy

As part of Air Water's efforts to bolster the effectiveness of the Board of Directors as a whole, the board is subject to an annual analysis and assessment.

### FY2019 Assessment Method

All members of the Board of Directors and the Audit & Supervisory Board answered a self-assessment questionnaire, and the responses were analyzed with input from external institutions to identify current conditions and weaknesses in the board's overall effectiveness.

#### Effectiveness Assessment Questionnaire: Main Areas Covered

- Make-up of the Board of Directors
- Operation of the Board of Directors
- Training
- Individuals' efforts relating to the board

### FY2019 Assessment Results

The effectiveness assessment resulted in a mostly positive outcome, showing that the Board of Directors had the requisite size and diversity to engage in meaningful deliberations; that the number and contents of matters tabled for discussion at board meetings were appropriate; and that matters were fully deliberated upon, with members making statements and asking questions proactively. Thus, the board was, in general, deemed to be performing its corporate governance roles and responsibilities, and was therefore assessed to be sufficiently effective. Conversely, issues were raised, such as the need to secure more time to discuss matters, more easily understandable explanations and materials relating to matters tabled before the board, and other issues to improve function of the board.

Moving forward, we will use the outcomes of the effectiveness assessments as part of our ongoing efforts to improve the board's functions.

## Independent Officers

In order to ensure that the management supervisory function of the Board of Directors is highly effective, Air Water appoints independent outside directors and independent outside auditors with the capability and experience to contribute to the company's sustained growth and help increase its corporate value over the medium to long term.

## Independence Judgment Criteria and Qualifications for Outside Officers

Air Water appoints as outside officers 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 outside officer positions, 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.

Details of the Judgment Criteria for the Independence of Outside Officers are provided in our Corporate Governance Report.

## Support for Outside Officers

The General Affairs Department, which provides admin functions for the Board of Directors, distributes to outside directors materials pertaining to board meeting agendas and reports well in advance of meetings, and explains them where required.

Information and materials about the company that outside auditors require (or that are otherwise deemed appropriate for sharing among auditors) are relayed to them mainly by the standing statutory auditors.

## Officers' Remuneration

Directors are paid remuneration within a scale approved by a shareholders' meeting resolution, and adjusted in accordance with each individual's roles and responsibilities. Another consideration when deciding on remuneration is our belief that it is a powerful incentive for working to improve corporate value over the medium-to-long term. For remuneration to be approved, the representative directors deliberate on the matter before drawing up a remuneration table and receiving the input of the independent outside directors before tabling it for approval at a Board of Directors meeting. Similarly, auditors are paid remuneration within a scale approved by a shareholders' meeting resolution, and finalized after discussion and decision by the auditors.

### Composition of Officers' Remuneration

Remuneration paid to directors (excluding outside directors) comprises three parts: a base fee, which is a fixed amount; bonuses, which are determined in accordance with the company's business performance; and stock options, which serve as an incentive to pursue progress in business performance and share price over the medium-to-long term. In addition, starting in fiscal 2019, we have instituted a remuneration system to ensure that directors shoulder a greater share of the benefits and risks of share price movement along with shareholders. The new system assigns shares with transfer restrictions to directors (excluding outside directors) as a means of motivating them to work hard to drive share prices upward and improve corporate value. The remuneration paid to outside directors and auditors comprises only the basic fee and bonuses.

### Officers' Remuneration in FY2019

Category	Total remuneration, etc. (million yen)	Remuneration by type (million yen)				No. of officers included
		Fixed remuneration	Shares with transfer restrictions	Bonuses	Stock options	
Director*	1,032	761	68	180	21	21
Auditor*	49	43	—	5	—	2
Outside officer	60	55	—	4	—	5

\*Excl. outside officers \*Incl. 3 directors who resigned in FY2019

## Outside Directors and Auditors

The Board of Directors of Air Water is made of nine directors, of which three are outside directors. Meanwhile, the Audit & Supervisory Board is made up five auditors, of whom three are outside auditors. From an external, objective standpoint, these outside members offer valuable advice on the Air Water Group's management and auditing activities, and work to reinforce management transparency and oversight.



**Yukiko Sakamoto**  
Outside Director

Apr. 1972 Joined the Ministry of Labour (now the Ministry of Health, Labour, and Welfare)  
Apr. 1996 Deputy Governor of Shizuoka Prefecture  
July 1999 Deputy Director General of the Minister of Labour  
Jan. 2001 Director, Industrial Safety and Health Department, Labour Standards Bureau, Ministry of Health, Labour, and Welfare  
Aug. 2001 Director, Tokyo Labour Bureau, Ministry of Health, Labour, and Welfare  
Aug. 2002 Director, Human Resources Development Bureau, Ministry of Health, Labour and Welfare  
July 2004 Member of the House of Councilors  
July 2009 Employment and Welfare Consultant  
June 2014 Air Water Outside Director (current position)

Board of Directors meeting attendance: 14/14

Yukiko Sakamoto has held key positions in the Ministry of Health, Labour, and Welfare; and has served as the deputy governor of Shizuoka Prefecture and as a member of the House of Councilors. She uses her extensive experience and high level of expertise to provide valuable guidance and advice regarding Air Water's overall management. Air Water has designated Yukiko Sakamoto as an independent director, and registered her as such on the stock exchanges on which it is listed.



**Kunihiro Tsuneyoshi**  
Outside Auditor

Apr. 1981 Joined The Sumitomo Trust and Banking Co., Ltd. (now Sumitomo Mitsui Trust Bank, Limited)  
June 2005 Manager, Kanazawa Branch, The Sumitomo Trust and Banking Co., Ltd.  
May 2008 Director, 4th Tokyo Sales Office, The Sumitomo Trust and Banking Co., Ltd.  
May 2009 Director, 1st Osaka HQ Sales Office, The Sumitomo Trust and Banking Co., Ltd.  
June 2010 Executive Officer and Director, 1st Osaka HQ Sales Office, The Sumitomo Trust and Banking Co., Ltd.  
Apr. 2012 Managing Director, Sumitomo Mitsui Trust Panasonic Finance Co., Ltd.  
Apr. 2015 Managing Director, Japan Trustee Services Bank Ltd.  
Apr. 2017 President, Sumitomo Mitsui Trust Card Co., Ltd.  
Apr. 2019 Auditor, Sansen Trust Insurance Service Co., Ltd.  
June 2020 Air Water Outside Auditor (Managing) (current position)

\*Appointed in June 2020

Kunihiro Tsuneyoshi has many years of experience in financial institutions, as well as extensive expertise on financial matters, all of which he uses to provide valuable guidance and advice to ensure the appropriateness of Air Water's pursuit of business operations. Air Water has designated Kunihiro Tsuneyoshi as an independent director, and registered him as such on the stock exchanges on which it is listed.

\*Board meeting attendance based on FY2019 numbers.



**Isamu Shimizu**  
Outside Director

Apr. 1974 Research Associate, Faculty of Science, Kyoto University  
Sept. 1985 Associate Professor, Faculty of Science, Kyoto University  
June 1998 Professor, Center for Ecological Research, Kyoto University  
Apr. 2003 Director, Center for Ecological Research, Kyoto University (Member of the Board of Councilors, Kyoto University)  
Apr. 2008 Professor Emeritus, Kyoto University  
Nov. 2008 Chief Researcher, Health Research Foundation  
June 2014 Councilor, Health Research Foundation  
June 2018 Air Water Outside Director (current position)

Board of Directors meeting attendance: 14/14

Isamu Shimizu is a long-standing researcher of ecology. He uses his extensive experience and high level of expertise to provide valuable guidance and advice regarding Air Water's overall management. Air Water has designated Isamu Shimizu as an independent director, and registered him as such on the stock exchanges on which it is listed.



**Atsushi Hayashi**  
Outside Auditor

Apr. 1970 Assistant Judge, Nara District Court  
Apr. 1980 Judge, Osaka Family Court  
Jan. 2001 Chief Judge, Wakayama District/Family Court  
June 2002 Presiding Judge, Osaka High Court  
Sept. 2004 Chief Judge, Kobe District Court  
Apr. 2007 Chief Judge, Osaka Family Court  
Sept. 2008 Chief Justice, Takamatsu High Court  
Apr. 2010 Professor, Graduate School of Law, Kyoto University  
June 2015 Registered Attorney, Osaka Bar Association  
June 2016 Air Water Outside Auditor (current position)

Board of Directors meeting attendance: 14/14  
Audit & Supervisory Board meeting attendance: 15/15

Atsushi Hayashi has a wealth of experience and expertise as a judge and attorney, all of which he uses to provide valuable guidance and advice to ensure the appropriateness of Air Water's pursuit of business operations. Air Water has designated Atsushi Hayashi as an independent director, and registered him as such on the stock exchanges on which it is listed.



**Takao Matsui**  
Outside Director

Oct. 1982 Joined Asahi & Co. (now KPMG AZSA LLC)  
July 2010 Partner, KPMG AZSA LLC  
Sept. 2014 Auditor, KPMG AZSA LLC  
Apr. 2018 Specially Appointed Professor, School of Accountancy, Kansai University  
Mar. 2019 External Auditor, Carna Biosciences, Inc.  
Mar. 2020 External Director, Audit and Supervisory Committee, Carna Biosciences, Inc. (current position)  
Apr. 2020 Part-time Lecturer, Kansai University and School of Accountancy, Kansai University (current position)  
June 2020 Air Water Outside Director (current position)

\*Appointed in June 2020

Takao Matsui has served as a certified public accountant and as a professor at Kansai University's School of Accountancy. He uses his extensive experience and high level of expertise to provide valuable guidance and advice regarding Air Water's overall management.



**Nobuo Hayashi**  
Outside Auditor

Apr. 1974 Assistant, School of Law, Tohoku University  
Apr. 1988 Professor, School of Law, Senshu University  
Apr. 1995 Professor, College of Law and Politics, Rikkyo University  
Apr. 2001 Professor, Graduate School of Law, Kyoto University; Professor, Faculty of Law, Kyoto University  
Apr. 2009 Director, Graduate School of Law, Kyoto University; Director, Faculty of Law, Kyoto University  
Apr. 2011 Director, Kyoto University Library; Director, The Kyoto University Library Network  
Apr. 2012 Director, Kyoto University Archives  
Oct. 2012 Vice-President for Legal Affairs and Compliance, Kyoto University  
Apr. 2013 Professor Emeritus, Kyoto University  
Apr. 2018 Program-Specific Professor, Institute for Liberal Arts and Sciences, Kyoto University  
June 2020 Air Water Outside Auditor (current position)

\*Appointed in June 2020

Nobuo Hayashi has extensive experience as a researcher of law and as a university professor, and he uses this expertise to provide valuable guidance and advice to ensure the appropriateness of Air Water's pursuit of business operations. Air Water has designated Nobuo Hayashi as an independent director, and registered him as such on the stock exchanges on which it is listed.

## Enforcing Compliance

### Compliance Structure

In the organizational structure for compliance management, the Compliance Center has been set up as the supervising department under the direct control of the representative director, and is in charge of integrated management of compliance-related problems. The chief of the Compliance Center is appointed from among executive officers. Further, each company has a department responsible for compliance that closely cooperates with the Compliance Center, thereby enhancing the compliance structure of the group companies.

### Air Water Group Code of Ethical Conduct

The Air Water Group Code of Ethical Conduct provides all officers and employees of Air Water and its group companies with guidelines to help them act in strict conformance with the laws and regulations and behave in an ethical manner. In addition, we have a Compliance Handbook, which breaks down the code and provides examples of violations in an easy-to-understand manner. The handbook is distributed to all group employees with the aim of raising their awareness of the vital importance of ethical conduct and compliance.



Compliance Handbook

### 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 the representative director, and other issues, and also discusses ways to deal with compliance violations if they occur.


The Compliance Committee met twice in fiscal 2019, and discussed key matters pertaining to compliance at the Air Water Group.

### Internal Reporting System

Air Water has established an internal reporting system in order to ensure compliance-based management. Anyone who becomes aware of violations of laws or 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 the company, and there is a provision ensuring that a person who makes a report will not suffer any disadvantage.

The points of contact, or hotline, for this internal reporting system are communicated to all group employees by such means as the “compliance poster” displayed at all business sites.

See our website for more on our compliance-related activities.

 Compliance at the Air Water Group  
<https://www.awi.co.jp/english/esg/governance/compliance.html>

## Reinforcing Risk Management

### Risk Management Structure

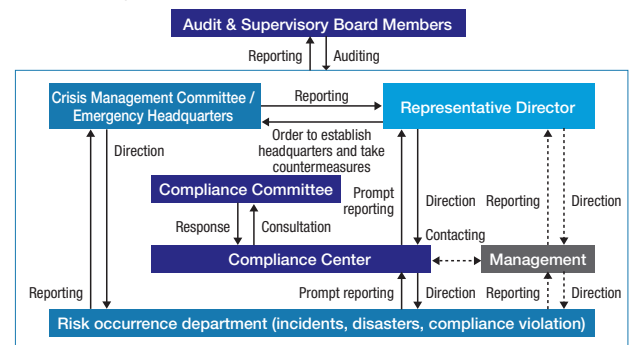
The Compliance Center, which is under the direct control of the representative director, manages, as the supervisory division for the entire group, the risks recognized as particularly important for business activities of the Air Water Group; namely, the risks concerning compliance, safety, disaster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

Individual risks concerning information security, intellectual property, expansion of overseas businesses, business contracts, etc., are managed through actions at the level of each responsible division such as by formulating internal regulations, preparing manuals, and providing education and training, as well as through prior inspection and authorization procedures.

With the Compliance Center serving as the secretariat, the risk management examination meeting is held regularly, helping to bolster the risk management framework of the entire group.

Three risk management examination meetings were held in fiscal 2019, and participants examined the major risks associated with the Air Water Group and, among others, discussed the relevant countermeasures.

### Crisis Management Framework



See our website for more on our risk-management activities.

 Risk management at the Air Water Group  
<https://www.awi.co.jp/english/esg/governance/compliance.html>

## Global Group Governance

### Reinforcing Global Group Governance

In recent years, in line with its accelerated efforts to achieve global expansion through M&As, the Air Water Group has been working to enhance governance at its global group companies. In addition to establishing the Office of Global Business Administration, an organization dedicated to overseeing governance and risk management at its global businesses, the group has also formulated the Basic Guidelines for Global Businesses to ensure uniformity in its global expansion.

In fiscal 2019, we held regional meetings in China, Singapore, and the US with our global group companies, through which we sought to improve understanding of individual management philosophies, spread awareness of the Basic Guidelines for Global Businesses, and gauge and find solutions to underlying issues.

# Financial Data (10-Year)

## Japanese Generally Accepted Accounting Principles (JGAAP)

Fiscal year	2010	2011	2012	2013	2014	2015
Net sales	471,809	492,679	540,016	641,256	660,541	660,622
Operating income	31,268	31,672	27,897	35,078	36,126	39,524
Ordinary income	32,958	33,601	35,155	36,281	38,159	35,075
Profit attributable to owners of parent	11,680	17,167	18,365	19,225	20,702	20,139
Capital investment	33,820	22,843	34,110	32,348	32,028	42,236
Depreciation	19,423	20,373	22,058	24,337	25,222	26,620
<b>Cash flows</b>						
Cash flows from operating activities	32,576	39,661	30,057	48,248	51,071	43,512
Cash flows from investing activities	(34,766)	(28,695)	(42,501)	(52,186)	(35,483)	(40,647)
Cash flows from financing activities	(1,591)	(7,611)	10,253	4,620	(7,940)	(8,115)
Free cash flow	(2,190)	10,966	(12,443)	(3,938)	15,587	2,864
<b>Fiscal year end</b>						
Total assets	407,639	430,547	484,328	528,092	547,642	575,832
Interest-bearing debt	122,317	119,385	141,295	155,479	154,864	157,795
Equity capital	157,636	170,448	185,599	203,500	226,375	234,726
<b>Per-share data</b>						
Earnings per share (EPS, yen)	61.24	89.35	94.04	98.32	105.75	102.73
Net assets (BPS, yen)	822.05	873.78	949.63	1,040.22	1,155.80	1,196.92
Dividend (DPS, yen)	22	22	24	26	28	28
<b>Major indicators</b>						
Recurring margin (%)	7.0	6.8	6.5	5.7	5.8	5.3
Return on asset (ROA, %)	8.2	8.0	7.7	7.2	7.1	6.2
Return on equity (ROE, %)	7.5	10.5	10.3	9.9	9.6	8.7
Equity capital ratio (%)	38.7	39.6	38.3	38.5	41.3	40.8
Net D/E ratio	0.66	0.57	0.65	0.66	0.58	0.57
Payout ratio (%)	35.9	24.6	25.5	26.4	26.5	27.3
<b>Non-financial information</b>						
Consolidated number of employees as of fiscal year-end (persons)	8,237	8,062	8,937	9,557	10,147	11,334
Number of consolidated subsidiaries	65	65	68	75	81	85

(Unit: million yen)

	2016	2017	2018
	670,536	753,559	801,493
	41,341	42,398	43,580
	41,251	44,691	46,977
	22,337	25,173	26,468
	40,587	61,309	78,526
	25,524	27,119	27,620
	58,873	47,764	56,690
	(44,357)	(61,637)	(88,804)
	(8,553)	4,489	40,905
	14,516	(13,872)	(32,114)
	629,115	693,101	783,047
	172,403	203,183	263,165
	255,984	277,954	291,211
			Yen
	114.53	128.95	135.34
	1,312.55	1,422.60	1,487.58
	34	38	40
	6.2	5.9	5.9
	6.8	6.8	6.4
	9.1	9.4	9.3
	40.7	40.1	37.2
	0.55	0.65	0.79
	29.7	29.5	29.6
	12,580	14,265	15,757
	101	111	130

International Financial Reporting Standards (IFRS)

(Unit: million yen)

Fiscal year	2018	2019
Revenue	742,288	<b>809,083</b>
Operating income	42,799	<b>50,616</b>
Profit before tax	42,111	<b>49,830</b>
Profit	30,139	<b>33,526</b>
Profit attributable to owners of parent	28,815	<b>30,430</b>
Capital investment	82,269	<b>62,900</b>
Depreciation	30,776	<b>34,994</b>
Cash flows from operating activities	61,212	<b>43,784</b>
Cash flows from investing activities	(91,615)	<b>(115,597)</b>
Cash flows from financing activities	39,045	<b>80,981</b>
Free cash flow	(30,403)	<b>(71,813)</b>
<b>Fiscal year end</b>		
Total assets	785,944	<b>899,699</b>
Interest-bearing debt	276,942	<b>334,248</b>
Total equity attributable to owners of parent	278,053	<b>331,992</b>
<b>Per-share data</b>		
Basic earnings per share (yen)	147.33	<b>147.43</b>
Dividends (yen)	40	<b>44</b>
Issued shares at end of the year	198,705,057	<b>229,755,057</b>
<b>Major indicators</b>		
Operating profit margin (%)	5.8	<b>6.3</b>
Profit before tax margin on total assets (%)	5.7	<b>5.9</b>
Profit margin attributable to owners of the parent (%)	10.6	<b>10.0</b>
Ratio of equity attributable to owners of the parent (%)	35.4	<b>36.9</b>
Net D/E ratio	0.88	<b>0.88</b>
Payout ratio (%)	27.1	<b>29.8</b>
Overseas sales revenue as a proportion of total sales (%)	5.0	<b>6.9</b>
<b>Non-financial information</b>		
Consolidated number of employees as of fiscal year-end (persons)	15,825	<b>18,211</b>
Number of consolidated subsidiaries	112	<b>125</b>

# Financial Information International Financial Reporting Standards (IFRS)

## Consolidated Statement of Financial Position

(Unit: million yen)

	FY2018 (March 31, 2019)	FY2019 (March 31, 2020)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	32,108	41,861
Trade and other receivables	184,887	187,402
Inventories	55,325	64,415
Other financial assets	6,553	5,794
Income taxes receivable	2,495	2,990
Other current assets	18,598	30,813
Subtotal	299,969	333,277
Assets held for sale	14,002	—
Total current assets	313,971	333,277
Non-current assets		
Property, plant and equipment	332,093	380,284
Goodwill	22,775	64,005
Intangible assets	14,629	19,352
Investments accounted for using the equity method	26,953	28,503
Retirement benefit asset	4,336	3,088
Other financial assets	62,337	62,365
Deferred tax assets	7,489	7,328
Other non-current assets	1,356	1,494
Total non-current assets	471,972	566,422
Total assets	785,944	899,699
<b>Liabilities and equity</b>		
Liabilities		
Current liabilities		
Trade and other payables	156,357	137,945
Bonds and borrowings	75,162	105,386
Other financial liabilities	5,108	5,426
Income taxes payable	7,266	8,510
Provisions	933	1,211
Other current liabilities	23,530	25,020
Total current liabilities	268,358	283,500
Non-current liabilities		
Bonds and borrowings	168,803	195,648
Other financial liabilities	30,449	38,586
Retirement benefit liability	9,249	9,918
Provisions	972	2,354
Deferred tax liabilities	4,745	9,252
Other non-current liabilities	8,354	8,623
Total non-current liabilities	222,575	264,383
Total liabilities	490,934	547,884
Equity		
Share capital	32,263	55,855
Capital surplus	36,675	51,077
Treasury shares	(3,463)	(2,556)
Retained earnings	208,183	228,854
Other components of equity	4,395	(1,237)
Total equity attributable to owners of parent	278,053	331,992
Non-controlling interests	16,956	19,822
Total capital	295,009	351,815
Total liabilities and equity	785,944	899,699

## Consolidated Statement of Profit or Loss

(Unit: million yen)

	FY2018 (From April 1, 2018 to March 31, 2019)	FY2019 (From April 1, 2019 to March 31, 2020)
<b>Continuing operations</b>		
Revenue	742,288	809,083
Cost of sales	(577,404)	(628,463)
Gross profit	164,884	180,620
Selling, general and administrative expenses	(121,235)	(135,383)
Other income	3,728	9,122
Other expenses	(6,263)	(5,348)
Share of profit of investments accounted for using equity method	1,685	1,605
Operating income	42,799	50,616
Finance income	1,130	1,395
Finance costs	(1,818)	(2,181)
Profit before tax	42,111	49,830
Income tax expense	(11,145)	(16,085)
Profit from continuing operations	30,965	33,745
<b>Discontinued operations</b>		
Profit (loss) from discontinued operations	(825)	(218)
<b>Profit</b>	<b>30,139</b>	<b>33,526</b>
<b>Profit attributable to</b>		
Owners of parent	28,815	30,430
Non-controlling interests	1,324	3,095
<b>Profit</b>	<b>30,139</b>	<b>33,526</b>
<b>Earnings per share</b>		
Basic earnings (loss) per share		
Continuing operations	151.56	148.49
Discontinued operations	(4.22)	(1.06)
<b>Basic earnings per share</b>	<b>147.33</b>	<b>147.43</b>
Diluted earnings (loss) per share		
Continuing operations	151.28	148.26
Discontinued operations	(4.22)	(1.06)
<b>Diluted earnings per share</b>	<b>147.06</b>	<b>147.20</b>

## Consolidated Statements of Comprehensive Income

(Unit: million yen)

	FY2018 (From April 1, 2018 to March 31, 2019)	FY2019 (From April 1, 2019 to March 31, 2020)
<b>Profit</b>	<b>30,139</b>	<b>33,526</b>
<b>Other comprehensive income</b>		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	(5,478)	(3,681)
Remeasurements of defined benefit plans	(1,828)	(503)
Share of other comprehensive income of investments accounted for using equity method	(159)	23
Total of items that will not be reclassified to profit or loss	(7,466)	(4,160)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(252)	(3,387)
Effective portion of cash flow hedges	1,645	2,583
Share of other comprehensive income of investments accounted for using equity method	(40)	42
Total of items that may be reclassified to profit or loss	1,352	(761)
Total other comprehensive income	(6,113)	(4,922)
<b>Comprehensive income</b>	<b>24,026</b>	<b>28,604</b>
<b>Comprehensive income attributable to</b>		
Owners of parent	22,201	24,438
Non-controlling interests	1,825	4,165
<b>Comprehensive income</b>	<b>24,026</b>	<b>28,604</b>

# Financial Information International Financial Reporting Standards (IFRS)

## Consolidated Statements of Changes in Equity

(Unit: million yen)

	Equity attributable to the owners of the parent											Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity						Total		
					Re-measurements of defined benefit plans	Exchange differences on translation of foreign operations	Comprehensive income through other	Financial assets measured at fair value	Effective portion of cash flow hedging	Share acquisition rights			
Balance as of April 1, 2018	32,263	37,060	(4,089)	188,980	-	-	9,864	(865)	379	9,377	263,593	16,575	280,169
Profit	-	-	-	28,815	-	-	-	-	-	-	28,815	1,324	30,139
Other comprehensive income	-	-	-	-	(1,845)	(228)	(5,656)	1,118	-	(6,613)	(6,613)	500	(6,113)
Comprehensive income	-	-	-	28,815	(1,845)	(228)	(5,656)	1,118	-	(6,613)	22,201	1,825	24,026
Dividends	-	-	-	(7,852)	-	-	-	-	-	-	(7,852)	(651)	(8,503)
Purchase of treasury shares	-	-	(4)	-	-	-	-	-	-	-	(4)	-	(4)
Disposal of treasury shares	-	3	630	-	-	-	-	-	(35)	(35)	597	-	597
Share-based remuneration transactions	-	-	-	-	-	-	-	-	79	79	79	-	79
Changes in ownership interest	-	(456)	-	-	-	-	-	-	-	-	(456)	(1,516)	(1,973)
Increase (decrease) resulting from inclusion of subsidiaries in consolidation	-	68	-	(173)	-	-	-	-	-	-	(104)	723	618
Transfer from other components of equity to retained earnings	-	-	-	(1,587)	1,845	-	(258)	-	-	1,587	-	-	-
Total transactions with owners	-	(385)	625	(9,612)	1,845	-	(258)	-	43	1,631	(7,741)	(1,444)	(9,186)
Balance as of March 31, 2019	32,263	36,675	(3,463)	208,183	-	(228)	3,948	252	423	4,395	278,053	16,956	295,009
Profit	-	-	-	30,430	-	-	-	-	-	-	30,430	3,095	33,526
Other comprehensive income	-	-	-	-	(598)	(3,288)	(3,617)	1,512	-	(5,992)	(5,992)	1,069	(4,922)
Comprehensive income	-	-	-	30,430	(598)	(3,288)	(3,617)	1,512	-	(5,992)	24,438	4,165	28,604
Issuance of new shares	23,591	23,433	-	-	-	-	-	-	-	-	47,025	-	47,025
Dividends	-	-	-	(8,050)	-	-	-	-	-	-	(8,050)	(518)	(8,569)
Purchase of treasury shares	-	-	(3)	-	-	-	-	-	-	-	(3)	-	(3)
Disposal of treasury shares	-	54	910	-	-	-	-	-	(98)	(98)	867	-	867
Share-based remuneration transactions	-	-	-	-	-	-	-	-	21	21	21	-	21
Changes in ownership interest	-	(2,006)	-	-	-	-	-	-	-	-	(2,006)	(1,177)	(3,183)
Increase (decrease) resulting from inclusion of subsidiaries in consolidation	-	(15)	-	(1,393)	-	-	-	-	-	-	(1,409)	650	(759)
Capital increase of consolidated subsidiaries	-	-	-	-	-	-	-	-	-	-	-	1,474	1,474
Increase by merger	-	-	-	235	-	-	-	-	-	-	235	-	235
Transfer from other components of equity to retained earnings	-	-	-	(550)	598	-	(47)	-	-	550	-	-	-
Put options written on non-controlling interests	-	(7,064)	-	-	-	-	-	-	-	-	(7,064)	(1,617)	(8,682)
Transfers to nonfinancial assets	-	-	-	-	-	-	-	(114)	-	(114)	(114)	(110)	(225)
Total transactions with owners	23,591	14,401	907	(9,759)	598	-	(47)	(114)	(76)	359	29,500	(1,299)	28,201
Balance as of March 31, 2020	55,855	51,077	(2,556)	228,854	-	(3,517)	283	1,649	346	(1,237)	331,992	19,822	351,815



## Consolidated Statements of Cash Flows

(Unit: million yen)

	FY2018 (From April 1, 2018 to March 31, 2019)	FY2019 (From April 1, 2019 to March 31, 2020)
Cash flows from operating activities		
Profit before tax	42,111	49,830
Profit (loss) before tax from discontinued operations	(912)	(220)
Depreciation and amortization	30,776	34,994
Gain on bargain purchase	—	(2,089)
Interest and dividend income	(1,173)	(1,266)
Interest expense	1,576	1,935
Share of loss (profit) of investments accounted for using equity method	(1,685)	(1,605)
Loss (gain) on sale and retirement of fixed assets	2,905	(736)
Loss on liquidation of business	2,816	1,277
Decrease (increase) in trade and other receivables	2,800	11,510
Decrease (increase) in inventories	(3,797)	(3,741)
Increase (decrease) in trade and other payables	10,334	(19,662)
Decrease (increase) in contract assets	(4,983)	(3,768)
Increase (decrease) in contract liabilities	335	(2,942)
Other	(5,665)	(4,331)
Subtotal	75,441	59,183
Interest and dividends received	1,565	1,626
Interest paid	(1,547)	(1,932)
Income taxes refund (paid)	(14,247)	(15,093)
Net cash provided by (used in) operating activities	61,212	43,784
Cash flows from investing activities		
Purchase of property, plant and equipment	(71,806)	(61,863)
Proceeds from sale of property, plant and equipment	1,320	2,663
Purchase of intangible assets	(2,349)	(2,324)
Purchase of investment securities	(7,610)	(8,658)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(8,503)	(17,472)
Payments for loans receivable	(19,389)	(17,113)
Collection of loans receivable	19,075	18,516
Payments for acquisition of businesses	(2,016)	(45,928)
Proceeds from sale of businesses	—	14,158
Other	(334)	2,424
Net cash provided by (used in) investing activities	(91,615)	(115,597)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	19,814	13,105
Proceeds from long-term borrowings	46,886	49,476
Repayments of long-term borrowings	(25,826)	(21,633)
Proceeds from issuance of bonds	10,000	10,000
Purchase of additional shares of subsidiaries	(1,989)	(3,058)
Proceeds from sale and leaseback transactions	2,434	1,166
Repayments of lease liabilities	(4,629)	(6,029)
Proceeds from issuance of shares	—	46,955
Dividends paid	(7,868)	(8,029)
Dividends paid to non-controlling interests	(652)	(2,703)
Other	875	1,731
Net cash provided by (used in) financing activities	39,045	80,981
Effect of exchange rate changes on cash and cash equivalents	(266)	(669)
Net increase (decrease) in cash and cash equivalents	8,374	8,499
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	430	1,253
Cash and cash equivalents at beginning of period	23,303	32,108
Cash and cash equivalents at end of year	32,108	41,861

# Major Group Companies (as of October 1, 2020)

Company Name	Head Office	Major Business Activities	Air Water's Share of Voting Rights (%)
<b>Regional Business Companies</b>			
Air Water Hokkaido Inc.	Sapporo City, Hokkaido	Sale of industrial gas and medical gas, LP gas, and related equipment	100.0
Air Water East Japan Inc.	Minato-ku, Tokyo	Sale of industrial gas and medical gas, LP gas, and related equipment	100.0
Air Water West Japan Inc.	Osaka City, Osaka	Sale of industrial gas and medical gas, LP gas, and related equipment	100.0
<b>Industrial Gas Business</b>			
NSCC Air Water Inc.	Chuo-ku, Tokyo	Manufacture and sale of industrial gas	65.0
Air Water Carbonic Inc.	Minato-ku, Tokyo	Manufacture and sale of liquid nitrogen gas and dry ice	100.0
Air Water Hydrogen Corp.	Minato-ku, Tokyo	Manufacture and sale of industrial hydrogen gas	95.0
Nihon Dennetsu Co., Ltd.	Azumino City, Nagano	Manufacture and sale of electric heating devices and controllers for industrial applications	100.0
Air Water Cryoplant, Ltd.	Osaka City, Osaka	Design, production and maintenance of cryogenic air separation units	100.0
Air Water Plant & Engineering Inc.	Sakai City, Osaka	Design, production, sale and maintenance of various types of gas generation units, gas applications, and related equipment	100.0
Air Water India Pvt. Ltd.	India	Manufacture and sale of industrial gas	100.0
<b>Chemical Business</b>			
Kawasaki Kasei Chemicals Ltd.	Kawasaki City, Kanagawa	Manufacture and sale of organic acid products, organic acid derivatives, and quinone-based products	100.0
Daito Chemical Co., Ltd.	Hiratsuka City, Kanagawa	Production and sale of inorganic and organic chemical products, and contract manufacturing and sale of chemical mixing and filling	100.0
<b>Medical Business</b>			
Misawa Medical Industry Co., Ltd.	Kasama City, Ibaraki	Production and sale of needles and syringes, etc.	100.0
Air Water Medi H, Co., Ltd.	Shinagawa-ku, Tokyo	Contract sterilization of medical equipment and materials, and SPD services for medical institutions	100.0
Air Water Link Inc.	Kyoto City, Kyoto	Sale and maintenance of cardiovascular devices, dialysis devices, and surgical equipment	97.2
Denken-Highdental Co., Ltd.	Kyoto City, Kyoto	Design, production and sale of dental equipment, dental materials, and laboratory equipment	96.1
Kawamoto Corporation	Osaka City, Osaka	Manufacture and sale of sanitary products, medical supplies, etc.	50.1
Air Water Safety Service Inc.	Kobe City, Hyogo	Operating rooms, installation of medical gas pipes, and design, manufacture and sale of ventilators, fire extinguishing units, etc.	100.0
Ci Medical Co., Ltd.	Hakusan City, Ishikawa	Online sale and wholesale of dental and medical supplies	40.0
Globalwide International Pte. Ltd. Globalwide M&E Pte. Ltd.	Singapore	Design and installation of hospital interiors and facilities	70.0
<b>Agriculture and Food Products Business</b>			
Saveur SS Inc.	Sapporo City, Hokkaido	Manufacture and sale of processed meat products (ham and delicatessen), ingredient-type frozen foods and cooking sauces	90.9
Tomichi Co., Ltd.	Asahikawa City, Hokkaido	Wholesale and processing of fruit and vegetables for processing, and sale of frozen foods, etc.	90.0
Gold Pak Co., Ltd.	Shinagawa-ku, Tokyo	Manufacture and sale of fruit and vegetable juices and other beverages including some soft drinks	100.0
Kyusuyua Co., Ltd.	Hachioji City, Tokyo	Operation of fruit and vegetable retailing stores in department stores, station buildings and shopping centers	55.0
Plecia Co., Ltd.	Atsugi City, Kanagawa	Manufacture and sale of Japanese confectionery and Western confectionery	*
*Wholly owned subsidiary of Saveur SS Inc.			
<b>Logistics Business</b>			
Air Water Logistics Co., Ltd.	Sapporo City, Hokkaido	Distribution of high-pressure gas, general freight, food, medical and environmental items, and distributive processing services	100.0
Hokkaido Shatai Co., Ltd.	Kitahiroshima City, Hokkaido	Design, manufacture, sale, and repair of truck bodies; vehicle inspection and certification	82.6
Air Water Food Logistics Co., Ltd.	Sendai City, Miyagi	Low-temperature food distribution, and contract warehouse storage and warehouse work	100.0
East Japan Air Water Logistics Co., Ltd.	Yokohama City, Kanagawa	Distribution of high-pressure gas, general freight, food, medical and environmental items, and distributive processing services	100.0
West Japan Air Water Logistics Co., Ltd.	Osaka City, Osaka	Distribution of high-pressure gas, general freight, food, medical and environmental items, and distributive processing services	100.0
<b>Seawater Business</b>			
Nihonkaisui Co., Ltd.	Chiyoda-ku, Tokyo	Production and sale of salt and salt byproducts; environmental business, electric power business	76.9
Tateho Chemical Industries Co., Ltd.	Chiyoda-ku, Tokyo	Production and sale of magnesium oxide, fused magnesia, magnesium hydroxide, and ceramic products	100.0
Aquaintec Corporation	Kakegawa City, Shizuoka	Pipe renewal business, manufacturing of water treatment machinery, and sale of environmental equipment and materials	*
*Wholly owned subsidiary of Nihonkaisui Co., Ltd.			
<b>Other Businesses</b>			
Air Water Sol Inc.	Chiyoda-ku, Tokyo	OEM supply of aerosol products, and manufacture and sales of its own branded products	100.0
Air Water Materials Inc.	Minato-ku, Tokyo	Sale and export/import of semiconductor manufacturing chemicals, chemical industry chemicals, synthetics resins, and electric and electronic materials	100.0
K&O Energy Group Inc.	Mobara City, Chiba	Business management of subsidiaries which are engaged in the gas business, iodine business, etc.	17.2
Air Water Mach Inc.	Matsumoto City, Nagano	Manufacture and sale of industrial rubber products and resin products	100.0
Air Water & Energia Power Yamaguchi Co., Ltd.	Hofu City, Yamaguchi	Operation and maintenance of woody biomass and coal co-combustion power plants, and sales of the power from those plants	51.0
Matsuo Holdings K.K.	Kitakyushu City, Fukuoka	Business management of subsidiaries engaged in construction work, engineering work, and paving work, etc.	65.0
Power Partners Pte. Ltd.	Singapore	Engineering and maintenance of uninterruptible power supplies	60.0
Hitec Holding B.V.	The Netherlands	Business management of subsidiaries that produce and sell rotary-type uninterruptible power supplies	100.0

# Corporate Profile / Stock Information

## Corporate Information

(as of March 31, 2020)

Company name	AIR WATER INC.
Head Office	12-8, Minami-Semba 2-chome, Chuo-ku, Osaka, 542-0081, Japan Tel: (+81) 6-6252-5411 Fax: (+81) 6-6252-3965
Tokyo Office	18-19, Toranomon 3-chome, Minato-ku, Tokyo, 105-0001, Japan
Established	September 24, 1929
Paid-in Capital	¥55,855 million
Number of Employees	18,211 (consolidated)
URL	<a href="https://www.awi.co.jp/english/">https://www.awi.co.jp/english/</a>

## Principal Shareholders

(as of March 31, 2020)

Company	Number of shares held (thousands)	Ratio of shares held (%)
The Master Trust Bank of Japan, Ltd. (trust account)	16,051	7.06
Japan Trustee Services Bank, Ltd. (trust account)	11,162	4.91
Nippon Steel Corporation	10,000	4.40
Sumitomo Mitsui Trust Bank, Limited	7,936	3.49
Sumitomo Mitsui Banking Corporation	6,196	2.72
Air Water Customers' Stockholding	5,428	2.39
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000	5,161	2.27
North Pacific Bank, Ltd.	4,428	1.95
The Hokkaido Bank, Ltd.	4,113	1.81
Osaka Gas Liquid Co., Ltd.	3,786	1.66

\*Ratios of shares held have been calculated based on the total number of issued shares excluding treasury stock (2,253,304).

## Board of Directors

(as of June 30, 2020)

Chairman Emeritus and Representative Director	Masahiro Toyoda	Chairman of the Board
Chairman and Representative Director	Kikuo Toyoda	Chief Executive Officer
Vice Chairman	Yasuo Imai	Assistant Chairman
President and Representative Director	Kiyoshi Shirai	Chief Operating Officer
Representative Director Executive Vice President	Masato Machida	Corporate Management Officer
Executive Vice President	Yuu Karato	Chief Representative for Hokkaido Operations
Corporate Director	Yukiko Sakamoto	Outside Director
Corporate Director	Isamu Shimizu	Outside Director
Corporate Director	Takao Matsui	Outside Director
Standing Statutory Auditor	Hiromi Yanagisawa	
Standing Statutory Auditor	Yuji Ando	
Standing Statutory Auditor	Kunihiko Tsuneyoshi	Outside Auditor
Auditor	Atsushi Hayashi	Outside Auditor
Auditor	Nobuo Hayashi	Outside Auditor

## Information on Shares

Fiscal Year	From April 1 to March 31
Annual General Meeting of Shareholders	Held in June every year
Record Dates	Annual meeting of shareholders: March 31 Year-end dividend: March 31 Interim dividend: September 30
Total Number of Issued Shares	229,755,057 shares
Number of Shares per Unit	100 shares
Manager of the Register of Shareholders	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
Telephone Number for Inquiries	TEL: 0120-782-031 (toll-free in Japan)
URL	<a href="https://www.smtb.jp/personal/agency/index.html">https://www.smtb.jp/personal/agency/index.html</a>
Method of Public Notice	Electronic public notice [URL of Air Water Inc. on which public notice will be posted] <a href="http://www.awi.co.jp/ir/koukoku.html">http://www.awi.co.jp/ir/koukoku.html</a>
Listed Financial Instruments Exchange	Tokyo, Sapporo
Securities Code	4088

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**AIR WATER INC.**