AIR WATER REPORT 2020 Financial Section

Meeting society's needs with nature's blessings.

AIR WATER

AIR WATER REPORT 2020

Financial Section

Year Ended March 31, 2020

Business Overview and Analysis of Financial Condition and Cash Flows

AIR WATER INC.

1. Business Overview

The Japanese economy in the consolidated fiscal year ended March 31, 2020 was on a gradual recovery trend during the first half of the fiscal year, backed by improvements in the employment environment and a pickup in consumer spending. However, in the second half of the fiscal year, production activities and facility investments in the domestic manufacturing industry, particularly export-oriented industries, slowed down due to the downturn in the Chinese economy resulting from the protracted U.S.-China-trade conflict. Further, business conditions became more difficult in and after February this year due to the impact of the spread of the COVID-19 infection.

In such a business environment, our three-year mid-term management plan “NEXT2020-Final,” the first year of which is fiscal 2019, was launched with “Reform = Execution of innovations” as a basic concept. Under the plan, various implementation measures were steadily promoted in each business field, together with the reinforcement of our management bases, including the strengt ening of our product development capabilities and the development of human resources to achieve future sustainable growth.

Domestically, our industrial gas business expanded its production and filling sites, and our chemical business, in which business restructuring is being carried out, improved its profitability by expanding its business domain through M&A. We also reinforced our stable domestic business foundations by establishing a new seawater company with an eye to further growth in our seawater business, and by steadily promoting the expansion of our wood biomass power generation business. In overseas, we worked to build our operational bases for future growth through M&A acquisition of industrial gas businesses in India, where high market growth is expected and high power UPS (uninterruptible power-supply system) business.

The business results for the consolidated fiscal year as a whole were faced with a difficult business environment caused by the effects of the spread of the COVID-19 infections, in addition to the unseasonable weather such as the unusually cool summer and the stagnation in demand from customers, particularly the manufacturing sector, in the second half of the fiscal year. Nevertheless, steady progress was made by all of our businesses in the efforts to strengthen our earnings structure, including product price revisions. The overall results remained strong, due to the effects of the new consolidation through M&A implemented both in Japan and overseas, and also due to the start of revenue generation from our woody biomass power generation business in Hofu-shi, Yamaguchi Prefecture.

As a result, for the consolidated fiscal year ended March 31, 2020, the group’s revenue was ¥809,083 million (109.0% that of the previous year), operating profit was ¥50,616 million (118.3%), and profit attributable to owners of parent was ¥30,430million (105.6%).

2. Summary of financial position for current period

Total assets at the end of the consolidated fiscal year under review stood at ¥899,699 million, an increase of ¥113,755 million compared to the end of the previous consolidated fiscal year primarily due to increases in property, plant and equipment. Liabilities stood at ¥547,884 million, an increase of ¥56,950 million compared to the end of the previous consolidated fiscal year mainly due to increases in bonds and borrowings. In order to secure timely and stable financing, we have concluded a commitment line agreement with total amount of ¥20 billion with financial institutions. Equity stood at ¥351,815 million, an increase of ¥56,805 million compared to the end of the previous consolidated fiscal year, mainly due to an increase in accumulation of quarterly profit attributable to owners of parent and issuance of new shares.

Equity attributable to owners of parent per share grew from ¥1,420.37 at the end of the previous consolidated fiscal year to ¥1,460.00, and ratio of equity attributable to owners of parent to total assets was 36.9%, compared with 35.4% at the end of the previous consolidated fiscal year.

3. Summary of cash flow for the current period

Cash flows from operating activities was an inflow of ¥43,784 million after deducting payments including corporate taxes from profit before tax and allowances for depreciation, which was a decrease of ¥17,427 million compared to that in previous consolidated fiscal year.

Cash flows from investing activities was an outflow of ¥115,597 million, an increase in expenditures of ¥23,981 million compared to the previous consolidated fiscal year, due primarily to an increase in expenditures resulting from acquisition of businesses and shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financial activities was an inflow of ¥80,981 million, which was an increase of ¥41,936 million compared to that in the previous consolidated fiscal year, due mainly to proceeds from issuance of new shares.

As a result of the foregoing, cash and cash equivalents at the end of the consolidated fiscal year ended March 31, 2020 stood at ¥41,861 million, an increase of ¥9,752 million compared to the end of the previous consolidated fiscal year.

4. Risks of Business, etc.

From the standpoint of our Group's business development, risks such as the following have the potential of changing our business or management situation, and having an important impact on investor decision-making.

Forward-looking statements are judgments by our Group as of the end of the current consolidated fiscal year.

(1) Management strategy risks

Global Business risks

Description of risk

As part of our growth strategy, our Group is engaged in global business development through M&A, and we are strengthening our global business expansion with a focus on the Asian region where economic growth is particularly strong.

However, in conducting our business, business bottlenecks—due to differences with Japan in terms of language, legal systems, tax systems, or social/political risks—may affect the performance or financial situation of our Group.

Countermeasures by our Group

We are working to achieve sharing within our Group of information on the economic/political/social situation, disputes, legal restrictions, management situation, and customers in each of the countries we have expanded into. In addition, in June 2019 we established the Global Strategy Office and Global Supervisory Office, and we are developing a risk management system across our entire Group while exploiting the know-how and knowledge we have previously acquired through global M&A.

Institutional change risks

Description of risk

In Japan, the trend toward a declining birthrate and aging population is advancing at a rapid pace. The government adheres to a policy of social security for all generations, aimed at lengthening healthy life expectancy, and continuing efforts are being made to reform the healthcare system to control and optimize rising medical costs. Therefore, in our Medical Business, large scale future revisions of medical service fees or drug prices may affect the performance or financial situation of our Group.

Countermeasures by our Group

In an environment where there are expected to be continuing government measures to optimize medical costs going forward, our Medical Business is responding to changing market needs by developing and improving products/services to support higher work efficiency and improved working practices for medical institutions and medical staff.

(2) Business operation risk

Natural disaster risk

Description of risk

Natural disasters (earthquakes, tsunamis, typhoons, torrential rains, heavy snowfall, strong winds, volcanic eruptions, etc.) are difficult to predict and are occurring with greater frequency. These disasters may interrupt lifelines by cutting off power or water supplies, or cause breakdown of delivery routes. If a disaster results in a reduction or stoppage of production capability, a reduction in sales due to delay or stoppage of supply/delivery, costs incurred to address problems or to achieve recovery, or costs incurred for preventive measures for the future, this may affect the performance or financial situation of our Group.

In our Agriculture and Food Products Business, natural disasters may impede operation of our processing facilities due to major fluctuations in the yield of vegetables, which are a key raw material.

Countermeasures by our Group

As a response to potential natural disasters, the Industrial Gas Business of our Group is putting in place a stable supply system inside Japan for industrial gases and medical oxygen, through decentralized installation of compact liquefied oxygen/nitrogen production plants (VSU). We minimize risk by periodically conducting disaster prevention drills and bolstering our stockpiles of disaster supplies in case of a large-scale natural disaster.

In our Chemical Business, we ensure a reliable supply system by increasing the number of production sites, and we always maintain product inventory to cover a certain period of time.

In Hokkaido, the main business area for our Energy Business, we deploy LP gas-powered mobile power source trucks at LP gas receiving terminals, LP gas filling stations, and kerosene terminals, and we have established a system to ensure that emergency power sources are available even in a power outage.

In our Agriculture and Food Products Business, we are working to spread farming of vegetables to cultivate and procure over different areas.

Quality risks

Description of risk

In a diverse range of industries, our Group provides products, merchandise, and services, with quality guaranteed based on legal restrictions or agreements with customers. In our Medical Business, which is connected especially closely with human life, we manufacture, import, and sell medical gases and medical devices in accordance with the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices, but if product defects arise that lead to recalls or product liability damages, we may incur expenses to take countermeasures or pay damages, and this may affect the performance or financial situation of our Group.

In our Agriculture and Food Products Business, we manufacture and sell food products such as frozen food, ham, deli food, beverages, and sweets in accordance with the Food Safety Basic Act, Food Sanitation Act, Food Labeling Act, and other laws. Also, in our Seawater Business, we manufacture food products such as salt, seaweed, and furikake rice topping. If a problem arises, such as a serious quality accident, we may lose the trust of consumers, and incur expenses to take countermeasures or pay damages, etc.

Magnesia for magnetic steel sheets is one of the key products of our Seawater Business, and it is positioned upstream in the supply chain, with a sales territory covering approximately 40 countries, and thus if there is a serious product defect, the impact may be wide ranging.

In the global engineering field, which falls under our Other Businesses category, one of our businesses is high-power uninterruptible power supplies (UPS), and our main product is rotary UPS. This business plays a key role in business continuity planning (BCP) of data centers, semiconductor manufacturers, and other end users, and if a product defect, problem, or other trouble causes major damages for a customer, we may incur expenses to take countermeasures or pay damages, etc.

Countermeasures by our Group

In our Group's mid-term management plan, NEXT-2020 Final, we are committed to strengthening quality compliance as a key management challenge, and we strive to minimize risk by establishing Quality Compliance Guidelines as a Group-wide indicator, and conducting periodic quality risk surveys and quality compliance audits.

We ensure preparedness for liability risk attributable to quality problems of products and merchandise by maintaining comprehensive liability insurance coverage for our company and our consolidated subsidiaries in Japan.

Procurement risks

Description of risk

We use large amounts of electric power in manufacturing oxygen, nitrogen, and argon, the mainstay products of our Industrial Gas Business. If power costs rise substantially, and those costs cannot be passed on in the sales price, there may be an impact on our Group's performance. Also, helium gas, a scarce natural resource, and CO2 gas and dry ice, which are produced as by-products during processing of their source gases by petroleum refiners and other industries, may have an effect on our Group's performance due, respectively, to geopolitical factors, or reduction of volume due to the operating situation. The purchasing prices of LP gas and kerosene, the mainstay products of our Energy Business are generally linked with the price of crude oil. If the crude oil price falls much further than projected, this may have an effect on our Group's performance.

In our Agriculture and Food Products Business, we manufacture and sell processed foods whose main ingredients are vegetables and pork, and these prices may have an impact due to bad weather or changes in supply and demand in the market.

In our Other Businesses, the FIT system in Japan is moving toward more stringent monitoring of stable supply and business sustainability for suppliers of globally-sourced biomass fuel for power generation. Supply and demand are tight for fuels meeting standards, and there is a risk of rising fuel prices.

Countermeasures by our Group

Our Group is working to secure revenue by revising sales prices in a timely and appropriate manner with the understanding of customers.

Also, to stably secure raw materials and products, we are examining steps such as increasing stockpiles in Japan, making preparations to commit to alternative fuels, and developing procurement routes aside from those that currently exist.

Accident risk

Description of risk

In our Logistics Business, we are engaged in transport of general cargo, as well as high-pressure gases and other hazardous items, using large vehicles such as trucks and lorries. Therefore, if a serious accident occurs, we may be liable for damages, or subject to administrative measures such as halting use of vehicles or halting business site operations, and this may have an effect on our Group's performance.

Countermeasures by our Group

Our Group is actively engaged in measures to promote safety such as ensuring thorough operation management, and implementing safety education.

Foreign exchange risk

Description of risk

In our Group, we position global business as the foundation of our growth, and we have gained many subsidiaries outside Japan through M&A or establishing companies. In particular, at subsidiaries involved in our industrial gas-related equipment business , and our high-power UPS business (in our Other Businesses category), we are globally expanding procurement of raw materials and product sales. Therefore, if sudden fluctuations in exchange rates occur, this may affect performance or the financial situation of these businesses.

Countermeasures by our Group

In our Group, we strive to minimize foreign exchange risk through measures such as exchange contracts, diversification of procurement routes, and unification of transaction currencies at foreign subsidiaries.

(3) Other risks

Environmental risks

Description of risk

In our business activities both inside and outside Japan, our Group is subject to environmental laws and regulations, but if they are strengthened due to enactment or amendment, then the resulting constraints on business activities, increased costs of compliance, and other necessary measures may affect our Group's performance or financial situation. This applies especially to the Industrial Gas Business, which uses large amounts of electric power in the manufacturing process. If carbon taxes are imposed or regulation of greenhouse gas (CO2) emissions is strengthened, e.g., through an emissions trading system, it may affect our Group's performance or financial situation.

Countermeasures by our Group

In our Group's mid-term management plan, NEXT-2020 Final, we have positioned response to climate change as a key management challenge, and established a reduction target for total greenhouse gas (CO2) emissions as a key performance indicator (KPI).

Our Group is working to reduce total emissions of greenhouse gas (CO2) by taking steps such as adopting/upgrading high-efficiency plants and implementing thorough energy-conservation activities, so that we can attain our target.

COVID-19 risk

Description of risk

The worldwide spread of COVID-19 infection is affecting all businesses of our Group. It remains unclear when this situation will resolve, and if resolution takes a long time, that may have an effect on operations of our businesses—including our Industrial Gas Business, and the global engineering field of our Other Businesses—as well as on the performance, financial situation, and cash flow of our Group.

Countermeasures by our Group

Our Group is working to reduce costs in all our businesses. Our objective is to continue fulfilling our responsibility to stably supply industrial gases, medical gases, and other products, while giving the utmost consideration to the safety of all Group employees. To that end, we are implementing thorough measures to prevent contagion and ensure safety such as implementing staggered working hours and remote-working, taking body temperature when entering buildings, and wearing masks. To maintain sufficient financial stability in case economic slowdown continues over the long term, we will select M&A and capital investments with extreme care, while prudently ascertaining changes in the business environment.

Non-financial asset impairment risk

Description of risk

Our Group has many non-financial assets such as property, plant, and equipment, goodwill, and intangible assets. For intangible assets (excluding inventory assets, deferred tax assets, etc.), we detect the signs of impairment in pertinent assets or cash-generating units (referred to hereafter as "the assets"), and if there are signs of impairment, we estimate the recoverable amount of the asset, and conduct an impairment test. For intangible assets, for which it is impossible to determine goodwill and the depreciation period, we carry out an impairment test every quarter, regardless of whether there are signs of impairment. If an impairment loss is incurred, this may affect the business development, performance, and financial situation of our Group.

Countermeasures by our Group

Through periodic impairment tests of goodwill and intangible assets, our Group ascertains and properly handles appraised values.

Consolidated Financial Statements
Consolidated Statement of Financial Position

AIR WATER INC.

Millions of yen

Assets	Notes	Transition Date (April,1, 2018)	FY2018 (March 31, 2019)	**FY2019 (March 31, 2020)**
Current assets				
Cash and cash equivalents	5	23,303	32,108	**41,861**
Trade and other receivables	6	182,562	184,887	**187,402**
Inventories	7	48,769	55,325	**64,415**
Other financial assets	8	8,171	6,553	**5,794**
Income taxes receivable		2,231	2,495	**2,990**
Other current assets	9	10,270	18,598	**30,813**
Subtotal		275,309	299,969	**333,277**
Assets held for sale	28	13,136	14,002	**—**
Total current assets		288,445	313,971	**333,277**
Non-current assets				
Property, plant and equipment	10	277,213	332,093	**380,284**
Goodwill	11	13,451	22,775	**64,005**
Intangible assets	11	13,771	14,629	**19,352**
Investments accounted for using equity method		25,551	26,953	**28,503**
Retirement benefit asset	20	6,562	4,336	**3,088**
Other financial assets	8	61,952	62,337	**62,365**
Deferred tax assets	14	6,226	7,489	**7,328**
Other non-current assets	9	1,737	1,356	**1,494**
Total non-current assets		406,468	471,972	**566,422**
Total assets		694,914	785,944	**899,699**

Millions of yen

Liabilities and equity	Notes	Transition Date (April,1, 2018)	FY2018 (March 31, 2019)	**FY2019 (March 31, 2020)**
Liabilities				
Current liabilities				
Trade and other payables	15	133,870	156,357	**137,945**
Bonds and borrowings	16	58,552	75,162	**105,386**
Other financial liabilities	18	4,472	5,108	**5,426**
Income taxes payable		7,405	7,266	**8,510**
Provisions	17	561	933	**1,211**
Other current liabilities	19	24,431	23,530	**25,020**
Total current liabilities		229,294	268,358	**283,500**
Non-current liabilities				
Bonds and borrowings	16	128,111	168,803	**195,648**
Other financial liabilities	18	29,779	30,449	**38,586**
Retirement benefit liability	20	8,666	9,249	**9,918**
Provisions	17	1,289	972	**2,354**
Deferred tax liabilities	14	8,961	4,745	**9,252**
Other non-current liabilities	19	8,642	8,354	**8,623**
Total non-current liabilities		185,450	222,575	**264,383**
Total liabilities		414,744	490,934	**547,884**
Equity				
Share capital	21	32,263	32,263	**55,855**
Capital surplus	21	37,060	36,675	**51,077**
Treasury shares	21	(4,089)	(3,463)	**(2,556)**
Retained earnings	21	188,980	208,183	**228,854**
Other components of equity	21	9,377	4,395	**(1,237)**
Total equity attributable to owners of parent		263,593	278,053	**331,992**
Non-controlling interests		16,575	16,956	**19,822**
Total equity		280,169	295,009	**351,815**
Total liabilities and equity		694,914	785,944	**899,699**

Consolidated Statement of Profit or Loss

AIR WATER INC.

Millions of yen

Continuing operations	Notes	FY2018 (From April 1, 2018 to March 31, 2019)	**FY2019 (From April 1, 2019 to March 31, 2020)**
Revenue	24	742,288	**809,083**
Cost of sales		(577,404)	**(628,463)**
Gross profit		164,884	**180,620**
Selling, general and administrative expenses	25	(121,235)	**(135,383)**
Other income	26	3,728	**9,122**
Other expenses	26	(6,263)	**(5,348)**
Share of profit of investments accounted for using equity method		1,685	**1,605**
Operating profit		42,799	**50,616**
Finance income	27	1,130	**1,395**
Finance costs	27	(1,818)	**(2,181)**
Profit before tax		42,111	**49,830**
Income tax expense	14	(11,145)	**(16,085)**
Profit from continuing operations		30,965	**33,745**
Discontinued operations			
Profit (loss) from discontinued operations	28	(825)	**(218)**
Profit		30,139	**33,526**
Profit attributable to			
Owners of parent		28,815	**30,430**
Non-controlling interests		1,324	**3,095**
Profit		30,139	**33,526**
Earnings per share			
Basic earnings (loss) per share	30		
Continuing operations		151.56 Yen	**148.49 Yen**
Discontinued operations		(4.22) Yen	**(1.06) Yen**
Basic earnings per share		147.33 Yen	**147.43 Yen**
Diluted earnings (loss) per share	30		
Continuing operations		151.28 Yen	**148.26 Yen**
Discontinued operations		(4.22) Yen	**(1.06) Yen**
Diluted earnings per share		147.06 Yen	**147.20 Yen**

Consolidated Statement of Comprehensive Income

AIR WATER INC.

Millions of yen

	Notes	FY2018 (From April 1, 2018 to March 31, 2019)	**FY2019 (From April 1, 2019 to March 31, 2020)**
Profit		30,139	**33,526**
Other comprehensive income			
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	29	(5,478)	**(3,681)**
Remeasurements of defined benefit plans	29	(1,828)	**(503)**
Share of other comprehensive income of investments accounted for using equity method	29	(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	29	(252)	**(3,387)**
Effective portion of cash flow hedges	29	1,645	**2,583**
Share of other comprehensive income of investments accounted for using equity method	29	(40)	**42**
Total of items that may be reclassified to profit or loss		1,352	**(761)**
Total other comprehensive income		(6,113)	**(4,922)**
Comprehensive income		24,026	**28,604**
Comprehensive income attributable to			
Owners of parent		22,201	**24,438**
Non-controlling interests		1,825	**4,165**
Comprehensive income		24,026	**28,604**

Consolidated Statement of Changes in Equity

AIR WATER INC.

Millions of yen

		Total equity attributable to owners of parent					
						Other components of equity	
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations
Balance as of April 1, 2018		32,263	37,060	(4,089)	188,980	—	—
Profit		—	—	—	28,815	—	—
Other comprehensive income	29	—	—	—	—	(1,845)	(228)
Comprehensive income		—	—	—	28,815	(1,845)	(228)
Dividends	21	—	—	—	(7,852)	—	—
Purchase of treasury shares	21	—	—	(4)	—	—	—
Disposal of treasury shares	21	—	3	630	—	—	—
Share-based remuneration transactions	22	—	—	—	—	—	—
Changes in ownership interest		—	(456)	—	—	—	—
Increase (decrease) resulting from inclusion of subsidiaries in consolidation		—	68	—	(173)	—	—
Transfer from other components of equity to retained earnings		—	—	—	(1,587)	1,845	—
Total transactions with owners		—	(385)	625	(9,612)	1,845	—
Balance as of March 31, 2019		**32,263**	**36,675**	**(3,463)**	**208,183**	**—**	**(228)**
Profit		**—**	**—**	**—**	**30,430**	**—**	**—**
Other comprehensive income	**29**	**—**	**—**	**—**	**—**	**(598)**	**(3,288)**
Comprehensive income		**—**	**—**	**—**	**30,430**	**(598)**	**(3,288)**
Issuance of new shares		**23,591**	**23,433**	**—**	**—**	**—**	**—**
Dividends	**21**	**—**	**—**	**—**	**(8,050)**	**—**	**—**
Purchase of treasury shares	**21**	**—**	**—**	**(3)**	**—**	**—**	**—**
Disposal of treasury shares	**21**	**—**	**54**	**910**	**—**	**—**	**—**
Share-based remuneration transactions	**22**	**—**	**—**	**—**	**—**	**—**	**—**
Changes in ownership interest		**—**	**(2,006)**	**—**	**—**	**—**	**—**
Increase (decrease) resulting from inclusion of subsidiaries in consolidation		**—**	**(15)**	**—**	**(1,393)**	**—**	**—**
Capital increase of consolidated subsidiaries		**—**	**—**	**—**	**—**	**—**	**—**
Increase by merger		**—**	**—**	**—**	**235**	**—**	**—**
Transfer from other components of equity to retained earnings		**—**	**—**	**—**	**(550)**	**598**	**—**
Put options written on non-controlling interests		**—**	**(7,064)**	**—**	**—**	**—**	**—**
Transfers to nonfinancial assets		**—**	**—**	**—**	**—**	**—**	**—**
Total transactions with owners		**23,591**	**14,401**	**907**	**(9,759)**	**598**	**—**
Balance as of March 31, 2020		**55,855**	**51,077**	**(2,556)**	**228,854**	**—**	**(3,517)**

Millions of yen

	Notes	Total equity attributable to owners of parent					Non-controlling interests	Total equity
		Other components of equity						
		Financial assets measured at fair value through other comprehensive income	Effective portion of cash flow hedges	Share acquisition rights	Total	Total		
Balance as of April 1, 2018		9,864	(865)	379	9,377	263,593	16,575	280,169
Profit		—	—	—	—	28,815	1,324	30,139
Other comprehensive income	29	(5,656)	1,118	—	(6,613)	(6,613)	500	(6,113)
Comprehensive income		(5,656)	1,118	—	(6,613)	22,201	1,825	24,026
Dividends	21	—	—	—	—	(7,852)	(651)	(8,503)
Purchase of treasury shares	21	—	—	—	—	(4)	—	(4)
Disposal of treasury shares	21	—	—	(35)	(35)	597	—	597
Share-based remuneration transactions	22	—	—	79	79	79	—	79
Changes in ownership interest		—	—	—	—	(456)	(1,516)	(1,973)
Increase (decrease) resulting from inclusion of subsidiaries in consolidation		—	—	—	—	(104)	723	618
Transfer from other components of equity to retained earnings		(258)	—	—	1,587	—	—	—
Total transactions with owners		(258)	—	43	1,631	(7,741)	(1,444)	(9,186)
Balance as of March 31, 2019		**3,948**	**252**	**423**	**4,395**	**278,053**	**16,956**	**295,009**
Profit		**—**	**—**	**—**	**—**	**30,430**	**3,095**	**33,526**
Other comprehensive income	**29**	**(3,617)**	**1,512**	**—**	**(5,992)**	**(5,992)**	**1,069**	**(4,922)**
Comprehensive income		**(3,617)**	**1,512**	**—**	**(5,992)**	**24,438**	**4,165**	**28,604**
Issuance of new shares		**—**	**—**	**—**	**—**	**47,025**	**—**	**47,025**
Dividends	**21**	**—**	**—**	**—**	**—**	**(8,050)**	**(518)**	**(8,569)**
Purchase of treasury shares	**21**	**—**	**—**	**—**	**—**	**(3)**	**—**	**(3)**
Disposal of treasury shares	**21**	**—**	**—**	**(98)**	**(98)**	**867**	**—**	**867**
Share-based remuneration transactions	**22**	**—**	**—**	**21**	**21**	**21**	**—**	**21**
Changes in ownership interest		**—**	**—**	**—**	**—**	**(2,006)**	**(1,177)**	**(3,183)**
Increase (decrease) resulting from inclusion of subsidiaries in consolidation		**—**	**—**	**—**	**—**	**(1,409)**	**650**	**(759)**
Capital increase of consolidated subsidiaries		**—**	**—**	**—**	**—**	**—**	**1,474**	**1,474**
Increase by merger		**—**	**—**	**—**	**—**	**235**	**—**	**235**
Transfer from other components of equity to retained earnings		**(47)**	**—**	**—**	**550**	**—**	**—**	**—**
Put options written on non-controlling interests		**—**	**—**	**—**	**—**	**(7,064)**	**(1,617)**	**(8,682)**
Transfers to nonfinancial assets		**—**	**(114)**	**—**	**(114)**	**(114)**	**(110)**	**(225)**
Total transactions with owners		**(47)**	**(114)**	**(76)**	**359**	**29,500**	**(1,299)**	**28,201**
Balance as of March 31, 2020		**283**	**1,649**	**346**	**(1,237)**	**331,992**	**19,822**	**351,815**

Consolidated Statement of Cash Flows

AIR WATER INC.

Millions of yen

Cash flows from operating activities	Notes	FY2018 (From April 1, 2018 to March 31, 2019)	**FY2019 (From April 1, 2019 to March 31, 2020)**
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	31	19,814	**13,105**
Proceeds from long-term borrowings	31	46,886	**49,476**
Repayments of long-term borrowings	31	(25,826)	**(21,633)**
Proceeds from issuance of bonds	31	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	31	(4,629)	**(6,029)**
Proceeds from issuance of shares		—	**46,955**
Dividends paid	21	(7,868)	**(8,029)**
Dividends paid to non-controlling interests		(652)	**(2,703)**
Other	31	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 period	5	32,108	**41,861**

Notes to the Consolidated Financial Statements

AIR WATER INC.

1. Reporting Entity

Air Water Inc. (the "Company") is a stock company located in Japan. The registered address of the Company's head office is Chuo-ku, Osaka.

The Company and its subsidiaries (the "Group") end their fiscal year on March 31. The consolidated financial statements includes the Company and the Group's interests in associates and joint arrangements.

The Group manufactures and sells products and services related to businesses that include industrial gas, chemical, medical, energy, agriculture and food products, logistics, seawater and other businesses. For details of each business, see Note 4. " Operating Segments."

2. Basis for Preparation

(1) Statement of compliance with IFRS and matters related to first-time adoption

The Group prepares the consolidated financial statements in accordance with IFRS published by the International Accounting Standards Board. Having met the requirements for a "Specified Company under the Designated International Accounting Standards" prescribed in Article 1-2 of the Regulation on the Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, the Company has adopted the provisions of Article 93 of the regulation.

The Group applied IFRS for the first time from the fiscal year that started on April 1, 2019. The consolidated financial statements for that fiscal year were the first consolidated financial statements prepared under IFRS.

The date of transition to IFRS (the "Transition Date") was April 1, 2018, and IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") was applied. The impact of the adoption on the Group's financial position, operating results, and cash flows on the Transition Date and in the comparable fiscal year are stated in Note 38, "First-time Adoption."

(2) Basis for measurement

The Group's consolidated financial statements, with the exception of retirement benefit liability (asset) and financial instruments measured at fair value stated in Note 3, "Significant Accounting Policies," have been prepared using a historical cost basis.

(3) Functional currency and presentation currency

The presentation currency used in the Group's consolidated financial statements is Japanese yen, which is the Company's functional currency. Any amounts below one million yen are rounded down.

(4) Approval of the consolidated financial statements

The Group's consolidated financial statements were approved by the chairman of the Company on July 10, 2020.

(5) Significant accounting estimates and judgments that involve estimations

In the preparation of the consolidated financial statements of the Group, management is required to make certain judgments, estimates, and assumptions in the process of applying accounting policies and in determining the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of revisions to the accounting estimates are recognized in the period in which the estimates were revised and in future periods affected by the revisions.

Accounting judgments, estimates, and assumptions that may have significant effects on the Group's consolidated financial statements are as follows.

- Impairment of nonfinancial assets (Note 10. "Property, Plant and Equipment," and Note 11. "Goodwill and Intangible Assets")
- Recoverability of deferred tax assets (Note 14. "Income Taxes")
- Measurement of defined benefit obligations (Note 20. " Employee Benefits")
- Fair market value of financial instruments (Note 23. " Financial Instruments")
- Contingent liability (Note 36. "Contingencies")

In making accounting estimates, the Group assumes that in the business environment in the next fiscal year ending March 2021 the coronavirus will put significant constraints on economic activity, including corporate production and capital investment in the first quarter. Restraint on economic activity, however, will ease in the second quarter and beyond with normalization gradually starting toward the end of the fiscal year, and economic activity will return to near normality by the beginning of the fiscal year ending March 2022. However, impairment of nonfinancial assets, involving significant judgments and assumptions, involves uncertainties over the estimation of future cash flows due to the spread of COVID-19 and other factors, and thus the Group's estimates may be revised in future periods.

3. Significant Accounting Policies

(1) Basis of consolidation

1) Subsidiaries

A subsidiary is an entity controlled by the Group. When the Group is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee, the Group controls the investee entity.

In preparing the consolidated financial statements, the financial statements of group companies prepared in accordance with standardized accounting policies of the Group are used. If the accounting policies applied to a subsidiary are different from those applied to the Group, adjustments are made to the subsidiary's financial statements where necessary.

The consolidated financial statements include the financial statements of subsidiaries with fiscal year-ends that differ from that of the Company as it is practically impossible to align their fiscal year-ends with that of the parent because local laws require a fiscal year-end date that is different from that of the Company.

The difference between such subsidiaries' fiscal year-ends and that of the Company does not exceed three months. Significant effects on transactions or events that occur because of the difference in the fiscal year-end are adjusted for.

Subsidiaries are consolidated from the date when the Group acquires control to the date when it loses control over the subsidiaries.

Intragroup transactions, and receivable and payable balances and unrealized gains or losses arising from intragroup transactions are eliminated.

Changes in interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, and the difference between adjustments of non-controlling interests and the fair market value of consideration is directly recognized as equity attributable to the owners of the parent.

If the changes result in the loss of control, the Group recognizes them at fair value on the date of losing control over the remaining investment. Any gains or losses from the loss of control are recognized in profit or loss.

Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's interests. The comprehensive income of subsidiaries is attributed to the owners of the parent and non-controlling interests even if the balance of non-controlling interests is negative.

2) Associates

An associate is an entity in which the Group exerts significant influence over financial and operating policies without having control or joint control of the entity.

The Group accounts for investments in associates using the equity method.

Under the equity method, investments in associates are recognized at the acquisition cost at the time of acquisition and subsequently adjusted to reflect the Group's share of changes in the associates' net assets and accounted for in the consolidated statements of the financial position.

The consolidated statements of profit or loss reflects the Group's share of the associates' results. The Group's share of any changes in amounts recognized in associates' other comprehensive income is recognized in other comprehensive income.

Adjustments are made in the consolidated financial statements to eliminate the Group's share in unrealized gains or losses arising from transactions between it and the associates.

The consolidated financial statements include investments in equity method investees having a different fiscal year-end because applying the same fiscal year-end is practically impossible as a result of the relationships with other shareholders. The difference between such associates' fiscal year-ends and that of the Company does not exceed three months. Significant effects on transactions or events that occur because of the difference in the fiscal year-end are adjusted for.

If the Group loses significant influence over an associate, it measures and recognizes the remaining investment at fair value as of the date of losing such influence. Any gains or losses from the loss of significant influence are recognized in profit or loss.

3) Joint arrangements

A joint arrangement is an arrangement in which unanimous consensus of the parties having joint control is required for decision-making over related activities.

A joint venture is a joint agreement under which parties with joint control over an arrangement have rights to the net assets of the arrangement.

If the Group holds an equity interest in a joint venture, the Group accounts for the interest using the equity method.

A joint operation is one in which jointly controlling parties effectively have rights to assets and obligations for liabilities related to a joint arrangement.

If the Group holds an interest in a joint operation, the Group recognizes, regarding its investment in the joint operation, assets, liabilities, revenues, and expenses generated from jointly controlled operating activities, only to the extent of its interest.

Transactions with joint operations and receivable and payable balances and unrealized gains or losses arising from such transactions are eliminated.

The Group judges that Sakai Gas Center, Inc., is a joint operation.

(2) Business combinations

The Group accounts for business combinations using the acquisition method.

The consideration transferred is measured as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

For each business combination, the Group measures non-controlling interests in the acquiree at fair value or the amount of non-controlling interests in the fair value of the acquiree's identifiable net assets.

Costs related to business combinations are recognized as expenses at the time they occur.

When the Group acquires a business, the assets acquired and liabilities assumed are classified and designated based on the terms of the agreement, economic conditions and other related conditions. The Group measures the identifiable assets and liabilities assumed at acquisition date fair value.

If a business combination has been carried out in phases, the interests the Group held before acquiring control of the acquiree are reevaluated at fair value on the acquisition date, and the valuation difference is recognized in profit or loss.

The amount of interests in the acquiree recorded in other comprehensive income before the acquisition date is accounted for by the same method as for disposal by the acquirer of the interests.

Goodwill is recognized as the total amount recognized as consideration transferred and non-controlling interests in excess of identifiable assets acquired and liabilities assumed.

If the total amount recognized as consideration transferred and non-controlling interests is lower than the net amount of identifiable assets acquired and liabilities assumed, the difference is recognized as profit or loss.

After initial recognition, goodwill acquired through a business combination is not amortized and is presented at the amount of initial recognition less accumulated impairment loss. Impairment tests of goodwill are conducted annually and each time an indication of impairment appears.

(3) Foreign currency translation

The presentation currency used in the Group's consolidated financial statements is Japanese yen, which is the Company's functional currency. Each of Group entities sets their own functional currency, and the transactions of each company are measured in that functional currency. Transactions denominated in a foreign currency are translated into the functional currency using the spot exchange rate on the transaction date or an exchange rate that approximates it.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot exchange rate at the fiscal year-end. Translation differences resulting from such translation and their settlement are recognized in profit or loss. However, translation differences arising from equity instruments measured through other comprehensive income and cash flow hedges to the extent that the hedges are effective are recognized in other comprehensive income.

Assets and liabilities, as well as revenues and expenses, of foreign operations are translated into yen using the spot exchange rate at the fiscal year-end, and the spot exchange rate on the transaction date or a rate that approximates the exchange rate, respectively, and the translation differences are recognized in other comprehensive income.

If foreign operations are disposed of, accumulated translation differences related to the foreign operations are recognized in profit or loss in the fiscal year in which they are disposed of.

(4) Financial instruments

<u>1) Financial assets (excluding derivatives)</u>

(i) Initial recognition and measurement

The Group initially recognizes trade receivables on the date of their accrual. All other financial assets are initially recognized

on the date on which the Group becomes a party to the agreement on the financial assets.

The Group classifies financial assets as (a) financial assets measured at the amortized cost, (b) financial assets measured at fair value through other comprehensive income, or (c) financial assets measured at fair value through profit or loss. This classification is determined at the initial recognition of the financial assets.

The costs of the transactions in financial instruments measured at fair value through profit or loss are recognized in profit or loss as incurred. All other financial instruments are initially recognized at fair value plus transaction costs. However, trade receivables are measured at the transaction price.

(a) Financial assets measured at the amortized cost

Debt instruments are classified as financial assets measured at the amortized cost if they meet both of the following criteria:

- They are held based on a business model whose objective is to hold financial assets in order to collect contractual cash flows
- The contractual terms of these instruments give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on a specified date.

(b) Financial assets measured at fair value through other comprehensive income

- Debt instruments measured at fair value through other comprehensive income

Debt instruments are classified as financial assets measured at fair value through other comprehensive income if they meet both of the following criteria:

- They are held based on a business model whose objective is to collect contractual cash flows and sell financial assets.
- The contractual terms of these instruments give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on a specified date.

- Equity instruments measured at fair value through other comprehensive income

Stocks and other equity instruments held mainly for the purpose of maintaining and strengthening business relationships with investees are designated as financial assets measured at fair value through other comprehensive income, and the designation is applied continuously.

(c) Financial assets measured at fair value through profit or loss

Financial assets other than financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

However, in cases in which an accounting mismatch is eliminated or significantly reduced by designating financial assets not measured at fair value through profit or loss as financial assets measured at fair value through profit or loss, the Group may irrevocably designate them as financial assets measured at fair value through profit or loss at initial recognition.

(ii) Subsequent measurement

After initial recognition, financial assets are measured according to their classification as follows.

(a) Financial assets measured at the amortized cost

Financial assets measured at the amortized cost are measured at the amortized cost using the effective interest method.

(b) Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are measured at fair value, and fair value changes are recognized in other comprehensive income.

However, fair value changes in equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income and, if they are derecognized or the fair value significantly declines, reclassified to retained earnings.

(c) Financial assets measured at fair value through profit or loss

After initial recognition, financial assets measured at fair value through profit or loss are measured at fair value, and fair value changes are recognized in profit or loss.

(iii) Derecognition

The Group derecognizes a financial asset when the contractual rights to cash flows from the financial asset expire or when the Group transfers such rights and all the risks and economic value of ownership of the financial asset are substantially transferred.

If the Group retains control over the financial asset transferred without substantially transferring the risks and economic value of ownership or holding them, the financial asset continues to be recognized to the extent of continued involvement. In such case, related liabilities are also recognized.

(iv) Impairment

The Group measures the impairment of financial assets based on whether at each fiscal year-end there have been significant increases in credit risk since initial recognition with respect to financial assets measured at the amortized cost.

If there have been no significant increases in credit risk since the initial recognition with respect to financial assets measured at the amortized cost, 12- month expected credit losses are recognized in the provision for doubtful accounts. However, for trade receivables, expected credit losses over the remaining period are initially recognized.

On the other hand, if there have been significant increases since initial recognition, the expected credit losses over the remaining period are recognized in the provision for doubtful accounts.

The Group decides whether there have been significant increases in credit risk or not based on changes in the default risk, and the Group mainly considers delinquency (past due information) in deciding whether there have been changes in the default risk.

The Group decides that a default has occurred when events that have a detrimental impact on the future cash flows of financial assets have occurred such as that the obligor is long past a contractual payment due date.

The Group treats any financial asset as a credit-impaired financial asset if the obligor is experiencing significant financial difficulties, bankruptcy or other legal liquidation procedures begin with respect to the obligor, or other similar events occur.

The Group estimates the expected credit losses in a way that reflects reasonable and supportable information that is available without undue cost or effort on the reporting date with regard to the time value of money, past events, current conditions, forecasts of future economic conditions and similar factors.

Expected credit losses are measured based on the discounted present value of the difference between an amount due to the Group under the contract and an amount the Group expects to receive based on past credit losses and similar factors.

When the collection of receivables cannot be reasonably assumed, such as in cases in which receivables are legally extinguished, the carrying amount of the financial assets are directly written off.

2) Financial liabilities (excluding derivatives)

(i) Initial recognition and measurement

The Group classifies financial liabilities other than derivatives as financial liabilities measured at the amortized cost. Classifications are determined at the initial recognition. All financial liabilities are initially recognized on the date on which the Group becomes a party to the agreement on the financial liabilities.

(ii) Subsequent measurement

Financial liabilities measured at the amortized cost are measured at the amortized cost using the effective interest method after the initial recognition. Amortization under the effective interest method and gains or losses on derecognition are recognized in profit or loss.

(iii) Derecognition

Financial liabilities are derecognized when the obligation is discharged, canceled or expired, or when they are exchanged with substantially different terms or their terms are modified substantially.

(iv) Put options granted to non-controlling shareholders

When the Group grants put options to non-controlling shareholders, the Group derecognizes non-controlling interests in the put options, recognizes the present value of the put options' redemption amount in financial liabilities and recognizes the difference in capital surplus. Changes after initial recognition are recognized in capital surplus.

3) Derivatives and hedge accounting

The Group uses forward exchange contracts and interest rate swap contracts as derivatives to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when the contracts are entered into and are subsequently remeasured at fair value.

Fair value changes of derivatives are recognized in profit or loss. However, the effective portion of cash flow hedges is recognized in other comprehensive income.

At the inception of a hedge, the Group formally designates and documents the hedging relationship to which hedge accounting applies and the objectives and strategies of risk management for undertaking the hedge. The documentation includes identifying any specific hedging instrument, the hedged items or transactions, the nature of the risks being hedged and the method of assessing the effectiveness of the hedging instrument in offsetting the exposure to changes in fair value or cash flows of hedged items attributable to hedged risks. At the inception of the hedge and on an ongoing basis, the Group assesses whether a derivative used in a hedge transaction is effective to offset changes in the fair value or the cash flow of the hedged item. Specifically, the Group determines that a hedge is effective when the economic relationship between the hedged item and the hedging instrument is offset.

Hedges that meet the strict requirements for hedge accounting are classified as follows in accordance with IFRS 9 "Financial Instruments" ("IFRS 9").

Cash flow hedges

The effective portion of gains or losses on hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized immediately in profit or loss.

The amounts of hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. When hedged items result in the recognition of nonfinancial assets or liabilities, the amounts recognized in other comprehensive income are accounted for as adjustments to the original carrying amount of the nonfinancial assets or liabilities.

When a hedging instrument expires or is sold, terminated or exercised without replacement or rollover into another hedging instrument or when the hedge designation is revoked because of a change in the risk management objective, accumulated amounts that have been recognized as equity through other comprehensive income continue to be recognized in equity until the forecast transaction occurs or is no longer expected to occur.

When the forecast transaction is no longer expected to occur, accumulated gains or losses originally recognized as equity through other comprehensive income are reclassified in profit or loss.

4) Fair value of financial instruments

The fair value of financial instruments that are traded in active financial markets at the fiscal year-end refers to quoted market prices or dealer quotations.

The fair value of financial instruments without active markets is calculated in reference to appropriate valuation techniques or prices presented by related financial institutions.

(5) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments redeemable within three months of the date of acquisition that are readily convertible into cash and exposed to only insignificant risk of change in value.

(6) Inventories

The acquisition cost of inventories includes purchase costs, processing costs and all other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of the acquisition cost and net realizable value. The weighted average cost formula is mainly used to calculate the cost. The Group calculates net realizable value by deducting the estimated costs required for completion and the estimated costs required to make a sale from the estimated selling price in the ordinary course of business.

(7) Property, plant and equipment

The Group uses the cost model to measure property, plant and equipment.

Property, plant and equipment are presented at the acquisition cost less any accumulated depreciation and impairment loss.

The acquisition cost includes the costs directly attributable to the acquisition of assets, costs of dismantlement, removal and restoration, and borrowing costs that satisfy the capitalization criteria.

Any property, plant and equipment except for land is depreciated over the estimated useful life using mainly the straight-line method. The useful life and method used to depreciate the property, plant and equipment are reviewed at the fiscal year-end, and any change is applied prospectively as a change in accounting estimates.

For the depreciation of property, plant and equipment, the estimated useful life is as follows:

Buildings and structures: 2 to 65 years

Machinery and vehicles: 2 to 42 years

Tools, furniture and fixtures: 2 to 38 years

(8) Intangible assets

The Group uses the cost model to measure intangible assets.

Intangible assets are presented at the acquisition cost less any accumulated amortization and impairment loss.

Intangible assets separately acquired are measured at the acquisition cost at initial recognition, and the acquisition cost of intangible assets acquired in a business combination are measured at the acquisition-date fair value. Expenditures on internally generated intangible assets are all recognized as expenses in the fiscal year in which they are incurred, excluding development expenses that satisfy the criteria for capitalization.

The Group amortizes intangible assets with finite useful lives using the straight-line method over their useful lives. The Group performs an impairment test each time there is an indication of impairment. The useful life and amortization method of intangible assets with finite useful lives are reviewed at the fiscal year-end, and any change is applied prospectively as a change in accounting estimates.

For the amortization of intangible assets, the estimated useful life is as follows:

Software: 2 to 16 years

Other intangible assets: 5 to 20 years

Of the intangible assets with indefinite useful lives and intangible assets not yet available for use, trademarks are judged to have indefinable useful lives as they essentially continue to exist as long as the business continues and thus the period over which future economic benefits will continue to flow cannot be predicted.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized, and tested for impairment individually or by cash-generating unit in each fiscal year and whenever there is any indication of impairment.

(9) Leases

<u>1) Leases as lessee</u>

The Group determines whether a contract includes a lease or not at the inception of the contract.

The Group recognizes right-of-use assets and lease liabilities at the lease inception date.

Right-of-use assets are initially recognized at the acquisition cost at the lease inception date. The acquisition cost is calculated as the amount of the initial measurement of lease liabilities adjusted for any lease payments made at or before the inception date, plus initial direct costs incurred and the estimated costs of the dismantlement and removal of underlying assets or the restoration of underlying assets or the site on which the underlying assets are located, less lease incentives already received. After initial recognition, right-of-use assets are measured at the acquisition cost less any accumulated depreciation and impairment loss using the cost model. When the ownership of the underlying assets is transferred to the lessor by the end of the lease term or when the acquisition cost of right-of-use assets reflect the exercise of a purchase option, the right-of-use assets are depreciated using the straight-line method over a period from the inception date to the end of their useful lives. In other cases, right-of-use assets are depreciated using the straight-line method over a period from the inception date to the end of useful lives of the right-of-use assets or to the end of the lease term, whichever is shorter. The estimated useful life of right-of-use assets is determined in the same way as for property, plant and equipment owned by the Group. Furthermore, right-of-use assets are reduced by the amount of impairment loss, if any, and adjusted for remeasurement of specified lease liabilities.

At the inception date, lease liabilities are measured at the present value of the lease payments that have not been paid as of that date. Subsequent to the inception date, the carrying amount is changed to reflect interest rates on lease liabilities and lease payments paid. When lease liabilities are reviewed or lease terms are changed, the lease liabilities are remeasured and the right-of-use assets are adjusted accordingly.

Total lease payments included in the measurement of lease liabilities comprise the following:

- Fixed lease payments (including in-substance fixed payments)
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the inception date
- The amount expected to be payable under residual value guarantee
- The exercise price of purchase options if the Group is reasonably certain to exercise the options; lease payments during the term of options if the Group is reasonably certain to exercise extension options and payments of penalties for terminating the lease early (excluding cases in which it is reasonably certain that the Group will not terminate the lease early)

The Group measures lease liabilities at amortized cost using the effective interest method. The Group re-measures lease liabilities when future lease payments change because of changes in an index or rate, expected payments under the residual value guarantee change or a determination on whether to exercise a purchase, extension or termination option changes.

When the Group re-measures lease liabilities, corresponding adjustments are made to the carrying amount of the right-of-use assets. If the carrying amount of the right-of-use assets is reduced to zero, recognized in profit or loss.

For short-term leases of machines with a term of 12 months or less and leases of low-value assets, the Group elects not to recognize right-of-use assets and lease liabilities. The Group recognizes lease payments for these leases as expenses using the straight-line method over their lease term.

2) Sale and leaseback transactions

For sale and leaseback transactions, the Group determines whether a transfer of an asset from the seller-lessee to buyer-lessor qualifies as a sale based on IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”). If the transfer qualifies as an asset sale, the seller-lessee measures a right-of-use asset arising from the leaseback based on the carrying amount of the asset and recognizes the gain or loss only on the portion not leased back. If the transfer does not qualify as an asset sale, the seller-lessee accounts for it as a financial transaction by continuing to recognize the asset transferred and recognizing a financial liability in the same amount as the proceeds from the transfer.

(10) Impairment of nonfinancial assets

1) Impairment of nonfinancial assets

The Group determines whether there is any indication of impairment for assets at the fiscal year-end. If any indication of impairment exists for an asset and if an asset needs to be tested for impairment annually, the Group estimates the recoverable amount of the asset. The Group calculates the recoverable amount at the higher of the fair value less the costs of disposal of the asset and the value in use. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount by the cash-generating unit or group of cash-generating units to which the asset belongs. If the carrying amount of the cash-generating unit or the group of cash-generating units is more than its recoverable amount, an impairment is recognized for the asset, and its value is written down to the recoverable amount. Value in use is calculated by discounting the estimated future cash flows to the present value using the pretax discount rate that reflects the current market assessment of the time value of money and risks specific to the asset. Business plans used to estimate future cash flows extend no more than five years, and future cash flows beyond the forecast period are calculated based on a long-term average growth rate according to individual circumstances.

Fair value less disposal costs is calculated using appropriate valuation models backed by available indicators of fair value.

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination from the acquisition date.

Goodwill or intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment every year and each time there is an indication of impairment.

2) Reversal of impairment loss

At the fiscal year-end, the Group evaluates whether there is any indication that impairment loss recognized in prior years for assets other than goodwill has decreased or may no longer exist, such as whether assumptions used to measure recoverable amounts have changed. If such an indication exists, the recoverable amount of the asset, cash-generating unit or group of cash-generating units is estimated. If the recoverable amount exceeds the carrying amount of the asset, cash-generating unit, or group of cash-generating units, a reversal of impairment loss is recognized to the lower of the recoverable amount or the carrying amount less the depreciation and amortization that would have been recognized had no impairment loss been recognized. Impairment loss reversals are recognized in profit or loss.

Goodwill impairment loss is not reversed.

(11) Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as " Non-current assets held for sale" if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. This applies only if a sale is highly probable within one year and the asset (or disposal group) is available for immediate sale in its present condition. The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of the carrying amount and fair value less the cost to sell.

Of assets classified as held for sale, the Group does not depreciate or amortize property, plant or equipment or intangible assets.

Discontinued operations include components that have been disposed of or are classified as held for sale. The Group recognizes an operation as discontinued if it is a Group business and there is a plan for disposal of the business.

(12) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are all recognized as expenses in the fiscal year in which they are incurred.

(13) Employee benefits

1) Retirement benefits

The Company and some of its consolidated subsidiaries have adopted funded and non-funded defined contribution plans and defined benefit plans to provide for employee retirement benefits. The Group calculates the present value of the defined benefit obligation as well as related current and prior service costs for each plan individually using the projected unit credit method.

The discount rate is calculated based on yields on high-quality corporate bonds at the fiscal year-end.

Assets and liabilities related to defined benefit plans are calculated as the net amount of the present value of the defined benefit obligation less the fair value of plan assets considering the effect of the asset ceiling.

Remeasurements of assets and liabilities related to defined benefit plans are recognized in their entirety in other comprehensive income for the period in which they occur and are immediately reflected in retained earnings. Prior service costs are recognized as expenses for the period in which they are incurred.

Contributions related to defined contribution plans are recognized as expenses in the period in which the relevant service is provided by employees.

2) Other long-term employee benefits

Special leave for a certain number of service years and an annual special leave program have been adopted as other long-term employee obligations.

The obligation for other long-term employee benefits is recorded in an estimated amount of future benefits earned as consideration for services provided by employees in the past and current years and discounted to the present value.

(14) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliability.

Where the effect of the time value of money is material, the provision is measured at the present value of the expenditures expected to be required to settle the obligations. The discount rate used in measuring the present value is a pretax rate that reflects current market assessments of the time value of money and the risks inherent in the liability.

(15) Equity

1) Common shares

The issue price of common shares is accounted for in the share capital and capital surplus.

2) Treasury shares

When the Company acquires treasury shares, the consideration paid is recognized as a deduction from equity.

When the Company disposes of treasury shares, the difference between the carrying amount and the consideration at the time of disposal is recognized in capital surplus.

(16) Share-based remuneration

The Company has adopted a stock option plan and a restricted share-based remuneration plan as equity-settled, share-based remuneration plans.

Stock options are recognized as expenses over a period from the grant date to the vesting date with an equal amount recognized as an increase in equity. The fair value of stock options is measured at the vesting date using the Black-Scholes model.

Shares with transfer restrictions are recognized as expenses over a period from the grant date to the vesting date with an equal amount recognized as an increase in equity. The fair value of restricted share-based remuneration is measured at the grant date referring to the fair value of the equity instrument granted.

(17) Revenue

In association with the application of IFRS 15 "Revenue from Contracts with Customers", the Group recognizes revenue in accordance with the following five-step approach.

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group operates an Industrial Gas Business, Chemical Business, Medical Business, Energy Business, Agriculture and Food Products Business, Logistics Business, Seawater Business, and Other Businesses.

The Industrial Gas Business manufactures and sells oxygen, nitrogen, argon and other industrial gases. It also constructs high-pressure gas facilities and manufactures and installs gas production equipment. The Chemical Business manufactures and sells functional chemicals and other products. The Medical Business manufactures and sells oxygen, nitrogen and other medical gasses. It also operates medical equipment and hospital facility construction businesses. The Energy Business sells petroleum products, such as liquefied petroleum gas and kerosene. The Agriculture and Food Products Business wholesales and processes fresh vegetables, manufactures and sells frozen food and processed meat products and manufactures soft drinks on consignment. The Logistics Business provides high-pressure gas, general cargo, food, medical and environment transport services as well as warehouse/distribution processing services and the production of specialty vehicles. The Seawater Business manufactures and sells salt and byproducts of salt production as well as fused magnesia and magnesium oxide. Other Businesses include the aerosol business.

1) Sales of goods

The Group determines that it has satisfied its performance obligations at the time of delivery, the time at which customers obtain control of the products, and thus recognizes revenue at the time of delivery. Revenue is measured at the amount of consideration promised in a contract with the customer less any discounts, rebates, sales returns and the like.

2) Provision of services and equipment installation contracts

If any of the requirements below apply, the control of services is transferred over time, and thus the Group determines whether it satisfies its performance obligation over time and recognizes revenue according to progress toward the satisfaction of the performance obligation. As for the method of measuring progress, the Group considers the nature of the goods or services transferred to the customer.

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.
- The Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If the requirements above are not satisfied, the Group's performance obligation is determined to be satisfied at a time when the Group obtains the right to receive the payment of consideration from the customer by completing the provision of services, and thus recognizes revenue at that point.

Revenue is measured at an amount of consideration promised in a contract with the customer less any discounts, rebates, sales returns and the like.

The consideration in product sales contracts is generally collected within one year from the time of the transfer of control over the products to the customer and does not include any significant interest.

(18) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the Group will comply with the grant terms and receive the grant.

Government grants related to revenue are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants related to assets are recognized as deferred income that is recognized in profit or loss on a systematic basis over the useful life of the assets.

(19) Income taxes

The Group calculates current tax liabilities or assets as amounts for the current and prior periods that it expects to pay to or recover from taxation authorities. The Group uses tax rates and tax laws enacted or substantively enacted by the fiscal year-end to determine tax amounts.

The Group calculates deferred taxes based on differences between the tax basis of assets and liabilities and their carrying amounts on the accounts at the fiscal year-end (temporary differences).

In principle, the Group recognizes deferred tax liabilities for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences and unused tax credit and tax loss carryforwards can be used.

As exceptions, however, the Group does not recognize deferred tax assets or deferred tax liabilities for the following temporary differences:

- Taxable temporary differences arising from the initial recogni tion of goodwill
- Temporary differences arising on the initial recognition of an asset or liability arising in a transaction that is not a business combination and affects neither accounting profit nor taxable income (or tax loss)
- Deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements to the extent that in the foreseeable future it is probable that the temporary differences will not reverse or the probability is low that taxable income against which the temporary difference will be used will be earned
- Taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements to the extent that the timing of the reversal of the temporary difference is controlled by the Group and that it is probable that the temporary difference will not reverse in the foreseeable future

The Group reviews the carrying amount of deferred tax assets and liabilities (including unrecognized deferred tax assets) at the fiscal year-end. The Group calculates deferred tax assets and liabilities based on tax rates that have been enacted or substantively enacted by the fiscal year-end and estimates the tax rates in the period in which assets materialize or liabilities are settled.

(20) Earnings per share

The Group calculates basic earnings per share by dividing the profit or loss attributable to the Company’s common shareholders by the weighted-average number of common shares issued that have been adjusted for treasury shares during the year. The Group calculates diluted earnings per share by adjusting the effects of all potentially dilutive shares.

4. Operating Segments

(1) Overview of reportable segments

The Group's reportable segments are components of the Company on which separate financial information can be obtained and are regularly reviewed by the Board of Directors for the purpose of management resource allocation and business performance evaluation.

The Group operates its business by formulating comprehensive strategies by product and service.

Accordingly, the Company, which consists of operating segments by product and service, has the following eight reportable segments: the Industrial Gas Business, Chemical Business, Medical Business, Energy Business, Agriculture and Food Products Business, Logistics Business, Seawater Business, and Other Businesses.

The Industrial Gas Business manufactures and sells oxygen, nitrogen, argon and other industrial gases. It also constructs high-pressure gas facilities and manufactures and installs gas production equipment.

The Chemical Business manufactures and sells basic chemicals, fine chemicals and other products.

The Medical Business manufactures and sells oxygen, nitrogen and other medical gasses. It also operates medical equipment and hospital facility construction businesses.

The Energy Business sells petroleum products, such as liquefied petroleum gas and kerosene.

The Agriculture and Food Products Business wholesales and processes fresh vegetables, manufactures and sells frozen food and processed meat products and manufactures soft drinks on consignment.

The Logistics Business provides high-pressure gas, general cargo, food, medical and environment transport services as well as warehouse/distribution processing services and the production of specialty vehicles.

The Seawater Business manufactures and sells salt and byproducts of salt production as well as fused magnesia and magnesium oxide.

Other Businesses include the aerosol business.

The Group has reviewed its method for calculating segment assets for the purpose of more accurately grasping the state of management and, effective from the fiscal year ended March 31, 2020, changed it to not to include surplus funds (cash and deposits) and financial assets in reportable segments but present them as adjustments as in the case for the filing company.

Segment information for the Transition Date and for the previous fiscal year ended March 31, 2019 is prepared based on the new calculation method.

(2) Changes to reportable segments

Effective from the fiscal year ended March 31, 2020, the Seawater Business, which was previously included in Other Businesses, is presented as a reportable segment. The change is associated with the Group's organizational change.

Segment information for the Transition Date and the previous fiscal year ended March 31, 2019 is prepared based on the new segmentation and calculation method.

(3) Information on reportable segments

The accounting methods used for reportable operating segments are the same as those that have been adopted for the preparation of consolidated financial statements.

Reportable segment profit is operating profit. Intersegment revenue and transfers are based on prevailing market prices.

Transition Date (As of April 1, 2018)

Millions of yen

	Reportable segments									Adjustments (Note)	Consolidated
	Industrial Gas Business	Chemical Business	Medical Business	Energy Business	Agriculture and Food Products Business	Logistics Business	Seawater Business	Other Businesses	Total		
Segment assets	173,446	42,299	109,311	28,760	75,479	28,172	52,037	90,840	600,348	94,566	694,914
Investments accounted for using equity method	1,788	-	9,679	721	-	-	504	12,856	25,551	-	25,551

Note: Adjustments of segment assets of 94,566 million yen are related to the elimination of intersegment assets and corporate assets not allocated to reportable segments. Corporate assets are mainly cash and deposits, financial assets and shared corporate facilities not attributable to reportable segments.

FY 2018 (April 1, 2018 to March 31, 2019)

Millions of yen

	Reportable segments									Adjustments (Note)	Consolidated
	Industrial Gas Business	Chemical Business	Medical Business	Energy Business	Agriculture and Food Products Business	Logistics Business	Seawater Business	Other Businesses	Total		
Revenue											
Revenue from external customers	174,147	22,917	174,187	52,732	136,443	47,947	40,217	93,694	742,288	-	742,288
Intersegment revenue or transfers	5,726	163	279	3,402	799	15,370	274	2,253	28,269	(28,269)	-
Total	179,873	23,081	174,467	56,134	137,242	63,318	40,492	95,948	770,558	(28,269)	742,288
Segment profit	16,721	546	10,358	3,877	4,214	2,217	2,359	3,395	43,691	(891)	42,799
Finance income											1,130
Finance costs											(1,818)
Profit before income tax											42,111
Segment assets	191,002	47,231	119,709	29,158	80,487	38,746	55,219	113,478	675,034	110,909	785,944
Other items											
Depreciation and amortization	13,293	2,389	1,933	2,024	3,331	1,255	136	6,412	30,776	-	30,776
Impairment loss	-	855	-	-	-	-	-	-	855	-	855
Gains on equity-method investments	153	-	500	8	-	-	20	1,003	1,685	-	1,685
Investments accounted for using equity method	1,625	-	10,402	729	-	-	522	13,673	26,953	-	26,953
Capital expenditures	24,772	2,983	9,970	2,257	7,155	9,918	4,645	18,168	79,871	2,397	82,269

Note 1: Adjustments of intersegment revenue or transfers of -28,269 million yen are elimination of intersegment transactions.
Note 2: Adjustments of segment profit of - 891 million yen are related to the elimination of intersegment transactions and profit or loss of the Company's corporate divisions not allocated to reportable segments.
Note 3: Adjustments of segment assets of 110, 909 million yen are related to the elimination of intersegment assets and corporate assets not allocated to reportable segments. Corporate assets are mainly cash and deposits, financial assets and shared corporate facilities not attributable to reportable segments.
Note 4: Adjustments of capital expenditures of 2,397 million yen are mainly corporate assets not attributable to reportable segments.

FY 2019 (April 1, 2019 to March 31, 2020)

Millions of yen

	Reportable segments										
	Industrial Gas Business	Chemical Business	Medical Business	Energy Business	Agriculture and Food Products Business	Logistics Business	Seawater Business	Other Businesses	Total	Adjustments (Note)	Consolidated
Revenue											
Revenue from external customers	188,965	27,479	187,913	51,969	137,298	50,413	39,986	125,057	809,083	-	809,083
Intersegment revenue or transfers	9,854	149	294	3,030	783	15,878	357	2,340	32,689	(32,689)	-
Total	198,819	27,628	188,208	55,000	138,082	66,292	40,344	127,398	841,773	(32,689)	809,083
Segment profit	19,246	1,338	10,109	4,251	3,282	2,396	2,935	7,338	50,899	(283)	50,616
Finance income											1,395
Finance costs											(2,181)
Profit before income tax											49,830
Segment assets	242,869	44,421	128,012	32,235	80,782	45,377	64,577	144,228	782,505	117,194	899,699
Other items											
Depreciation and amortization	14,414	1,553	3,052	2,402	4,102	2,142	2,994	4,332	34,994	-	34,994
Impairment loss	-	992	-	-	20	-	-	-	1,012	-	1,012
Gains on equity-method investments	109	-	539	21	71	-	26	836	1,605	-	1,605
Investments accounted for using equity method	1,879	-	10,887	865	101	-	432	14,336	28,503	-	28,503
Capital expenditures	20,957	1,735	4,621	3,450	6,720	8,123	9,345	6,701	61,655	1,244	62,900

Note 1: Adjustments for intersegment revenue or transfers of-32,689 million yen is intersegment elimination.
Note 2: Adjustments of segment profit of -283 million yen are related to the elimination of intersegment transactions and profit or loss of the Company's corporate divisions not allocated to reportable segments.
Note 3: Adjustments of segment assets of 117,194 million yen are related to the elimination of intersegment assets and corporate assets not allocated to reportable segments. Corporate assets are mainly cash and deposits, financial assets and shared corporate facilities not attributable to reportable segments.
Note 4: Adjustments of capital expenditures of 1,244 million yen are mainly corporate assets not attributable to reportable segments.

(4) Information by product and service

The description of information by product and service is omitted because the same information is disclosed in segment information.

(5) Information by geographic area

1) Revenue

The description of information by geographic area is omitted because revenue from external customers in Japan accounts for a majority of the revenue in the consolidated statements of profit or loss.

2) Non-current assets

The breakdown of non-current assets by geographic area is as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Japan	458,187	**505,252**
United States	4,765	**4,882**
India	3,620	**44,490**
Other	5,399	**11,796**
Total	471,972	**566,422**

(6) Information by major customer

Information by major customer is omitted because there is no single external customer that accounts for 10% or more of revenue.

5. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Cash and deposits	23,303	32,108	**41,861**
Total	23,303	32,108	**41,861**

The balance of cash and cash equivalents in the consolidated statements of financial position matches the balance of that in the consolidated statements of cash flows, as of the Transition Date, and for the fiscal years ended March 31, 2019 and 2020. Cash and cash equivalents are classified as financial assets measured at amortized cost.

6. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Accounts receivable - trade	144,042	150,488	**152,114**
Notes receivable - trade	25,086	21,068	**19,053**
Electronically recorded monetary claims	9,688	10,726	**12,195**
Other	3,745	2,603	**4,038**
Total	182,562	184,887	**187,402**

Trade and other receivables are classified as financial assets measured at amortized cost.

7. Inventories

The breakdown of inventories is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Merchandise and finished goods	28,186	32,889	**36,921**
Work in process	8,442	9,196	**10,628**
Raw materials and supplies	12,139	13,239	**16,865**
Total	48,769	55,325	**64,415**

The amount of write-down of inventories recognized as expenses was 294 million yen and 315 million yen for the fiscal years ended March 31, 2019 and 2020, respectively. The amount of write-down of inventories is included in cost of sales.

8. Other Financial Assets

(1) Breakdown

The breakdown of other financial assets is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Deposits	873	1,385	**1,277**
Equity securities	56,057	51,536	**50,242**
Loans receivable	10,080	10,525	**7,391**
Derivative assets	24	1,962	**4,626**
Other	3,087	3,480	**4,622**
Total	70,124	68,891	**68,160**
Current assets	8,171	6,553	**5,794**
Non-current assets	61,952	62,337	**62,365**
Total	70,124	68,891	**68,160**

Equity securities are classified as equity instruments measured at fair value through other comprehensive income. Derivative assets are classified as financial assets measured at fair value through profit or loss. Other assets are classified mainly as financial assets measured at the amortized cost.

(2) Equity instruments measured at fair value through other comprehensive income

All equity securities are held mainly for the purpose of maintaining and strengthening business relationships and are therefore, classified as equity instruments measured at fair value through other comprehensive income.

1) Names and fair value of major equity instruments

Names and fair value of major equity instruments measured at fair value through other comprehensive income were as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Daikin Industries, Ltd.	4,073	4,314	**4,562**
Nitto Boseki Co., Ltd.	2,368	1,978	**4,164**
Morita Holdings Corporation	3,458	3,128	**2,715**
Nakayama Steel Works, Ltd.	3,349	2,357	**1,798**
JXTG Holdings, Inc.	2,582	2,153	**1,495**
Shigematsu Works Co., Ltd.	581	517	**1,120**

2) Dividend income

The breakdown of dividend income on major equity instruments measured at fair value through other comprehensive income is as follows

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Investments derecognized during the fiscal year	41	**4**
Investments held as of the fiscal year-end	893	**1,051**
Total	935	**1,056**

3) Derecognized equity instruments measured at fair value through other comprehensive income

Some of the equity instruments measured at fair value through other comprehensive income were disposed of during the fiscal year after reviewing business relationships. The fair value and accumulated gains and losses at the time of disposal were as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Fair value at sale	2,122	**1,019**
Accumulated gains (losses)	475	**147**

Accumulated gains and losses recognized as other components of equity are reclassified to retained earnings when equity instruments are sold or their fair value significantly declines compared to their acquisition cost. During the fiscal year ended March 31, 2020, 47 million yen (258 million yen in the previous fiscal year) was reclassified from other components of equity to retained earnings.

9. Other Assets

The breakdown of other assets is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Contract assets	5,749	11,875	**20,344**
Prepaid expenses	2,417	2,766	**3,456**
Other	3,841	5,313	**8,506**
Total	12,008	19,954	**32,307**
Current assets	10,270	18,598	**30,813**
Non-current assets	1,737	1,356	**1,494**
Total	12,008	19,954	**32,307**

10. Property, Plant and Equipment

The acquisition cost, accumulated depreciation and impairment loss, and carrying amount of property, plant and equipment were as follows:

Millions of yen

Acquisition cost	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Other	Total
Balance at April 1, 2018	159,856	346,928	29,849	63,956	39,180	22	639,793
Acquisition (Note)	2,259	10,995	1,447	1,651	64,248	1	80,603
Transfer from construction in progress	17,778	18,170	2,123	5,944	(44,016)	-	-
Acquisitions through business combinations	2,562	2,966	138	2,540	1,182	10	9,400
Disposals	(3,842)	(13,990)	(1,493)	(474)	(898)	(9)	(20,708)
Exchange differences on translation of foreign operations	(107)	(154)	(49)	(34)	(16)	0	(363)
Other	(341)	(2,080)	119	1	(329)	(25)	(2,656)
Balance at March 31, 2019	**178,165**	**362,835**	**32,135**	**73,585**	**59,350**	**(2)**	**706,069**
Acquisition (Note)	**4,251**	**7,319**	**1,426**	**1,864**	**48,783**	**3**	**63,648**
Transfer from construction in progress	**18,508**	**57,635**	**3,313**	**2,774**	**(82,244)**	**11**	**-**
Acquisitions through business combinations	**4,678**	**10,840**	**693**	**7,770**	**503**	**358**	**24,844**
Disposals	**(7,369)**	**(16,510)**	**(1,559)**	**(929)**	**(171)**	**-**	**(26,541)**
Exchange differences on translation of foreign operations	**(98)**	**(932)**	**(36)**	**(85)**	**(62)**	**(23)**	**(1,238)**
Other	**32**	**(35)**	**64**	**7**	**(899)**	**(1)**	**(831)**
Balance at March 31, 2020	**198,167**	**421,152**	**36,037**	**84,987**	**25,259**	**346**	**765,950**

Note: There were no significant borrowing costs included in the acquisition cost of property, plant and equipment in the fiscal years ended March 31, 2019 and 2020.

Millions of yen

Accumulated depreciation and impairment loss	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Other	Total
Balance at April 1, 2018	(95,379)	(241,109)	(23,931)	(1,100)	(1,059)	-	(362,579)
Depreciation	(5,636)	(20,575)	(2,277)	(203)	-	(5)	(28,698)
Impairment loss	(433)	(409)	(12)	-	-	-	(855)
Disposals	2,944	12,880	1,274	-	34	9	17,142
Exchange differences on translation of foreign operations	15	44	34	32	-	(0)	127
Other	(83)	1,086	(40)	(94)	(1)	19	886
Balance at March 31, 2019	**(98,572)**	**(248,082)**	**(24,951)**	**(1,366)**	**(1,026)**	**23**	**(373,976)**
Depreciation	**(6,607)**	**(22,862)**	**(2,694)**	**(224)**	**-**	**(21)**	**(32,411)**
Impairment loss	**(493)**	**(410)**	**(21)**	**-**	**-**	**-**	**(925)**
Disposals	**5,190**	**14,723**	**1,454**	**62**	**73**	**-**	**21,504**
Exchange differences on translation of foreign operations	**12**	**177**	**7**	**0**	**-**	**0**	**198**
Other	**(11)**	**15**	**(30)**	**0**	**(32)**	**3**	**(56)**
Balance at March 31, 2020	**(100,482)**	**(256,441)**	**(26,235)**	**(1,527)**	**(985)**	**5**	**(385,666)**

Millions of yen

Carrying amount	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Other	Total
Balance at April 1, 2018	64,477	105,819	5,918	62,856	38,120	22	277,213
Balance at March 31, 2019	**79,592**	**114,752**	**7,183**	**72,219**	**58,323**	**21**	**332,093**
Balance at March 31, 2020	**97,684**	**164,711**	**9,802**	**83,459**	**24,273**	**352**	**380,284**

Right-of-use assets included in the carrying amount of property, plant and equipment are described in Note 13. “Leases.”

11. Goodwill and Intangible Assets

The acquisition cost, accumulated amortization and impairment loss, and carrying amount of goodwill and intangible assets are as follows:

Millions of yen

Acquisition cost	Goodwill	Intangible assets		
		Software	Other	Total
Balance at April 1, 2018	17,403	17,712	6,525	24,238
Individual acquisitions	-	2,030	715	2,746
Acquisitions through business combinations	9,348	44	243	288
Disposals	-	(114)	(18)	(132)
Exchange differences on translation of foreign operations	11	(0)	(21)	(21)
Other	(51)	46	(35)	10
Balance at March 31, 2019	**26,711**	**19,719**	**7,409**	**27,129**
Individual acquisitions	**-**	**2,238**	**79**	**2,318**
Acquisitions through business combinations	**43,898**	**87**	**5,335**	**5,422**
Disposals	**-**	**(650)**	**(65)**	**(716)**
Exchange differences on translation of foreign operations	**(2,645)**	**(2)**	**3**	**0**
Other	**(40)**	**(496)**	**194**	**(302)**
Balance at March 31, 2020	**67,924**	**20,896**	**12,956**	**33,853**

Millions of yen

Accumulated amortization and impairment loss	Goodwill	Intangible assets		
		Software	Other	Total
Balance at April 1, 2018	(3,951)	(6,745)	(3,721)	(10,466)
Amortization	-	(1,465)	(612)	(2,078)
Impairment loss	-	-	-	-
Disposals	-	85	9	95
Exchange differences on translation of foreign operations	15	0	(2)	(1)
Other	-	(46)	(2)	(48)
Balance at March 31, 2019	**(3,936)**	**(8,170)**	**(4,328)**	**(12,499)**
Amortization	**-**	**(1,648)**	**(935)**	**(2,583)**
Impairment loss	**-**	**-**	**(86)**	**(86)**
Disposals	**-**	**573**	**63**	**637**
Exchange differences on translation of foreign operations	**17**	**1**	**(1)**	**0**
Other	**-**	**24**	**6**	**31**
Balance at March 31, 2020	**(3,918)**	**(9,218)**	**(5,281)**	**(14,500)**

Millions of yen

Carrying amount	Goodwill	Intangible assets		
		Software	Other	Total
Balance at April 1, 2018	13,451	10,967	2,804	13,771
Balance at March 31, 2019	**22,775**	**11,548**	**3,081**	**14,629**
Balance at March 31, 2020	**64,005**	**11,678**	**7,674**	**19,352**

Amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statements of profit or loss.

There were no significant internally generated intangible assets as of the Transition Date, March 31, 2019 and March 21, 2020.

Research and development expenses recognized as expenses in the fiscal years ended March 31, 2019 and 2020 were 2,859 million yen and 3,422 million yen, respectively.

12. Impairment of Nonfinancial Assets

(1) Impairment loss

Transition Date (As of April 1, 2018)

Segments	Types of assets	Impairment loss (millions of yen)
Medical Business	Goodwill, land	1,191
Agriculture and Food Products Business	Goodwill, intangible assets	3,155
Other Businesses	Goodwill	141
Total		4,488

As impairment tests conducted under the provisions of IFRS found that the estimated recoverable amount of assets was below the carrying amount of the assets, the Group recognized the difference between the carrying amount and the recoverable amount of the assets as impairment loss. This impairment loss was included in retained earnings adjustments at the Transition Date.

When recognizing and measuring impairment loss, the Group measures the recoverable amount as the value in use or fair value less cost of disposal, using a discount rate that reasonably reflects a rate of return considered to be a market average that reflects risks inherent in the cash-generating unit.

The recoverable amount is measured based on the fair value less the cost of disposal, and significant assets are evaluated based mainly on real estate appraisal values assessed by a third party using a market approach. The fair value hierarchy is classified as level 3 because a valuation technique that includes unobservable inputs such as sales prices is used.

FY 2018 (As of March 31, 2019)

Segments	Types of assets	Impairment loss (millions of yen)
Chemical Business	Machinery and vehicles, other	855
Total		855

The Chemical Business recognized impairment loss mainly because future use was no longer expected because of changes in the business structure. Specifically, the carrying amounts of individual assets were reduced to their recoverable amounts, and impairment loss was accounted for in "Other expenses" in the consolidated statements of profit or loss.

When recognizing and measuring impairment loss, the recoverable amount is measured based on value in use or fair value less cost of disposal, and significant assets are evaluated based mainly on real estate appraisal values assessed by a third party using a market approach. The fair value hierarchy is classified as level 3 because a valuation technique that includes unobservable inputs such as sales prices is used.

Value in use is calculated by discounting future cash flows by 7.0% (before tax) using a discount rate that reasonably reflects a rate of return considered to be a market average that reflects risks inherent in the cash-generating unit.

FY 2019 (As of March 31, 2020)

Segments	Types of assets	Impairment loss (millions of yen)
Chemical Business	**Machinery and vehicles, other**	**992**
Agriculture and Food Products Business	**Buildings and structures, other**	**20**
Total		**1,012**

The Chemical Business recognized impairment loss mainly because it had decided to close a production plant in China with no prospect of resuming operations. Specifically, the carrying amounts of individual assets were reduced to their recoverable amounts, and impairment loss was accounted for in "Other expenses" in the consolidated statements of profit or loss.

When recognizing and measuring impairment loss, the recoverable amount is measured based on value in use or fair value less cost of disposal, and significant assets are evaluated based mainly on real estate appraisal values assessed by a third party using a market approach. The fair value hierarchy is classified as level 3 because a valuation technique that includes unobservable inputs such as sales prices is used.

Value in use is calculated by discounting future cash flows by 7.0% (before tax) using a discount rate that reasonably reflects a rate of return considered to be a market average that reflects risks inherent in the cash-generating unit.

(2) Impairment tests on goodwill

Goodwill acquired through business combinations is allocated to cash-generating units that are expected to benefit from the synergies of the business combinations. Allocations of goodwill to cash-generating units are as follows:

Millions of yen

Reportable segments	Cash-generating unit	Goodwill		
		Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Industrial Gas Business	Air Water India Pte. Ltd. and other	3,348	4,387	**37,729**
Chemical Business	Filwel Co., Ltd., and other	122	122	**1,218**
Medical Business	Globalwide International Pte. Ltd. and other	3,370	3,837	**3,893**
Energy Business	Nikko Kinzoku Co., Ltd., and other	935	1,045	**1,283**
Agriculture and Food Products Business	Saveur SS Inc. and other	4,849	5,138	**6,906**
Logistics Business	Air Water Food Logistics Co., Ltd., and other	302	302	**302**
Seawater Business	Aquaintec Inc. and other	8	8	**8**
Other Businesses	Power Partners Pte. Ltd. and other	514	7,932	**12,662**
Total		13,451	22,775	**64,005**

The recoverable amount of cash-generating units to which goodwill has been allocated is calculated as the value in use with the estimated future cash flows discounted to the present value based on management-approved business plans. The business plans, which in principle should cover no more than five years, are based on external information and reflect past experience. Cash flows beyond the period covered by the business plans are calculated based on an estimated growth rate that is no higher than the long-term average growth rate of the market to which the cash-generating unit belongs. Pretax discount rates are calculated based on pretax weighted average capital cost and the like with 8.0%-17.9% used for the Transition Date, 7.7%-19.4% for the fiscal year ended March 31, 2019, and 6.9%-17.7% for the fiscal year ended March 31, 2020.

Except for cash-generating units that recognized impairment loss at the Transition Date, the value in use sufficiently exceeds the carrying amount of each cash-generating unit. Therefore, the Group has determined that even if key assumptions used in the impairment test fluctuate within reasonable ranges, the value in use of cash-generating units to which goodwill has been allocated is not likely to become less than the carrying amount.

13. Leases

(1) Leases as lessee

1) Lease related expenses, cash flows and increases in right-of-use assets

Lease related expenses, cash flows and increases in right-of-use assets were as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Depreciation of right-of-use assets		
Buildings and structures	510	**448**
Machinery and vehicles	3,470	**3,645**
Tools, furniture, and fixtures	99	**119**
Other	225	**245**
Total	4,306	**4,458**
Interest expense on lease liabilities	435	**482**
Lease expenses under exemption for short-term leases	7,975	**7,604**
Lease expenses under exemption for low-value assets	2,634	**2,672**
Increases in right-of-use assets	5,858	**6,593**

Gains and losses arising from sale and leaseback transactions were not significant.

2) Total amount of lease cash outflows

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Total amount of lease cash outflows	15,673	**16,788**

3) Balances of right-of-use assets included in the carrying amount of property, plant and equipment and intangible assets

The balances of right-of-use assets included in the carrying amount of property, plant and equipment and intangible assets were as follows.

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Other	Total
Balance at April 1, 2018	2,886	24,806	277	1,985	29,955
Acquisitions	60	5,128	134	113	5,436
Business combinations	-	208	16	196	421
Depreciation	(510)	(3,470)	(99)	(225)	(4,306)
Other	1	(117)	6	(10)	(118)
Balance at March 31, 2019	**2,438**	**26,555**	**336**	**2,060**	**31,389**
Acquisitions	**1,833**	**3,834**	**233**	**89**	**5,991**
Business combinations	**147**	**339**	**11**	**102**	**602**
Depreciation	**(448)**	**(3,645)**	**(119)**	**(245)**	**(4,458)**
Other	**(974)**	**(154)**	**22**	**(306)**	**(1,412)**
Balance at March 31, 2020	**2,996**	**26,929**	**484**	**1,700**	**32,111**

4) Maturity analysis of lease liabilities

Millions of yen

Transition Date (As of April 1, 2018)						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Lease liabilities	4,361	3,671	3,160	2,894	2,598	15,091

Millions of yen

End of FY 2018 (March 31, 2019)						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Lease liabilities	4,570	3,694	3,486	3,033	2,704	15,486

Millions of yen

End of FY 2019 (March 31, 2020)						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Lease liabilities	**5,187**	**4,414**	**3,841**	**3,376**	**3,194**	**13,200**

5) Supplementary information on lease contracts as lessee

a. The nature of the lessee's leasing activities

The Group leases certain offices, land, production facilities, vehicles and the like under cancellable and noncancellable contracts. The terms of lease contracts vary widely as they are individually negotiated.

b. Extension and termination options

Each entity in the Group is responsible for managing leases with the terms of the leases varying widely as they are negotiated individually.

Extension and termination options are included in many of the Group's real estate and facility leases and used to maximize operational flexibility in light of contract management.

They are mostly extension options over a period of one year or the same period as that of their underlying contracts or options to terminate contracts early by giving a six month to one year notice to the other party.

These options are employed by a party to lease contract as necessary in the course of using real estate and facilities.

c. Residual value guarantee

Certain lease contracts of the Group include a residual value guarantee. If the Group is reasonably certain to pay the residual value guarantee at lease maturity, the amount expected to be paid is included in right-of-use assets with a portion expensed as amortization of right-of-use assets and a portion as interest cost on lease liabilities.

d. Sale and leaseback transactions

The Group leases gas supply facilities through sale and leaseback transactions. If a sale and leaseback transaction is determined to be a sale, a portion of the gain or loss on the sale corresponding to the right-of-use asset is deferred. In addition, if it is determined not to be a sale, it is deemed a financial transaction with financial liabilities recognized.

14. Income taxes

(1) Deferred tax assets and liabilities

The breakdown of and changes in deferred tax assets and liabilities by major cause are as follows:

Millions of yen

	Consolidated statements of financial position			Consolidated statements of profit or loss	
	Transition Date (As of April 1, 2018)	End of FY 2018 (As of March 31, 2019)	**End of FY 2019 (As of March 31, 2020)**	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Deferred tax assets					
Property, plant and equipment, and intangible assets	5,275	4,515	**5,218**	(768)	**611**
Retirement benefit liability	2,511	2,985	**3,484**	(172)	**86**
Accrued bonuses	2,024	2,143	**2,182**	55	**(51)**
Accounts payable - other and accrued expenses	1,104	1,265	**1,553**	115	**238**
Tax loss carryforwards	523	789	**587**	199	**(370)**
Other	2,756	5,268	**2,936**	1,074	**(308)**
Total deferred tax assets	14,195	16,968	**15,962**	504	**205**
Deferred tax liabilities					
Property, plant and equipment and intangible assets	7,298	7,385	**10,474**	(163)	**175**
Financial assets measured at fair value through other comprehensive income	5,801	4,275	**3,537**	-	**-**
Retained earnings	1,750	394	**407**	(1,356)	**12**
Other	2,079	2,169	**3,466**	(329)	**506**
Total deferred tax liabilities	16,930	14,225	**17,886**	(1,849)	**694**
Net amount of deferred tax assets and liabilities	(2,734)	2,743	**(1,923)**	2,354	**(488)**

Changes in deferred tax assets and liabilities were as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Balance at beginning of the year	(2,734)	**2,743**
Recognized in profit or loss	2,354	**(488)**
Recognized in other comprehensive income	3,114	**(1,621)**
Business combinations	(13)	**(2,627)**
Other	23	**70**
Balance at end of the year	2,743	**(1,923)**

(2) Deductible temporary differences and tax loss carryforwards for unrecognized deferred tax assets

Deductible temporary differences and tax loss carryforwards for unrecognized deferred tax assets were as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Deductible temporary differences	30,923	30,375	**41,898**
Tax loss carryforwards	5,798	6,228	**7,432**

Tax loss carryforwards for unrecognized deferred tax assets were to expire as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
1st year	415	110	**27**
2nd year	305	121	**1,315**
3rd year	135	1,610	**374**
4th year	1,610	552	**320**
After 5th year	3,332	3,833	**5,394**
Total	5,798	6,228	**7,432**

(3) Deferred tax assets dependent on future taxable income

Certain subsidiaries recognized tax loss carryforwards in the fiscal years ended March 31, 2019 and 2020. For these tax loss carryforwards, the Group recognized deferred tax assets of 587 million yen in the fiscal year ended March 31, 2020 to the extent that it expected to generate future taxable income in that fiscal year (tax loss carryforwards of 789 million yen in the fiscal year ended March 31, 2019). The recoverability of deferred tax assets depends on the generation of future taxable income. The future taxable income used in recognition of deferred tax assets is assumed under management approved business plans. Since the realizability of future taxable income is high based on past plans and actual results, the Group has determined that deferred tax assets are recoverable.

(4) Income tax expense

The breakdown of income tax expense is as follows:

Millions of yen

	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Current tax expense	13,413	**15,594**
Deferred tax expense	(2,354)	**488**
Total income tax expense	11,059	**16,083**
Continuing operations	11,145	**16,085**
Discontinued operations	(86)	**(1)**

Deferred tax expense includes the amount of previously unrecognized tax loss, tax credits or benefits arising from temporary differences from prior periods and the amount of write-downs or reversal of previous write-downs of deferred tax assets. Deferred income taxes decreased by 14 million yen and 1,006 million yen in the fiscal years ended March 31, 2020 and 2019, respectively.

(5) Reconciliation of applicable tax rates

The Group is subject to taxes including mainly income taxes, inhabitant taxes and enterprise taxes. The statutory effective tax rate calculated based on these was 30.6% in the fiscal years ended March 31, 2019 and 2020. Subsidiaries abroad, however, are subject to income taxes in their respective locations of residency.

Reconciliation between the statutory effective tax rate and the average actual tax rate of continuing operations was as follows. The average actual tax rate represents the ratio of income taxes to profit before income tax.

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Statutory effective tax rate	30.6%	**30.6%**
Non-tax deductibles	1.7%	**1.3%**
Gains or losses on equity-method investments	(1.3)%	**(1.0)%**
Gain on bargain purchases	-	**(1.3)%**
Changes in unrecognized deferred tax assets	(1.3)%	**3.1%**
Other	(3.0)%	**(0.5)%**
Average actual tax rate	26.8%	**32.3%**

(6) Income tax expense recognized directly in equity

The details of income taxes recognized directly in equity are as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Income tax expense		
Expenses directly required for capital increase through new share issuance	-	**69**
Total	-	**69**

15. Trade and Other Payables

The breakdown of trade and other payables is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Accounts payable - trade	93,323	104,735	**99,846**
Notes payable - trade	16,583	19,006	**13,222**
Accounts payable - other	12,322	14,179	**11,800**
Other	11,640	18,436	**13,075**
Total	133,870	156,357	**137,945**

Trade and other payables are classified as financial liabilities measured at the amortized cost.

16. Bonds and borrowings

Bonds and borrowings are measured mainly at the amortized cost.

(1) Breakdown

	Transition Date (As of April 1, 2018) (Millions of yen)	FY 2018 (As of March 31, 2019) (Millions of yen)	**FY 2019 (As of March 31, 2020) (Millions of yen)**	Average interest rate(%) (Note 1)	Maturity
Current portion of bonds payable (Note 2)	-	250	**10,150**	0.27	-
Short-term borrowings	32,699	54,998	**69,425**	0.81	-
Current portion of long-term borrowings	23,988	17,957	**24,206**	0.73	-
Payables under fluidity lease receivables	1,864	1,955	**1,604**	0.19	-
Bonds payable (excluding current portion) (Note 2)	20,000	30,250	**30,100**	0.35	2023-2030
Long-term borrowings (excluding current portion)	108,111	138,553	**165,548**	0.42	2021-2040
Total	186,663	243,965	**301,034**	-	-
Current liabilities	58,552	75,162	**105,386**	-	-
Non-current labilities	128,111	168,803	**195,648**	-	-

Note 1: The average interest rate shows the weighted average rate of interest on the closing balance of borrowings and the like.
Note 2: A summary of the terms of bonds payable by issue was as follows:

Company name	Issue	Issue date	Transition Date (As of April 1, 2018) (Millions of yen)	FY 2018 (As of March 31, 2019) (Millions of yen)	**FY 2019 (As of March 31, 2020) (Millions of yen)**	Interest rate(%)	Collateral	Maturity
Air Water Inc.	The second unsecured bonds	September 3, 2015	10,000	10,000	**10,000 (10,000)**	0.271	None	September 3, 2020
Air Water Inc.	The third unsecured bonds	March 16, 2018	10,000	10,000	**10,000**	0.355	None	February 29, 2028
Air Water Inc.	The fourth unsecured bonds	September 7, 2018	-	10,000	**10,000**	0.405	None	August 31, 2028
Air Water Inc.	The fifth unsecured bonds	March 13, 2020	-	-	**10,000**	0.290	None	February 28, 2030
Nihon Dennetsu Co., Ltd.	Privately placed bonds	March 25, 2017	-	250 (250)	**-**	0.350	None	February 28, 2020
Mikata Co., Ltd.	The sixth unsecured bonds	December 25, 2015	-	150	**150 (150)**	0.230	None	December 25, 2020
Mikata Co., Ltd.	The seventh unsecured bonds	March 16, 2018	-	100	**100**	0.260	None	March 16, 2023
Total	-	-	20,000	30,500 (250)	**40,250 (10,150)**	-	-	-

Note: The figures in the brackets show amounts maturing within one year.

(2) Assets pledged as collateral

The Group's assets pledged as collateral and obligations secured by the collateral were as follows:

Assets pledged as collateral

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Cash and cash equivalents	127	286	**1,110**
Trade and other receivables	1,864	2,816	**1,873**
Inventories	-	55	**2,342**
Property, plant and equipment	9,588	19,159	**19,281**
Other financial assets	760	952	**1,045**
Total	12,340	23,270	**25,654**

Secured obligations

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Trade and other payables	2,613	1,589	**2,474**
Bonds and borrowings (current)	3,626	2,689	**2,913**
Bonds and borrowings (non-current)	4,382	6,907	**9,261**
Total	10,621	11,186	**14,649**

17. Provisions

(1) Schedule of changes in provisions

Changes in provisions were as follows:

Millions of yen

	Asset retirement obligations	Provision for loss on construction contracts	Other	Total
Balance at April 1, 2019	**601**	**354**	**950**	**1,905**
Increases	**1,641**	**2**	**783**	**2,427**
Decreases (utilized for intended purpose)	**(17)**	**(394)**	**(861)**	**(1,273)**
Decreases (reversal)	**(0)**	**-**	**(9)**	**(9)**
Other	**7**	**78**	**429**	**516**
Balance at March 31, 2020	**2,232**	**41**	**1,292**	**3,566**

Current and non-current classification of provisions in the consolidated statements of financial position was as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Current	561	933	**1,211**
Non-current	1,289	972	**2,354**
Total provisions	1,850	1,905	**3,566**

(2) Details of provisions

When the Group assumes, due to acquisition, construction, development, or the ordinary use of property, plant and equipment, contractual obligations under laws and regulations on the retirement of property, plant and equipment, the Group records asset retirement obligations in the amount of future expenditures required for the retirement.

The timing of the outflow of economic benefits is principally expected to be later than one year from the last day of each fiscal year but is affected by factors such as future business plans.

Provision for loss on construction contracts is recorded for losses expected to be incurred in the next and subsequent fiscal years on construction contracts on which such losses are expected and the amount of the losses can be reasonably estimated.

Other includes provision for product warranties.

18. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Lease liabilities	31,776	32,976	**33,214**
Derivative liabilities	1,045	928	**268**
Put options granted to non-controlling shareholders	-	-	**8,682**
Other	1,429	1,653	**1,848**
Total	34,251	35,558	**44,013**
Current liabilities	4,472	5,108	**5,426**
Non-current labilities	29,779	30,449	**38,586**
Total	34,251	35,558	**44,013**

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss. Other financial liabilities are classified principally as financial liabilities measured at the amortized cost. For information on lease liabilities, see Note 13. “Leases.”

19. Other Liabilities

The breakdown of other liabilities is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Contract liabilities	1,603	2,400	**3,751**
Unearned revenue	3,199	2,899	**2,533**
Deferred income	3,372	3,243	**3,185**
Accrued bonuses	6,955	7,247	**7,794**
Accrued expenses	11,941	9,785	**7,642**
Other	6,001	6,309	**8,737**
Total	33,073	31,885	**33,644**
Current liabilities	24,431	23,530	**25,020**
Non-current liabilities	8,642	8,354	**8,623**
Total	33,073	31,885	**33,644**

20. Employee Benefits

(1) Overview of retirement benefit plans

The Company and some of its consolidated subsidiaries have adopted funded and nonfunded defined contribution plans and defined benefit plans to provide for employee retirement benefits. Defined benefit plans adopted by the Company and its consolidated subsidiaries are mainly cash balance plans. The amount of benefits to be provided is based on years of service, participants' standard salary by job qualification and interest rates calculated using an interest crediting rate based on market interest trends. Pension trust contracts and life insurance contracts are entered into with asset management institutions for the management and investment of funds with the institutions assuming the responsibility to invest plan assets in accordance with prescribed policies.

In addition, retirement lump-sum benefit plans (unfunded plans and certain plans funded as a result of setting up a retirement benefit trust) make lump-sum payments as retirement benefits based on years of service, salary or points based on performance, etc. Certain consolidated subsidiaries participate in a smaller enterprise retirement allowance mutual aid system and a specific retirement allowance mutual aid system.

(2) Defined benefit plans

1) Amounts recognized in the consolidated financial statements

Defined benefit plan in the consolidated statements of financial position were as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Present value of defined benefit obligations	36,263	38,872	**38,487**
Fair value of plan assets	(35,067)	(33,985)	**(31,682)**
Effect of asset ceiling	907	26	**24**
Net defined benefit liabilities	2,104	4,912	**6,829**
Retirement benefit liability	8,666	9,249	**9,918**
Retirement benefit assets	(6,562)	(4,336)	**(3,088)**
Net defined benefit liabilities	2,104	4,912	**6,829**

For defined benefit plans, amounts recognized as expenses in the consolidated statements of profit or loss were as follows:

Millions of yen

	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Service cost	2,118	**2,357**
Interest expense	228	**171**
Interest income	(219)	**(149)**
Total	2,128	**2,378**

2) Reconciliation schedule for the present value of defined benefit obligations

Changes in the present value of defined benefit obligations were as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Present value of defined benefit obligations at beginning of the year	36,263	**38,872**
Service cost	2,118	**2,357**
Interest expense	228	**171**
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	1,816	**0**
Actuarial gains and losses arising from changes in financial assumptions	1,232	**(902)**
Actuarial gains and losses arising from experience adjustments	(601)	**324**
Benefits paid	(2,722)	**(2,868)**
Effects of business combinations and disposals	458	**466**
Other changes	78	**65**
Present value of defined benefit obligations at end of the year	38,872	**38,487**

3) Reconciliation schedule for fair value of plan assets

Changes in fair value of plan assets were as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Fair value of plan assets at beginning of the year	35,067	**33,985**
Interest income	219	**149**
Remeasurements	(1,013)	**(1,459)**
Contributions by the employer	1,427	**1,013**
Benefits paid	(1,669)	**(1,977)**
Other changes	(44)	**(29)**
Fair value of plan assets at end of the year	33,985	**31,682**

4) Breakdown by type of fair value of plan assets

The breakdown by type of fair value of plan assets is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)			FY 2018 (As of March 31, 2019)			**FY 2019 (As of March 31, 2020)**		
	Quoted prices in active markets		Total	Quoted prices in active markets		Total	Quoted prices in active markets		Total
	Yes	No		Yes	No		Yes	No	
Equity securities	12,486	-	12,486	10,832	-	10,832	8,950	--	8,950
Debt securities	7,793	-	7,793	7,748	-	7,748	7,622	-	7,622
Life insurance general accounts	-	7,064	7,064	-	7,186	7,186	-	7,104	7,104
Other	-	7,722	7,722	-	8,218	8,218	-	8,004	8,004
Total	20,280	14,786	35,067	18,580	15,404	33,985	16,572	15,109	31,682

5) Changes in the effect of asset ceiling

Changes in the effect of asset ceiling were as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Balance of the effect of asset ceiling at beginning of the year	907	**26**
Interest income	-	**-**
Remeasurements		
Effect of limiting a net defined benefit asset to the asset ceiling	(881)	**(2)**
Balance of the effect of asset ceiling at end of the year	26	**24**

6) Actuarial assumptions

Main assumptions used in calculating the present value of defined benefit obligations were as follows:

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Discount rates (mainly)	0.96%	0.33%	**0.60%**

If discount rates, which are key actuarial assumptions, change, the present value of defined benefit obligations at the end of fiscal years 2018 and 2019 changes as follows. This sensitivity analysis assumes that all actuarial assumptions except for those subject to the analysis are constant.

Millions of yen

	Changes in assumptions	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Discount rate	0.5% increase	(1,894)	**(1,950)**
	0.5% decrease	2,064	**2,091**

7) Asset-liability matching strategy

Under the Group's investment policy for plan assets, the investment objective is to earn, within tolerable risk limits, necessary total returns over the medium to long term to ensure benefit payments for defined benefit obligations into the future. The Group aims to reduce risks with investment diversification by investing plan assets in equity instruments, bond instruments and life insurance general accounts in and outside Japan according to asset allocation targets with a strategic asset mix set to achieve its investment targets.

Asset allocation to maintain over the medium to long term is based on expected returns and the correlation between asset classes over the medium to long term. The asset allocation is reviewed as necessary such as when the environment has changed significantly.

8) Effect of defined benefit plans on future cash flows

(i) The amount of contributions to defined benefit plans is determined by regularly reviewing actuarial valuations to balance pension funding for the future. In reviewing actuarial valuations, assumptions used to set the amount of contributions (e.g., the assumed interest rate, mortality rate and withdrawal rate) are reviewed to verify the appropriate amount of contributions.

(ii) The amount of contributions in the fiscal year ending March 31, 2021 is expected to be 1,614 million yen.

(iii) The weighted average duration of defined benefit obligations for the fiscal year ended March 31, 2020 was mainly 15.1 years (mainly 12.6 years in the fiscal year ended March 31, 2019).

(3) Defined contribution plans

The amount recorded as expenses for defined contribution plans was 602 million yen in the fiscal year ended March 31, 2020 (501 million yen in the fiscal year ended March 31, 2019).

(4) Employee benefit expenses

Total employee benefit expenses included in cost of sales and selling, general and administrative expenses in the consolidated statements of profit or loss was 116,319 million yen in the fiscal year ended March 31, 2020 (105,570 million yen in the fiscal year ended March 31, 2019).

21. Equity and Other Equity Items

(1) Share capital and treasury shares

(Share)

	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Type of shares	Common shares without par value	**Common shares without par value**
Authorized shares	480,000,000	**480,000,000**
Issued shares (Note 1)		
At beginning of the year	198,705,057	**198,705,057**
Changes during the year (Note 2)	-	**31,050,000**
At end of the year	198,705,057	**229,755,057**
Treasury shares		
At beginning of the year	3,320,506	**2,943,138**
Changes during the year (Note 3)	(377,368)	**(580,334)**
At end of the year	2,943,138	**2,362,804**

Note 1: All issued shares are fully paid.
Note 2: Increased because of a capital increase through a public offering with a paid-in date of December 10, 2019 and a capital increase through a third-party allotment of shares with a paid-in date of December 27, 2019.
Note 3: Changes during the year in treasury shares were due mainly to sales by the stock ownership trust and the exercise of stock options.

(2) Capital surplus

Capital surplus consists of legal capital surplus that represents amounts not included in share capital at the time of ordinary issuance of new shares and issuance of new shares by exercise of share acquisition rights, and other capital surplus that represents amounts other than legal capital surplus.

The Companies Act of Japan prescribes that one half or more of the paid-in capital or benefits at the time of the issuance of shares shall be incorporated into share capital with the remainder incorporated into the legal capital surplus. The legal capital surplus may be incorporated into the share capital by a resolution adopted at a meeting of the shareholders.

Share acquisition cost of 158 million yen is excluded from any capital surplus.

(3) Other components of equity

1) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans is for the effects of differences between the actuarial assumptions at the beginning of the year and actuarial experience and the effects of changes in the actuarial assumptions themselves. These remeasurements are recognized in other comprehensive income when they occur and are immediately transferred from other components of equity to retained earnings.

2) Exchange differences on translation of foreign operations

Exchange differences on the translation of foreign operations are exchange differences arising at the time of translating financial statements of foreign operations prepared in foreign currencies to Japanese yen, the presentation currency.

3) Net change in fair value of financial assets measured through other comprehensive income

Net change in fair value of financial assets measured through other comprehensive income represents valuation differences between the valuation at fair value and the valuation at acquisition cost of financial instruments whose fair value changes are designated as measured through other comprehensive income.

4) Effective portion of fair value changes in cash flow hedges

The effective portion of fair value changes in cash flow hedges is the effective portion of hedges in the accumulated net change in fair value of derivative transactions designated as cash flow hedges.

5) Share acquisition rights

The Company has adopted a stock option plan based on share acquisition rights and grants share acquisition rights in accordance with the provisions of the Companies Act of Japan. The amount recorded as share acquisition rights in other components of equity is based on their fair value, and their contractual terms are described in Note 22. "Share-Based Remuneration."

6) Share of other comprehensive income of investments accounted for using equity method

The share of other comprehensive income of investments accounted for using the equity method includes financial assets measured at fair value through other comprehensive income, remeasurements of defined benefit plans and exchange differences on translation of foreign operations.

(4) Retained earnings and dividends

1) Retained earnings

Retained earnings consist of those recognized in profit or loss in or before the fiscal year ended March 31, 2020, and those transferred from other comprehensive income.

The Companies Act of Japan prescribes that until the sum of the legal capital surplus and legal retained earnings reaches one-fourth of the share capital, one-tenth of the amount of the deduction from the surplus as a result of distributing the surplus as dividends needs to be set aside either as legal capital surplus or legal retained earnings.

Accumulated legal retained earnings may be used to cover losses. Also, legal retained earnings may be reduced by a resolution adopted at a meeting of the shareholders.

2) Dividends

(i) Dividends paid

FY 2018 (April 1, 2018 to March 31, 2019)

Resolution date	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of directors' meeting on May 11, 2018	Common shares	4,122	21	March 31, 2018	June 28, 2018

Note: The total amount of dividends includes 19 million yen in dividends on the Company's shares held by the stock ownership trust.

Resolution date	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of directors' meeting on November 9, 2018	Common shares	3,729	19	September 30, 2018	December 3, 2018

Note: The total amount of dividends includes 14 million yen in dividends on the Company's shares held by the stock ownership trust.

FY 2019 (April 1, 2019 to March 31, 2020)

Resolution date	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of directors' meeting on May 14, 2019	**Common shares**	**4,122**	**21**	**March 31, 2019**	**June 27, 2019**

Note: The total amount of dividends includes 11 million yen in dividends on the Company's shares held by the stock ownership trust.

Resolution date	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of directors' meeting on November 7, 2019	**Common shares**	**3,928**	**20**	**September 30, 2019**	**December 2, 2019**

Note: The total amount of dividends includes 7 million yen in dividends on the Company's shares held by the stock ownership trust.

(ii) Dividends whose record date falls in the fiscal year ended March 31, 2020, but whose effective date falls in the following fiscal year

FY 2018 (April 1, 2018 to March 31, 2019)

Resolution date	Type of shares	Appropriation from	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of directors' meeting on May 14, 2019	Common shares	Retained earnings	4,122	21	March 31, 2019	June 27, 2019

Note: The total amount of dividends includes 11 million yen in dividends on the Company's shares held by the stock ownership trust.

FY 2019 (April 1, 2019 to March 31, 2020)

Resolution date	Type of shares	Appropriation from	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of directors' meeting on May 28, 2020	**Common shares**	**Retained earnings**	**5,460**	**24**	**March 31, 2020**	**June 30, 2020**

Note: The total amount of dividends includes 2 million yen in dividends on the Company's shares held by the stock ownership trust.

22. Share-Based Remuneration

The Company has adopted a stock option plan, granting stock options to directors.

The objective of this plan is to increase motivation and morale of directors to enhance the Company's business performance and corporate value over the medium to long term by further strengthening the link to the Company's performance and stock price with directors sharing not only the benefit of increases but also the risk of declines in the stock price.

In order for the Company's directors (excluding external directors) to share the benefits and risks of share price fluctuations with shareholders and be committed to increase the share price and corporate value more than ever before, a restricted share-based remuneration plan was introduced in the fiscal year ended March 31, 2020. At the same time, the Company abolished a stock remuneration-type stock option plan for the Company's directors (excluding external directors) with a decision not to newly allot share acquisition rights to the Company's directors (excluding external directors) as stock remuneration-type stock options going forward, except for those already allotted.

(1) Stock remuneration-type stock option plan

1) Terms of stock options

(i) Grantees

The Company's directors (excluding external directors)

(ii) Vesting conditions

Loss of status as director of the Company

(iii) Exercise period of stock options granted

For no more than five years after vesting within a period of 20 years from the grant date

(iv) Payment method

Share-based payment

2) Number of stock options and weighted average exercise price

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
	Number of shares (Share)	**Number of shares (Share)**
Unexercised stock options outstanding at beginning of the year	335,700	**350,800**
Granted	46,300	**-**
Exercised (Notes 1 and 2)	(31,200)	**(77,800)**
Expired at maturity	-	**-**
Unexercised stock options outstanding at end of the year	350,800	**273,000**
Exercisable stock options outstanding at end of the year	17,200	**3,200**

Note 1: All stock options are granted at an exercise price of 1 yen per share.
Note 2: The weighted average stock price at the time of exercise in the fiscal year ended March 31, 2020, was 1,579.6 yen (1,852.2 yen in the fiscal year ended March 31, 2019.)

3) Range of exercise prices and weighted average remaining life of unexercised stock options at end of the year

The exercise price of unexercised stock options was 1 yen in the fiscal year ended March 31, 2020 and 2019, and the weighted average remaining life was 4.9 years in the fiscal year ended March 31, 2020 and 2019.

4) Fair value and method of fair value measurement of stock options granted during the year

(i) Measurement technique used
Black-Scholes model
(ii) Fair value, key base assumptions and estimation method

	FY 2018(April 1, 2018 to March 31, 2019)
Resolution date	July 5, 2018
Fair value	1,731 yen
Stock price on the grant date	2,080 yen
Exercise price	1 yen
Expected volatility (Note)	28.29%
Expected remaining life	10 years
Expected dividends	38 yen per share
Risk-free interest rate	0.12%

Note: The expected volatility is estimated as the annualized standard deviation of percentage change in share prices for the expected remaining life by calculating a percentage change in the share price at the end of each month relative to the end of the previous month.

(2) Restricted share-based remuneration plan

The details of shares with transfer restrictions granted during the year are as follows:

	FY 2019(April 1, 2019 to March 31, 2020)
Grant date	**August 1, 2019**
Number of shares with transfer restrictions granted	**52,831 shares**
Fair value at grant date	**1,774 yen per share**
Fair value measurement method	**Fair values are calculated based on the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day preceding the date of the resolution by the board of directors.**
Transfer restriction period	**30 years**

Note: The expected volatility is estimated as the annualized standard deviation of percentage change in share prices for the expected remaining life by calculating a percentage change in the share price at the end of each month relative to the end of the previous month.

(3) Share-based payment expenses

Expenses related to share-based remuneration plans included in selling, general and administrative expenses in the fiscal year ended March 31, 2020 were 90 million yen (79 million yen in the fiscal year ended March 31, 2019.)

23. Financial Instruments

(1) Capital management

The Group's capital management policy is to maintain a robust capital base for the purpose of preserving the trust of investors, creditors and markets and sustaining the development of its business in the future. Management monitors not only the level of dividend payments to common shareholders but also return on equity (ROE). Equity refers to total equity attributable to the owners of the parent in the consolidated statements of financial position. The board of directors manages capital using ROE. To achieve the objectives described above, the Group may issue new shares.

In the fiscal year ended March 31, 2020, there was no change to the Group's initiatives concerning capital management.

The Group's ROE is as follows.

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Equity (million yen)	263,593	278,053	**331,992**
Total assets (million yen)	694,914	785,944	**899,699**
Return on equity (ROE) (%)	37.9	35.4	**36.9**

(2) Financial risk management

The Group is exposed to financial risks (credit risk, liquidity risk and market risk) in the course of conducting business activities. It manages risks in accordance with certain policies to avoid or reduce such risks. The Group uses derivatives only for the purposes of avoiding foreign exchange risks associated with import and export transactions for trade and interest rate risks associated with long-term borrowings and does not engage in derivative transactions for speculative purposes.

(3) Credit risk

1) Overview

Trade and other receivables and contract assets that arise in the course of the Group's business are exposed to the credit risks of customers. For these risks, the Group manages due dates and balances by counterparty while at the same time capturing the credit position of major counterparties when necessary in accordance with the Group's internal rules. For the execution and management of derivative transactions, the finance division executes them with approval obtained using a decision request circular (Ringi) in accordance with prescribed internal rules when the Group engages in import and export transactions that involve entering into forward exchange contracts. In cases of long-term loan financing that involves entering into interest rate swaps and interest rate option contracts, a Ringi approval is adopted with the finance division making the proposal under the prescribed internal rules with the details reported to the board of directors. The Group uses major financial institutions for all of its derivative transactions, and, therefore, credit risk is considered limited.

With the Group not exposed to any significant credit risk of a specific counterparty, there is no excessive concentration of credit risk that requires special management.

The maximum exposure to the credit risks of financial assets is the carrying amount after impairment presented in the consolidated statements of financial position. The maximum exposure to the credit risks of guarantee obligations is the amount of guarantee obligations stated in Note 36. "Contingencies," and the risk is de minimis.

2) Number of stock options and weighted average exercise price

The balances of assets subject to provision for doubtful accounts were as follows:

Classification	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Always measured at an amount equal to lifetime expected credit losses	190,093	199,106	**210,971**
Measured at an amount equal to 12-month expected credit losses	6,687	6,705	**4,138**
Measured at an amount equal to lifetime expected credit losses	-	-	**-**
Measured at an amount equal to lifetime expected credit losses(credit impairment)	3,616	5,568	**5,104**

The credit risk ratings of financial assets that fall in the same classification in the table are determined to be largely the same.

Provision for doubtful accounts is stated below. In the fiscal year ended March 31, 2020, there was no significant change in the total carrying amount of financial instruments that contributed to change in provision for doubtful accounts. Provision for doubtful accounts is included in "trade and other receivables" and "other financial assets" in the consolidated statements of financial position.

	FY 2018 (April 1, 2018 to March 31, 2019)		**FY 2019 (April 1, 2019 to March 31, 2020)**	
	Financial assets with provision for doubtful accounts always measured at an amount equal to lifetime ECL	Credit-impaired financial assets	**Financial assets with provision for doubtful accounts always measured at an amount equal to lifetime ECL**	**Credit-impaired financial assets**
Balance at beginning of the year	131	3,022	**253**	**4,935**
Increases during the year	156	2,285	**245**	**563**
Decreases during the year				
(utilized for intended purposes)	(5)	(42)	**(35)**	**(286)**
Decreases during the year (reversals)	(44)	(246)	**(43)**	**(163)**
Changes due to business combinations	16	(85)	**(239)**	**-**
Other changes	0	-	**51**	**0**
Balance at end of the year	253	4,935	**231**	**5,049**

Note: Provision for doubtful accounts increased in the fiscal year ended March 31, 2019 due to the worsening of the financial position of counterparties.

(4) Liquidity risk

1) Overview

The Group raises funds through borrowings and bonds payable. Such liabilities are exposed to the liquidity risk of inability to execute payments on the due dates owing to reasons such as a deterioration in the funding environment.

The Group develops funding plans based on annual business plans in accordance with the Group's basic policy on financial operations while the Company's finance division regularly captures and summarizes liquidity on hand and interest-bearing liabilities and reports them to the Company's board of directors.

2) Maturity Analysis

The balances by maturity of financial liabilities (including derivative financial instruments) were as follows:

FY 2018 (As of March 31, 2019)

Millions of yen

	Carrying amount	Contractual cash flows	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Nonderivative liabilities								
Trade and other payables	156,357	156,357	156,357	-	-	-	-	-
Bonds and borrowings	243,965	247,389	75,351	32,288	11,575	21,908	29,423	76,842
Other financial liabilities	34,629	37,328	4,985	4,153	3,874	3,481	3,012	17,820
Subtotal	434,953	441,075	236,694	36,441	15,450	25,389	32,436	94,662
Derivative liabilities								
Forward exchange contracts	494	494	494	-	-	-	-	-
Interest rate swap contracts	433	433	28	144	-	7	229	24
Subtotal	928	928	523	144	-	7	229	24
Guarantee obligations	-	8,487	8,487	-	-	-	-	-
Total	435,881	450,491	245,704	36,586	15,450	25,397	32,665	94,687

FY 2019 (As of March 31, 2020)

Millions of yen

	Carrying amount	Contractual cash flows	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Nonderivative liabilities								
Trade and other payables	137,945	137,945	137,945	-	-	-	-	-
Bonds and borrowings	301,034	304,949	105,765	16,745	23,656	29,781	29,356	99,643
Other financial liabilities	43,744	45,542	5,644	10,442	4,117	3,697	6,206	15,435
Subtotal	482,724	488,437	249,354	27,187	27,773	33,479	35,563	115,078
Derivative liabilities								
Forward exchange contracts	11	11	11	-	-	-	-	-
Interest rate swap contracts	256	256	49	-	4	171	-	30
Subtotal	268	268	61	-	4	171	-	30
Guarantee obligations	-	17,446	17,446	-	-	-	-	-
Total	482,992	506,151	266,862	27,187	27,778	33,650	35,563	115,108

(5) Market risk

1) Overview

The Group is exposed to risks associated with market fluctuations, such as foreign exchange and interest rate fluctuations, in the course of conducting business activities. The Group aims for risk reduction by properly managing market risks. For the purpose of properly managing market risks, the Group may use mainly derivative transactions, such as forward exchange contracts and interest rate swaps. The Group executes and manages derivative transactions in accordance with internal rules that set forth the objectives, limits on use, scope of transactions, organizational structures and the like. The Group's use of derivative transactions is limited to risk avoidance based on actual needs and does not use derivatives for speculative purposes. Therefore, fair value changes in derivatives held by the Company, in principle, have the effect of offsetting changes in the fair value or the cash flows of corresponding transactions.

2) Foreign exchange risk

The Group engages in business abroad and is exposed to foreign exchange fluctuations in trading in foreign currencies. To mitigate the foreign exchange fluctuation risk, the Group uses forward exchange contracts and currency swaps for hedging as necessary.

(a) Exposure to foreign exchange risk

A summary of the quantitative data on exposure to foreign exchange risk provided to management of the Group based on its risk management policy of foreign exchange risk is as follows:

Millions of yen

	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
US dollar	1,520	**2,618**

(b) Sensitivity analysis of foreign exchange risk

A sensitivity analysis of foreign exchange risk is omitted because the effect of foreign exchange fluctuations on profit or loss and equity is minimal.

3) Interest rate risk

The Group's floating rate portion of borrowings and bonds payable is exposed to interest rate risk. The Group hedges the risk using derivatives (interest rate swaps).

(a) Exposure to interest rate risk

The Group's exposure to the interest rate risk is set forth in the table below: The amount of exposure excludes the amount for which interest rate risk is hedged using derivative transactions.

Millions of yen

	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Net amount of exposure	3,121	**7,236**

(b) Sensitivity analysis of interest rate risk

A sensitivity analysis of interest rate risk is omitted because the effect of interest rate fluctuations on profit or loss and equity is minimal.

4) Stock price fluctuation risk

The Group is exposed to the stock price fluctuation risk because the Group holds shares in entities with which the Group has operational relationships mainly for the purpose of strengthening and maintaining the relationships with trade partners. The Group regularly monitors market prices and the financial position of the stock issuers (trade partners) and regularly reviews its shareholding status in consideration of these relationships.

(a) Sensitivity analysis of stock price fluctuation risk

If the market price of equity instruments held by the Group at the fiscal year-end changed by 10%, its effect on other comprehensive income (before considering tax effect) would have been 3,341 million and 3,134 million yen in the fiscal years ended March 31, 2019 and 2020, respectively.

This analysis assumes that other variables remain constant.

(6) Derivatives and hedge accounting

1) Overview of hedges

The Group uses forward exchange contracts, currency swaps and interest rate swaps to hedge foreign currency denominated receivables and payables, forecast transactions denominated in foreign currencies, determine interest rate risks of bonds and borrowings and hedge foreign exchange risks. Hedge accounting is applied to those that satisfy hedging requirements. The Group does not use derivative transactions for speculative purposes.

For the execution and management of derivative transactions, the finance division executes the transactions with approval obtained using a decision request circular (Ringi) in accordance with prescribed internal rules when the Group engages in import and export transactions that involve entering into forward exchange contracts. In cases of long-term loan financing that involves entering into interest rate swap contracts, Ringi approval is adopted with the finance division making the proposal under the prescribed internal rules with the details reported to the board of directors. The Group uses major financial institutions for all of its derivative transactions. Therefore, credit risk is considered negligible.

When determining the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness, the Group bases the determination on whether it is expected to be highly effective in offsetting changes in value. As the Group designates forward exchange contracts and currency swap contracts as hedge instruments only for changes in spot rates, the major terms of the hedged item and the hedging instrument are the same. Therefore, major sources of hedge ineffectiveness that would be expected to affect the hedging relationship during its remaining term are limited. Also, interest rate swap contracts are used to fix floating interest rates, and major terms of the hedged item and the hedging instrument are the same. Therefore, major sources of hedge ineffectiveness that might be expected to affect the hedging relationship during its remaining term are limited.

The carrying amount of derivatives is the amount recorded in “other financial assets” or “other financial liabilities” in the consolidated statements of financial position, and derivatives with a term to maturity of more than one year are classified in non-current assets or non-current liabilities.

2) Information on items designated as hedging instrument

The effect of hedging instruments on the consolidated statements of financial position was as follows:

Transition Date (As of April 1, 2018)

Millions of yen

	Contract amount, etc.	Carrying amount of hedging instruments		Line item in the consolidated statements of financial position
		Assets	Liabilities	
Cash flow hedges				
Foreign exchange risk				
Forward exchange contracts	28,816	24	528	Other financial assets Other financial liabilities
Interest rate risk				
Interest rate swap contracts	33,193	-	516	Other financial assets Other financial liabilities

FY 2018 (As of March 31, 2019)

Millions of yen

	Contract amount, etc.	Carrying amount of hedging instruments		Line item in the consolidated statements of financial position	Changes in fair value used to calculate ineffective portion of hedges
		Assets	Liabilities		
Cash flow hedges					
Foreign exchange risk					
Forward exchange contracts	54,861	1,949	494	Other financial assets Other financial liabilities	1,958
Currency swaps	466	13	-	Other financial assets	13
Interest rate risk					
Interest rate swap contracts	25,812	-	433	Other financial liabilities	83

FY 2019 (As of March 31, 2020)

Millions of yen

	Contract amount, etc.	**Carrying amount of hedging instruments**		**Line item in the consolidated statements of financial position**	**Changes in fair value used to calculate ineffective portion of hedges**
		Assets	**Liabilities**		
Cash flow hedges					
Foreign exchange risk					
Forward exchange contracts	**33,834**	**4,582**	**11**	**Other financial assets, other financial liabilities**	**3,115**
Currency swaps	**688**	**43**	**-**	**Other financial assets**	**30**
Interest rate risk					
Interest rate swap contracts	**23,192**	**-**	**256**	**Other financial liabilities**	**177**

3) Information on items designated as hedged items

The effect of hedged items on the consolidated statements of financial position was as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)		**FY 2019 (As of March 31, 2020)**	
	Cash flow hedge reserve	Changes in value used to calculate the ineffective portion of hedges for the year	Cash flow hedge reserve	**Changes in value used to calculate the ineffective portion of hedges for the year**	**Cash flow hedge reserve**
Cash flow hedges					
Foreign exchange risk					
Forecast transactions	(506)	1,958	548	**3,115**	**1,810**
Foreign currency-denominated borrowings	-	13	4	**30**	**16**
Interest rate risk					
Interest on borrowings	(358)	83	(301)	**177**	**(177)**

4) Effect of application of hedge accounting on the consolidated statements of profit or loss and the consolidated statements of comprehensive income

The effect of hedging instruments designated as cash flow hedges on the consolidated statements of profit or loss and the consolidated statements of comprehensive income was as follows. The amount of the ineffective portion of hedges was not material.

FY 2018 (April 1, 2018 to March 31, 2019)

Millions of yen

	Gains and losses on hedges recognized in other comprehensive income during the reporting period	Amount of reclassification adjustments from cash flow hedge reserve to profit or loss	Amount of transfers from cash flow hedge reserve to acquisition cost of nonfinancial assets
Foreign exchange risk	1,971	-	-
Interest rate risk	83	176	-

Note: The amount is before considering tax effects.

FY 2019 (April 1, 2019 to March 31, 2020)

Millions of yen

	Gains and losses on hedges recognized in other comprehensive income during the reporting period	Amount of reclassification adjustments from cash flow hedge reserve to profit or loss	Amount of transfers from cash flow hedge reserve to acquisition cost of nonfinancial assets
Foreign exchange risk	**3,145**	**-**	**(312)**
Interest rate risk	**177**	**173**	**-**

Note: The amount is before considering tax effects.

5) Derivatives not subject to hedge accounting

Even in cases in which requirements for hedge accounting are not met, the Group uses derivative transactions if doing so is economically rational. Fair value changes of such derivative transactions are recognized in profit or loss.

(7) Fair value of financial instruments

Financial instruments are classified into one of the following levels of the fair value hierarchy based on the inputs used for fair value measurement.

Level 1: Quoted prices for identical assets or liabilities in active markets

Level 2: Inputs other than Level 1 that consist of prices that are observable, either directly or indirectly

Level 3: Inputs that are not based on observable market data

Changes in level of classification of financial instruments are recognized to have occurred as of the last day of the reporting period. There were no significant changes in the hierarchy level of financial instruments in the fiscal years ended March 31, 2019 and 2020.

1) Financial instruments not measured at fair value

The methods used to measure the value of major financial instruments not measured at fair value are as follows:

a. Long-term loans receivable
The calculation method involves discounting the sum of the principal and interest by an interest rate assumed for a similar new loan.

b. Bonds payable
The calculation method involves discounting the sum of the principal and interest by an interest rate that considers the remaining term and credit risk of the bonds payable.

c. Long-term borrowings
The calculation method involves discounting the sum of the principal and interest by an interest rate assumed for similar new borrowing.

The carrying amount and fair value hierarchy of financial instruments not measured at fair value are set forth in the tables below. Financial instruments whose carrying amounts approximate their fair values are not included in the following table.

a. Transition Date (As of April 1, 2018)

Millions of yen

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term loans receivable (Note)	6,886	-	-	6,928	6,928
Long-term borrowings (Note)	132,099	-	-	132,916	132,916
Bonds payable	20,000	-	20,048	-	20,048

b. FY 2018 (As of March 31, 2019)

Millions of yen

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term loans receivable (Note)	6,975	-	-	6,986	6,986
Long-term borrowings (Note)	156,511	-	-	157,641	157,641
Bonds payable (Note)	30,500	-	30,880	-	30,880

c. FY 2019 (As of March 31, 2020)

Millions of yen

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term loans receivable (Note)	**4,957**	**-**	**-**	**4,957**	**4,957**
Long-term borrowings (Note)	**189,754**	**-**	**-**	**190,593**	**190,593**
Bonds payable (Note)	**40,250**	**-**	**40,556**	**-**	**40,556**

Note: The figure includes the balances to be recovered, repaid and redeemed within one year.

2) Financial instruments measured at fair value

The methods used to measure major financial instruments measured at fair value are as follows:

a. Derivatives

Derivatives classified into Level 2 are measured using prices presented by counterparty financial institutions.

b. Equity securities and investments in capital

The fair value of equity securities is determined using market prices at exchanges if they are listed equity securities classified into Level 1 and using reasonably available inputs with appropriate valuation techniques such as comparable company analysis if they are unlisted equity securities classified into Level 3. Certain illiquidity discounts are considered when necessary.

The breakdown of financial instruments measured at fair value classified by fair value hierarchy level was as follows:

a. Transition Date (As of April 1, 2018)

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	-	24	-	24
Other	-	564	-	564
Financial assets measured at fair value through other comprehensive income				
Equity securities and investments in capital	38,033	-	18,024	56,057
Total	38,033	588	18,024	56,646
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	1,045	-	1,045
Total	-	1,045	-	1,045

b. FY 2018 (As of March 31, 2019)

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	-	1,962	-	1,962
Other	-	575	-	575
Financial assets measured at fair value through other comprehensive income				
Equity securities and investments in capital	33,413	-	18,122	51,536
Total	33,413	2,538	18,122	54,074
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	928	-	928
Total	-	928	-	928

c. FY 2019 (As of March 31, 2020)

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	**-**	**4,626**	**-**	**4,626**
Other	**-**	**605**	**-**	**605**
Financial assets measured at fair value through other comprehensive income				
Equity securities and investments in capital	**31,343**	**-**	**18,898**	**50,242**
Total	**31,343**	**5,231**	**18,898**	**55,474**
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	**-**	**268**	**-**	**268**
Total	**-**	**268**	**-**	**268**

Financial instruments classified into Level 3 consist mainly of unlisted equity securities, and the valuation method of the subject financial instruments is determined in accordance with the valuation policy and procedures on fair value measurement covering valuation methods approved by a person with proper authority. The results of these calculations are reviewed and approved by a person with proper authority.

Significant fair value changes in financial instruments classified into Level 3 are not expected if unobservable inputs are changed to reasonably possible alternative assumptions.

Changes in financial instruments classified into Level 3 were as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Balance at beginning of the year	18,024	**18,122**
Other comprehensive income (Note)	(3,509)	**(3,647)**
Purchases	8,866	**8,328**
Sales	(542)	**(731)**
Change in scope of consolidation	(4,404)	**(3,182)**
Other changes	(313)	**10**
Balance at end of the year	18,122	**18,898**

Note: Included in “net change in fair value of financial assets measured through other comprehensive income” in the consolidated statements of comprehensive income.

(8) Transfer of assets that do not meet the criteria for derecognition

The Group securitizes some trade receivables by endorsing notes and by other methods. However, the securitized receivables include those for which the Group will retrospectively assume payment obligations if the obligor fails to make payments. Such securitized receivables do not satisfy the requirements for derecognition of financial assets and thus are not derecognized.

Such transferred assets were recorded in the amounts of 1,864 million yen, 1,955 million yen, and 1,604 million yen on the Transition Date, March 31, 2019 and 2020, respectively, in “trade and other receivables” in the consolidated statements of financial position. Also, proceeds from the transfer of assets were recorded in “bonds and borrowings” (non-current liabilities) in the same amounts. The fair value of these reasonably approximates their carrying amount.

As IFRS 1 prohibits the retrospective application of derecognition of financial assets and liabilities, the Group applied it prospectively from the IFRS Transition Date. Therefore, at the Transition Date, the Group also derecognized the transferred assets described above under Japanese GAAP.

24. Revenue

(1) Disaggregation of revenue

The Group, which consists of operating segments by product and service, records revenues generated from contracts with customers in the following eight reportable segments: the Industrial Gas Business, Chemical Business, Medical Business, Energy Business, Agriculture and Food Products Business, Logistics Business, Seawater Business and Other Businesses.

The Group's recognizes revenue disaggregated into three categories: sales of goods, equipment installations, and provision of services. The relationships between these disaggregated revenues and the Group's reportable segments were as follows:

FY 2018 (As of March 31, 2019)

Millions of yen

	Reportable segments								
	Industrial Gas Business	Chemical Business	Medical Business	Energy Business	Agriculture and Food Products Business	Logistics Business	Seawater Business	Other Businesses	Total
Goods									
Gas	123,405	-	8,803	27,126	-	-	-	-	159,334
Other	19,007	22,917	76,029	13,184	133,312	-	34,550	79,508	378,510
Equipment installations	24,455	-	77,932	8,228	3,130	5,172	5,667	10,983	135,569
Provision of services	7,279	-	11,422	4,193	-	42,775	-	3,202	68,873
Total	174,147	22,917	174,187	52,732	136,443	47,947	40,217	93,694	742,288

FY 2019 (As of March 31, 2020)

Millions of yen

	Reportable segments								
	Industrial Gas Business	Chemical Business	Medical Business	Energy Business	Agriculture and Food Products Business	Logistics Business	Seawater Business	Other Businesses	Total
Goods									
Gas	**128,075**	**-**	**8,773**	**26,639**	**-**	**-**	**-**	**-**	**163,489**
Other	**22,147**	**27,479**	**82,066**	**12,707**	**134,245**	**-**	**33,844**	**86,354**	**398,844**
Equipment installations	**27,749**	**-**	**83,589**	**8,819**	**3,053**	**5,419**	**6,141**	**33,964**	**168,739**
Provision of services	**10,992**	**-**	**13,483**	**3,802**	**-**	**44,993**	**-**	**4,737**	**78,010**
Total	**188,965**	**27,479**	**187,913**	**51,969**	**137,298**	**50,413**	**39,986**	**125,057**	**809,083**

(2) Contract balances

The breakdown of the balances of contracts with customers is as follows:

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Receivables from contracts with customers	178,816	182,283	**183,363**
Contract assets	5,749	11,875	**20,344**
Contract liabilities	1,603	2,400	**3,751**

The amount included in the contract liabilities (current) at the beginning of the fiscal year ended March 31, 2020 but not recognized as revenue for the year is not significant.

Also, the amount of revenue recognized in the fiscal year ended March 31, 2020, from performance obligations satisfied (or partially satisfied) in previous years is not significant.

(3) Transaction price allocated to the remaining performance obligations

Since major performance obligations of the Group are part of the contracts that have an original expected duration of one year or less, the Group omits disclosure on the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2020. There is no significant amount of consideration from contracts with customers not included in transaction prices.

(4) Assets recognized from the costs to obtain or fulfil a contract with a customer

In the fiscal year ended March 31, 2020, the amount of assets recognized from the costs to obtain or fulfil contracts with customers was not significant. When the amortization period of assets to be recognized is for one year or less, the Group uses the practical expedient of recognizing the incremental costs of obtaining a contract as an expense when incurred.

25. Selling, General, and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Salaries, benefits, and bonuses	44,769	**47,290**
Retirement benefit expenses	1,539	**1,667**
Freight and packing expenses	14,298	**17,951**
Depreciation and amortization	10,376	**11,969**
Other	50,250	**56,504**
Total	121,235	**135,383**

26. Other Income and Other Expenses

The breakdown of other income is as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Gain on sale of fixed assets	201	**1,734**
Gain on bargain purchase	-	**2,089**
Government grant income	666	**648**
Other	2,860	**4,649**
Total	3,728	**9,122**

The breakdown of other expenses is as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Loss on sale and retirement of fixed assets	2,696	**997**
Loss on liquidation of business	355	**1,277**
Other	3,211	**3,073**
Total	6,263	**5,348**

27. Finance Income and Finance Costs

The breakdown of finance income is as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Interest income		
Financial assets measured at amortized cost	147	**167**
Financial assets measured at fair value through profit or loss	5	**39**
Dividend income		
Financial assets measured at fair value through other comprehensive income	935	**1,056**
Financial assets measured at fair value through profit or loss	-	**-**
Other finance income	41	**131**
Total	1,130	**1,395**

The breakdown of finance income is as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Interest expense		
Financial liabilities measured at amortized cost	1,097	**1,150**
Financial liabilities measured at fair value through profit or loss	44	**303**
Foreign exchange loss	49	**32**
Other finance costs	627	**695**
Total	1,818	**2,181**

28. Disposal Groups Classified as Held for Sale and Discontinued Operations

(1) Overview of discontinued operations

On March 2018, the Company concluded an agreement to transfer its coke oven gas refinement business and business of selling by-products generated from refinement in the Chemical Business, to Nippon Steel & Sumitomo Metal Corporation (current Nippon Steel Corporation) and Nippon Steel & Sumikin Chemical Co., Ltd. (current Nippon Steel Chemical & Material Co., Ltd.) and completed the transfer on April 1, 2019. In association with this transfer, assets related to the Company's coke oven gas refinement business and business of selling byproducts generated from the refinement were classified in non-current assets held for sale, and gains and losses were classified in discontinued operations.

Also, a consolidated subsidiary in the Other Businesses dealing in the industrial gas, medical gas business and overseas trade discontinued its business activities in December 2018 as a result of the transfer of the business. The related gains and losses were classified in discontinued operations.

(2) Disposal groups classified as held for sale

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Inventories	737	882	-
Property, plant and equipment	12,399	13,119	-

(3) Profit or loss from discontinued operations

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Profit or loss from discontinued operations		
Revenue	26,102	**77**
Expenses	(27,014)	**(298)**
Profit (loss) before income tax	(912)	**(220)**
Income tax expense	86	**1**
Profit (loss)	(825)	**(218)**
Profit (loss) attributable to:		
Owners of parent	(825)	**(218)**
Non-controlling interests	-	-

(4) Cash flows from discontinued operations

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Cash flows from operating activities	2,433	**(103)**
Cash flows from investing activities	(3,290)	**14,195**
Cash flows from financing activities	(400)	**(35)**
Total	(1,257)	**14,056**

29. Other Comprehensive Income

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Items that will not be reclassified to profit or loss:		
Net change in fair value of financial assets measured through other comprehensive income		
Changes during the year	(8,263)	**(2,722)**
Tax effect	2,785	**(958)**
After tax effect adjustments	(5,478)	**(3,681)**
Remeasurements of defined benefit plans		
Changes during the year	(2,578)	**(880)**
Tax effect	750	**377**
After tax effect adjustments	(1,828)	**(503)**
Share of other comprehensive income of investments accounted for using equity method		
Changes during the year	(159)	**23**
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations		
Changes during the year	(252)	**(3,387)**
After tax effect adjustments	(252)	**(3,387)**
Effective portion of fair value changes in cash flow hedges		
Changes during the year	1,891	**3,449**
Reclassification adjustments	176	**173**
Tax effect	(422)	**(1,039)**
After tax effect adjustments	1,645	**2,583**
Share of other comprehensive income of investments accounted for using equity method		
Changes during the year	(40)	**42**
Total other comprehensive income	(6,113)	**(4,922)**

30. Earnings Per Share

(1) Basic and diluted earnings per share

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Basic earnings (loss) per share	147.33	**147.43**
Continuing operations	151.56	**148.49**
Discontinued operations	(4.22)	**(1.06)**
Diluted earnings (loss) per share	147.06	**147.20**
Continuing operations	151.28	**148.26**
Discontinued operations	(4.22)	**(1.06)**

(2) Bases for calculating basic and diluted earnings per share

1) Profit attributable to common shareholders

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Profit (loss) attributable to owners of parent	28,815	**30,430**
Continuing operations	29,641	**30,649**
Discontinued operations	(825)	**(218)**
Diluted profit (loss) attributable to common shareholders	28,815	**30,430**
Continuing operations	29,641	**30,649**
Discontinued operations	(825)	**(218)**

2) Average number of common shares during the year

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Average number of common shares during the year	195,578	**206,407**
Increases in common shares due to stock options	357	**319**
Average number of diluted common shares during the year	195,936	**206,726**

31. Cash flow Information

(1) Noncash transactions

The details of major noncash transactions are as follows:

Millions of yen

	FY 2018 (April 1, 2018 to March 31, 2019)	**FY 2019 (April 1, 2019 to March 31, 2020)**
Acquisition of assets related to lease transactions	5,436	**5,991**

(2) Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities were as follows:

FY 2018 (April 1, 2018 to March 31, 2019)

Millions of yen

	Balance at beginning of the year	Changes arising from cash flows	Noncash changes		Balance at end of the year
			Business combinations, etc.	Other	
Short-term borrowings	32,699	19,723	2,574	-	54,998
Payables under fluidity lease receivables	1,864	91	-	-	1,955
Long-term borrowings	132,099	21,059	3,629	(276)	156,511
Bonds payable	20,000	10,000	500	-	30,500
Lease liabilities	31,776	(4,629)	405	5,423	32,976
Total	218,440	46,245	7,109	5,146	276,942

FY 2019 (April 1, 2019 to March 31, 2020)

Millions of yen

	Balance at beginning of the year	Changes arising from cash flows	Noncash changes		Balance at end of the year
			Business combinations, etc.	Other	
Short-term borrowings	**54,998**	**13,456**	**970**	**-**	**69,425**
Payables under fluidity lease receivables	**1,955**	**(351)**	**-**	**-**	**1,604**
Long-term borrowings	**156,511**	**27,843**	**6,201**	**(802)**	**189,754**
Bonds payable	**30,500**	**9,750**	**-**	**-**	**40,250**
Lease liabilities	**32,976**	**(6,029)**	**630**	**5,637**	**33,214**
Total	**276,942**	**44,669**	**7,802**	**4,835**	**334,248**

32. Subsidiaries

There were no subsidiaries that had individually significant non-controlling interests at the Transition Date or for the fiscal years ended March 31, 2019 and 2020.

33. Business Combinations

An overview of business combinations during the fiscal year ended March 31, 2020 is as follows.

There were no significant business combinations during the fiscal year ended March 31, 2019.

1. Acquisition of part of the industrial gas business of Praxair India Private Limited and an investment in a subsidiary

The Company, through its Indian subsidiary, Air Water India Private Limited ("AW India"), entered into an agreement to acquire the business related to the manufacture, sale and distribution of oxygen, nitrogen and argon operated by Praxair India Private Limited ("Praxair India") in East India on June 14, 2019 and completed the acquisition on July 12, 2019.

(1) Overview of business acquisition

1) Name of the counterparty

Praxair India

2) Description of business

Part of the business related to production, storage, delivery and sale of oxygen, nitrogen and argon in East India (including business related to storage, transport, and sales of trading products)

3) Acquisition date

July 12, 2019

(2) Objective of business acquisition

As for the acquired business, demand for industrial gases is expected to grow in India along with the general economic growth with a high proportion of it coming from the onsite gas supply business for blast furnace steel manufacturing in which the Company has extensive domestic operating know-how. This acquisition directly relates to the establishment of the upstream business in that it allows the Group to obtain new liquid gas production and supply bases. Also, the acquisition greatly contributes to the expansion of the Group's industrial gas business in India, given how its high medium- to long-term strategic complements the downstream business of Ellenbarrie Industrial Gases Ltd. ("Ellenbarrie"), a subsidiary of the Company supplying lorries and cylinders mainly in Eastern India.

AW India, a subsidiary of the Group, acquired the business, and the Company made an investment in AW India to provide it with funds necessary for the acquisition.

(3) Acquisition price

Millions of yen

	Acquisition date (July 12, 2019)
Cash	24,400
Total acquisition price	24,400

As expenses required directly for the acquisition, advisory and other fees of 444 million yen were recorded in "selling, general and administrative expenses" in the consolidated statements of profit or loss.

(4) Amounts of assets acquired and liabilities assumed

The amounts of assets acquired and liabilities assumed at the acquisition date were as follows:

Millions of yen

	Amount
Current assets	
Trade and other receivables (Note)	1,282
Inventories	110
Other current assets	22
Total current assets	1,415
Non-current assets	
Property, plant and equipment	4,537
Total non-current assets	4,537
Total assets	5,953
Current liabilities	357
Non-current labilities	23
Total liabilities	381
Fair value of identifiable net assets acquired	5,572

Note: Trade and other receivables consist of the total amount of receivables under contracts of 1,325 million yen, of which 42 million yen was expected to be uncollectible at the acquisition date.

(5) Goodwill from the acquisition

Millions of yen

	Amount
Fair value of the acquisition price	24,400
Fair value of identifiable net assets acquired	(5,572)
Goodwill from the acquisition	18,827

Note: Goodwill is based on a reasonable estimation of future excess earning power expected from future business operations of AW India. There is no amount of goodwill expected to be deductible for tax purposes.

As for the amounts of assets acquired and liabilities assumed at the date of the business combination, the allocation of the acquisition price has not been completed with the identification of identifiable assets and liabilities at the date of the business combination being reviewed; therefore, the amount of goodwill has been calculated provisionally.

(6) Impact on the financial results of the Group

The Group omitted a description of the revenue and profit or loss of the acquiree since the acquisition date as well as the revenue and profit or loss of the combined entity had the business combination occurred at the beginning of the year because the impact was minor.

2. Acquisition of part of the industrial gas business of Linde India Limited

The Company, through AW India, entered into an agreement to acquire the business related to the manufacture, sale and distribution of oxygen, nitrogen and argon operated by Linde India Limited (“Linde India”) in South India on November 22, 2019, and completed the acquisition of the business on December 16, 2019.

(1) Overview of business acquisition

1) Name of the counterparty

Linde India

2) Description of business

Part of the business related to production, storage, delivery and sale of oxygen, nitrogen and argon in South India (including business related to storage, transport and sale of trading products)

3) Acquisition date

November 16, 2019

(2) Objective of business acquisition

The Company sees the enhancement of its overseas operations as a pillar of its future growth. The Company has positioned India as a focus area of its future overseas expansion and has intensified its efforts to expand operating bases there, for example, by acquiring Ellenbarrie, a local industrial gas manufacturer, in 2013 and establishing AW India in 2014 for the purpose of conducting market research to launch a mix of the Group’s various products and services.

As for the acquired business, the demand for industrial gases is expected to grow in India along with the general economic growth in India with a high proportion of it coming from the onsite gas supply business for blast furnace steel manufacturing in which the Company has extensive domestic operating know-how. In addition, by establishing strong trust relationships with customers through the stable supply of industrial gases, the Group aims to seize business opportunities that would arise along with future growth in crude steel production.

Furthermore, by bringing together the liquefied gas production, supply bases and customers in South India added by this acquisition and Ellenbarrie’s business platform on which it operates merchant business mainly in East and Southeast India, the Group will expand its business in South India, where industry consolidation in the automobile and IT related sectors has accelerated, and the demand for industrial gases has significantly increased in recent years.

The Group is committed to cement its position in the industrial gas market in India by strategically leveraging the operating base in East India acquired earlier and the operating base in South India added by this acquisition as well as the existing management resources such as Ellenbarrie.

(3) Acquisition price

Millions of yen

	Acquisition date (July 12, 2019)
Cash	**21,528**
Total acquisition price	**21,528**

As expenses required directly for the acquisition, advisory fees of 399 million yen are recorded in “selling, general and administrative expenses” in the consolidated statements of profit or loss.

(4) Amounts of assets acquired and liabilities assumed

The amounts of assets acquired and liabilities assumed at the acquisition date were as follows:

Millions of yen

	Amount
Current assets	
Trade and other receivables (Note)	515
Inventories	135
Other current assets	43
Total current assets	694
Non-current assets	
Property, plant and equipment	3,703
Total non-current assets	3,703
Total assets	4,398
Current liabilities	127
Non-current labilities	-
Total liabilities	127
Fair value of identifiable net assets acquired	4,270

Note: There is no amount of trade and other receivables expected to be uncollectible at the acquisition date.

(5) Goodwill from the acquisition

Millions of yen

	Amount
Fair value of the acquisition price	21,528
Fair value of identifiable net assets acquired	(4,270)
Goodwill from the acquisition	17,257

Note: Goodwill is based on a reasonable estimation of future excess earning power expected from future business operations of AW India. There is no amount of goodwill expected to be deductible for tax purposes.
As for the amounts of assets acquired and liabilities assumed at the date of the business combination, the allocation of the acquisition price has not been completed with the identification of identifiable assets and liabilities at the date of the business combination being reviewed; therefore, the amount of goodwill has been calculated provisionally.

(6) Impact on the financial results of the Group

The Group omitted a description of the revenue and profit or loss of the acquiree since the acquisition date as well as the revenue and profit or loss of the combined entity had the business combination occurred at the beginning of the year because the impact was minor.

34. Related Parties

Compensation to key management personnel was as follows:

Millions of yen

	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Fixed compensation	785	**761**
Restricted share-based remuneration	-	**68**
Bonuses	176	**180**
Share-based remuneration	79	**21**
Total	1,041	**1,032**

35. Commitments

Commitments related to the acquisition of property, plant and equipment were as follows:

Millions of yen

	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Acquisition of property, plant and equipment	6,885	**2,444**

36. Contingencies

Guarantee obligations

The Group has guarantee obligations for borrowings from financial institutions.

Millions of yen

	Transition Date (As of April 1, 2018)	FY 2018 (As of March 31, 2019)	**FY 2019 (As of March 31, 2020)**
Bank borrowings by associates, etc.	13,388	8,415	**17,405**
Bank borrowings by employees	72	29	**8**
Other	197	41	**31**
Total	13,658	8,487	**17,446**

37. Subsequent Events

Not applicable

38. First-time Adoption

The Group discloses its consolidated financial statements in accordance with IFRS from the fiscal year ended March 31, 2020. The most recent consolidated financial statements prepared in accordance with Japanese GAAP (“JGAAP”) are those for the fiscal year ended March 31, 2019, and the date of transition to IFRS is April 1, 2018.

(1) Exemptions under IFRS 1

IFRS requires companies applying IFRS for the first time to apply the standards required under FRS retrospectively. However, IFRS 1 provides optional exemptions for some standards required under IFRS.

Major exemptions adopted by the Group in transitioning from JGAAP to IFRS are as follows:

- Business combinations

IFRS 1 allows entities to elect not to retrospectively apply IFRS 3 “Business Combinations” (“IFRS 3”) to business combinations that occurred before the date of transition to IFRS. With the application of this exception, the Group has elected not to retrospectively apply IFRS 3 to business combinations that occurred before the transition date. As a result, the amount of goodwill arising from business combinations that occurred before the transition date is recorded at its carrying amount under JGAAP at the transition date. Goodwill is tested for impairment at the transition date regardless of whether an indication of impairment exists.

- Exchange differences on translation of foreign operations

IFRS 1 allows entities to elect to deem cumulative translation differences for foreign operations at the date of transition to IFRS to be zero. The Group has elected to deem cumulative translation differences for foreign operations at the transition date to be zero.

- Borrowing costs

IFRS 1 allows entities to commence capitalization of borrowing costs related to qualifying assets on the transition date. The Group applied this exemption and has not capitalized borrowing costs related to the qualifying assets before the transition date.

- Deemed costs

IFRS 1 allows entities to use the fair value at the date of transition to IFRS as deemed costs at that date for property, plant and equipment, investment property and intangible assets. The Group has used the fair value at the transition date as deemed costs at that date for some property, plant and equipment.

- Leases

IFRS 1 allows entities to make a judgment on whether contracts contain a lease at the transition date. The Group has applied this exemption and determined whether contracts contain a lease based on facts and circumstances that existed at the transition date.

Lease liabilities are measured as the remaining lease payments and discounted to the present value using the incremental interest rate of the lessee at the transition date. Right-of-use assets are measured in an amount equal to lease liabilities.

- Designation of financial instruments recognized before the date of transition to IFRS

IFRS 1 allows entities to determine the classification under IFRS 9 Financial Instruments (“IFRS 9”) based on the facts and circumstances as of the transition date, not the facts and circumstances that exist at the time of recognition. It also allows entities to designate equity instruments as financial assets measured at fair value through other comprehensive income based on facts and circumstances that exist at the transition date.

The Group has determined the classification under IFRS 9 based on the facts and circumstances as of the transition date and designated the full amount of equity instruments as financial assets measured at fair value through other comprehensive income.

- Share-based remuneration

IFRS 1 recommends but does require that IFRS 2 Share-Based Payment (“IFRS 2”) be applied to share-based remuneration granted on or after November 7, 2002 and vested before the date of transition to IFRS. The Group has elected not to apply IFRS 2 to share-based remuneration vested before the transition date.

(2) Mandatory exemptions under IFRS 1

IFRS 1 prohibits the retrospective application of IFRS with respect to estimations, derecognition of financial assets and liabilities, hedge accounting, non-controlling interests, and classification and measurement of financial assets. The Group has prospectively applied IFRS for these items from the transition date.

(3) Reconciliations

Reconciliations that are required to be disclosed under the first-time adoption of IFRS are as follows:

Adjustments to equity at the transition date of April 1, 2018

Millions of yen

Line items under JGAAP	JGAAP	Reclassifi-cation	Impact of changes in consolidation scope	Recognition and measurement differences	IFRS	Note	Line items under IFRS
Assets							Assets
Current assets							Current assets
Cash and deposits	23,298	(864)	869	-	23,303		Cash and cash equivalents
Notes and accounts receivable - trade	185,216	(1,996)	52	(709)	182,562	(1), (9)	Trade and other receivables
Merchandise and finished goods	28,896	(28,896)	-	-			
Work in process	8,442	(8,442)	-	-			
Raw materials and supplies	15,902	36,602	160	(3,895)	48,769	(2)	Inventories
short-term loans receivable	10,736	(10,736)	-	-			
		11,629	(3,460)	2	8,171		Other financial assets
		2,218	12	-	2,231		Income taxes receivable
Other	12,280	(1,967)	45	(87)	10,270		Other current assets
Provision for doubtful accounts	(1,781)	1,781	-	-			
	282,991	(672)	(2,319)	(4,689)	275,309		Subtotal
		13,136	-	-	13,136		Assets held for sale
Total current assets	282,991	12,463	(2,319)	(4,689)	288,445		Total current assets
Non-current assets							Non-current assets
Property, plant and equipment	274,277	(12,399)	11,762	3,573	277,213	(2), (3),(4), (7)	Property, plant and equipment
Intangible assets							
Goodwill	17,408	-	-	(3,957)	13,451	(5)	Goodwill
Other	14,185	-	0	(414)	13,771	(5), (6)	Intangible assets
Investments and other assets							
		25,721	(170)	-	25,551		Investments accounted for using equity method
Retirement benefit asset	7,444	-	-	(882)	6,562	(12)	Retirement benefit asset
Investment securities	79,270	(15,650)	(498)	(1,167)	61,952	(8)	Other financial assets
Long-term loans receivable	2,805	(2,805)	-	-			
Deferred tax assets	5,260	65	38	861	6,226	(11)	Deferred tax assets
Deferred tax assets for land revaluation	65	(65)	-	-			
Other	10,969	(8,843)	7	(394)	1,737		Other non-current assets
Provision for doubtful accounts	(1,578)	1,578	-	-			
Total non-current assets	410,109	(12,399)	11,139	(2,381)	406,468		Total non-current assets
Total assets	693,101	64	8,819	(7,071)	694,914		Total assets

Millions of yen

Line items under JGAAP	JGAAP	Reclassification	Impact of changes in consolidation scope	Recognition and measurement differences	IFRS	Note	Line items under IFRS
							Liabilities and equity
Liabilities							Liabilities
Current liabilities							Current liabilities
Notes and accounts payable - trade	114,429	19,406	612	(578)	133,870	(1), (10)	Trade and other payables
Short-term borrowings	32,836	20,530	3,321	1,864	58,552	(9)	Bonds and borrowings
Current portion of long-term borrowings	20,530	(20,530)	-	-			
Lease obligations	2,676	(2,676)	-	-			
Accrued expenses	18,463	(18,463)	-	-			
		2,769	459	1,243	4,472	(7)	Other financial liabilities
Income taxes payable	8,009	(616)	11	-	7,405		Income taxes payable
Other provisions	1,402	(336)	9	(513)	561		Provisions
Other	24,856	(17)	226	(634)	24,431		Other current liabilities
Total current liabilities	223,205	64	4,642	1,381	229,294		Total current liabilities
Non-current liabilities							Non-current liabilities
Bonds payable	20,000	(20,000)	-	-			
Long-term borrowings	108,030	20,000	80	-	128,111		Bonds and borrowings
Lease obligations	19,108	(19,108)	-	-			
		21,014	3,615	5,150	29,779	(7)	Other financial liabilities
Provision for directors' retirement benefits	927	(927)	-	-			
Retirement benefit liability	8,664	-	-	1	8,666	(12)	Retirement benefit liability
Other provisions	823	592	-	(127)	1,289		Provisions
Deferred tax liabilities	10,635	902	-	(2,576)	8,961	(11)	Deferred tax liabilities
Deferred tax liabilities for land revaluation	902	(902)	-	-			
Other	6,157	(1,570)	-	4,055	8,642	(4)	Other non-current liabilities
Total non-current liabilities	175,251	-	3,695	6,502	185,450		Total non-current liabilities
Total liabilities	398,456	64	8,338	7,884	414,744		Total liabilities
Net assets							Equity
Share capital	32,263	-	-	-	32,263		Share capital
Capital surplus	37,060	-	-	-	37,060		Capital surplus
Treasury shares	(4,089)	-	-	-	(4,089)		Treasury shares
Retained earnings	209,570	-	181	(20,770)	188,980	(13)	Retained earnings
Accumulated other comprehensive income	3,148	379	-	5,849	9,377	(14)	Other components of equity
Subscription rights to shares	379	(379)	-	-			
	278,333	-	181	(14,921)	263,593		Total equity attributable to owners of parent
Non-controlling interests	16,311	-	299	(34)	16,575		Non-controlling interests
Total net assets	294,644	-	481	(14,955)	280,169		Total equity
Total liabilities and net assets	693,101	64	8,819	(7,071)	694,914		Total liabilities and equity

Notes on adjustments to equity

(1) Trade receivables and trade payables

Under JGAAP, receivables and payables arising from certain contract processing orders are presented as accounts receivable - trade and accounts payable - trade in gross amounts. Under IFRS, they are presented in net amounts, resulting in decreases in trade and other receivables and trade and other payables.

(2) Inventories

Replacement parts and goods for maintenance included in "raw materials and supplies" under JGAAP are reclassified into property, plant and equipment under IFRS, resulting in a decrease in inventories.

(3) Property, plant and equipment

The Group has elected to apply an exemption provided by IFRS 1 to use fair value at the date of transition to IFRS as deemed costs for certain property, plant and equipment. At the transition date, the previous carrying amount of property, plant and equipment using deemed costs was 24,326 million yen, and its fair value was 16,767 million yen.

(4) Government grants

Under JGAAP, revenue was recorded in full at the time of receiving government grants. Under IFRS, government grants are accounted for as deferred income with revenue recorded according to the depreciation of property, plant and equipment acquired with the grants.

(5) Impairment of nonfinancial assets

Under JGAAP, the Group amortized goodwill over a certain number of years and, only if there was an indication of impairment, determined whether recognition of an impairment loss was required by comparing the total amount of undiscounted future cash flows expected from the assets with their carrying amount. Under IFRS, the Group does not amortize goodwill and tests it for impairment ever year regardless of whether an indication of impairment exists. For goodwill whose recoverable amount from the asset is lower than its carrying amount, the difference between the carrying amount and recoverable amount is recorded as an impairment loss.

(6) Intangible assets that do not qualify as assets

Under JGAAP, expenditures judged to have long-term benefits were recorded as expenses over the period of expected such benefits. Under IFRS, they are expensed in full at the time of expenditure because they do not satisfy the criteria for intangible assets, resulting in a decrease in intangible assets.

(7) Leases

Under JGAAP, leases as lessee were classified into finance leases and operating leases with operating leases accounted for according to the method for ordinary lease transactions. Under IFRS, leases as lessee are not classified into finance lease and operating lease. Therefore, lease transactions are recorded in both right-of-use assets and lease liabilities.

(8) Other financial assets (non-current assets)

Unlisted shares, which the Group measured mainly at cost using the moving average method under JGAAP, are measured at fair value under IFRS. This resulted in a decrease in other financial assets.

(9) Securitization of receivables

Under JGAAP, the Group derecognized financial assets in the full amount for trade receivables transferred in securitization transactions. Under IFRS, however, some such trade receivables do not satisfy the criteria for derecognition of financial assets and are recorded in both trade receivables and borrowings, resulting in increases in trade receivables and bonds and borrowings.

(10) Levies

Under JGAAP, items that fall under the category of levies such as property tax were expensed in the fiscal year in which they were paid. Under IFRS, such levies are recorded in full at the time when the obligating event occurred, resulting in an increase in trade and other payables.

(11) Deferred tax assets and deferred tax liabilities

The Group adjusted the amounts of deferred tax assets and deferred tax liabilities due mainly to taxable temporary differences resulting from reconciliations from JGAAP to IFRS.

(12) Retirement benefit asset and retirement benefit liability
Under JGAAP, the Group recoded actuarial differences in an amount prorated by the straight-line method over a certain number of years within the average remaining service period of employees at the time of accrual starting from the year following the year of accrual. Under IFRS, however, actuarial differences are recognized in other comprehensive income as they accrue and immediately transferred to retained earnings.

Under JGAAP, past service costs were expensed by the straight-line method over a certain number of years within the average remaining service period of employees at the time of accrual. Under IFRS, past service costs are recognized in profit or loss when accrued. Therefore, adjustments for these are recognized in retained earnings.

In addition, under IFRS, unlike JGAAP, if a defined benefit plan is overfunded, the net defined benefit asset is capped at the ceiling of the asset, and if minimum funding requirements for past service exist, a decrease in assets or an increase in liabilities is made to the extent that the reduction or increase will not make the minimum funding contributions payable to the plan unavailable either as a refund or reduction in future contributions. Therefore, adjustments for this are recognized in other comprehensive income and immediately transferred to retained earnings.

(13) Retained earnings
The impact of adjustments associated with the application of IFRS on retained earnings is set forth below. The amounts stated are after adjustments for related tax effect and non-controlling interests.

Millions of yen

	Transition Date(As of April 1, 2018)
Adjustments to property, plant and equipment (see (3))	(15,105)
Adjustments to impairment of nonfinancial assets (see (5))	(4,311)
Adjustments to intangible assets (see (6))	(644)
Adjustments to levies (see (10))	(1,126)
Adjustments to retirement benefits (see (12))	385
Other	31
Total adjustments to retained earnings	(20,770)

(14) Other components of equity
With application of an exemption provided by IFRS 1, the Group has transferred the balance of accumulated translation differences related to the foreign operations in full to retained earnings at the transition date of April 1, 2018.

(15) Reclassification
In addition to the adjustments described above, the Group makes reclassifications to comply with the provisions of IFRS. Major reclassifications are as follows:

- Short-term time deposits with a deposit term of more than three months included in "Cash and deposits" under JGAAP are presented in "Other financial assets" under current assets under IFRS.
- "Merchandise and finished goods," "Work in process," and "Raw materials and supplies," presented as separate line items under JGAAP are all presented in "Inventories" under IFRS.
- "Short-term borrowings" presented as a separate line item under JGAAP is presented in "Other financial assets" under current assets under IFRS.
- "Provision for doubtful accounts" presented as a separate line item under JGAAP, is included in "Trade and other receivables" and "Other financial assets" under IFRS.
- Reclassifications are made from "Merchandise and finished goods" and "Property, plant and equipment" to "Assets held for sale" in accordance with the presentation requirements under IFRS.
- Investments accounted for using the equity method included in "Investment securities" under JGAAP are presented as a separate line item, "Investments accounted for using equity method," under IFRS.

(16) Differences in scope of consolidation
Certain insignificant subsidiaries not included in the scope of consolidation under JGAAP are included in the scope of consolidation under IFRS. Sakai Gas Center Inc., which was classified as an associate accounted for using the equity method under JGAAP, is classified as a joint operation under IFRS.

Adjustments to equity as of March 31, 2019

Millions of yen

Line items under JGAAP	JGAAP	Reclassification	Impact of changes in consolidation scope	Recognition and measurement differences	IFRS	Note	Line items under IFRS
Assets							Assets
Current assets							Current assets
Cash and deposits	32,621	(1,150)	638	-	32,108		Cash and cash equivalents
Notes and accounts receivable - trade	194,938	(9,415)	(1,550)	914	184,887	(1), (9)	Trade and other receivables
Merchandise and finished goods	33,740	(33,740)	-	-			
Work in process	9,238	(9,238)	-	-			
Raw materials and supplies	17,167	42,096	666	(4,606)	55,325	(2)	Inventories
short-term loans receivable	5,269	(5,269)	-	-			
		6,766	(332)	119	6,553		Other financial assets
		2,495	0	-	2,495		Income taxes receivable
Other	14,689	4,229	(377)	56	18,598		Other current assets
Provision for doubtful accounts	(2,343)	2,343	-	-			
	305,323	(882)	(955)	(3,516)	299,969		Subtotal
		14,002	-	-	14,002		Assets held for sale
Total current assets	305,323	13,119	(955)	(3,516)	313,971		Total current assets
Non-current assets							Non-current assets
Property, plant and equipment	329,590	(13,119)	12,021	3,601	332,093	(2), (3),(4), (7)	Property, plant and equipment
Intangible assets							
Goodwill	24,353	-	2	(1,581)	22,775	(5)	Goodwill
Other	14,980	-	0	(350)	14,629	(5), (6)	Intangible assets
Investments and other assets							
		26,746	(176)	383	26,953		Investments accounted for using equity method
Retirement benefit asset	4,407	-	-	(70)	4,336	(12)	Retirement benefit asset
Investment securities	77,349	(7,512)	(3,128)	(4,370)	62,337	(8)	Other financial assets
Long-term loans receivable	8,133	(8,133)	-	-			
Deferred tax assets	5,926	85	55	1,421	7,489	(11)	Deferred tax assets
Deferred tax assets for land revaluation	85	(85)	-	-			
Other	15,942	(14,144)	6	(447)	1,356		Other non-current assets
Provision for doubtful accounts	(3,045)	3,045	-	-			
Total non-current assets	477,723	(13,119)	8,782	(1,414)	471,972		Total non-current assets
Total assets	783,047	-	7,827	(4,930)	785,944		Total assets

Millions of yen

Line items under JGAAP	JGAAP	Reclassification	Impact of changes in consolidation scope	Recognition and measurement differences	IFRS	Note	Line items under IFRS
							Liabilities and equity
Liabilities							Liabilities
Current liabilities							Current liabilities
Notes and accounts payable - trade	127,670	**26,659**	**832**	**1,195**	**156,357**	**(1), (10)**	Trade and other payables
Short-term borrowings	54,906	**17,748**	**551**	**1,954**	**75,162**	**(9)**	Bonds and borrowings
Current portion of long-term borrowings	17,498	**(17,498)**	**-**	**-**			
Lease obligations	2,968	**(2,968)**	**-**	**-**			
Accrued expenses	16,855	**(16,855)**	**-**	**-**			
		4,011	**468**	**628**	**5,108**	**(7)**	Other financial liabilities
Income taxes payable	8,000	**(748)**	**13**	**-**	**7,266**		Income taxes payable
Other provisions	1,528	**(361)**	**10**	**(244)**	**933**		Provisions
Other	33,086	**(9,485)**	**54**	**(124)**	**23,530**		Other current liabilities
Total current liabilities	262,516	**501**	**1,931**	**3,409**	**268,358**		Total current liabilities
Non-current liabilities							Non-current liabilities
Bonds payable	30,250	**(30,250)**	**-**	**-**			
Long-term borrowings	136,013	**30,250**	**2,540**	**-**	**168,803**		Bonds and borrowings
Lease obligations	21,277	**(21,277)**	**-**	**-**			
		22,421	**3,155**	**4,873**	**30,449**	**(7)**	Other financial liabilities
Provision for directors' retirement benefits	1,214	**(1,214)**	**-**	**-**			
Retirement benefit liability	9,153	**-**	**-**	**96**	**9,249**	**(12)**	Retirement benefit liability
Other provisions	370	**601**	**-**	**-**	**972**		Provisions
Deferred tax liabilities	7,151	**921**	**-**	**(3,327)**	**4,745**	**(11)**	Deferred tax liabilities
Deferred tax liabilities for land revaluation	921	**(921)**	**-**	**-**			
Other	5,480	**(1,032)**	**16**	**3,890**	**8,354**	**(4)**	Other non-current liabilities
Total non-current liabilities	211,832	**(501)**	**5,712**	**5,531**	**222,575**		Total non-current liabilities
Total liabilities	474,348	**-**	**7,643**	**8,941**	**490,934**		Total liabilities
Net assets							Equity
Share capital	32,263	**-**	**-**	**-**	**32,263**		Share capital
Capital surplus	36,651	**-**	**-**	**24**	**36,675**		Capital surplus
Treasury shares	(3,463)	**-**	**-**	**-**	**(3,463)**		Treasury shares
Retained earnings	228,015	**-**	**6**	**(19,838)**	**208,183**	**(13)**	Retained earnings
Accumulated other comprehensive income	(2,255)	**423**	**-**	**6,227**	**4,395**	**(14)**	Other components of equity
Subscription rights to shares	423	**(423)**	**-**	**-**			
	291,634	**-**	**6**	**(13,587)**	**278,053**		Total equity attributable to owners of parent
Non-controlling interests	17,063	**-**	**177**	**(284)**	**16,956**		Non-controlling interests
Total net assets	308,698	**-**	**183**	**(13,871)**	**295,009**		Total equity
Total liabilities and net assets	783,047	**-**	**7,827**	**(4,930)**	**785,944**		Total liabilities and equity

Notes on adjustments to equity

(1) Trade receivables and trade payables

Under JGAAP, receivables and payables arising from certain contract processing orders are presented as accounts receivables - trade and accounts payables - trade in gross amounts. Under IFRS, they are presented in net amounts, resulting in decreases in trade and other receivables and trade and other payables.

(2) Inventories

Replacement parts and goods for maintenance included in "raw materials and supplies" under JGAAP are reclassified into property, plant and equipment under IFRS, resulting in a decrease in inventories.

(3) Property, plant and equipment

The Group has elected to apply an exemption provided by IFRS 1 to use fair value at the date of transition to IFRS as deemed costs for certain property, plant and equipment.

(4) Government grants

Under JGAAP, revenue was recorded in full at the time of receiving government grants. Under IFRS, government grants are recorded as deferred income with revenue recorded according to the depreciation of property, plant and equipment acquired with the grants.

(5) Impairment of nonfinancial assets

Under JGAAP, the Group amortized goodwill over a certain number of years and, only if there was an indication of impairment, determined whether recognition of an impairment loss was required by comparing the total amount of undiscounted future cash flows expected from the assets with their carrying amount. Under IFRS, the Group does not amortize goodwill and tests it for impairment ever year regardless of whether an indication of impairment exists. For goodwill whose recoverable amount from the asset is lower than its carrying amount, the difference between the carrying amount and recoverable amount is recorded as an impairment loss.

(6) Intangible assets that do not qualify as assets

Under JGAAP, expenditures judged to have long-term benefits were recorded as expenses over the period of expected such benefits. Under IFRS, they are expensed in full at the time of expenditure because they do not satisfy the criteria for intangible assets, resulting in a decrease in intangible assets.

(7) Leases

Under JGAAP, leases as lessee were classified into finance leases and operating leases with operating leases accounted for according to the method for ordinary lease transactions. Under IFRS, leases as lessee are not classified into finance lease and operating lease. Therefore, lease transactions are recorded in both right-of-use assets and lease liabilities.

(8) Other financial assets (non-current assets)

Unlisted shares, which the Group measured mainly at cost using the moving average method under JGAAP, are measured at fair value under IFRS, resulting in a decrease in other financial assets.

(9) Securitization of receivables

Under JGAAP, the Group derecognized financial assets in the full amount for trade receivables transferred in securitization transactions. Under IFRS, however, some such trade receivables do not satisfy the criteria for derecognition of financial assets and are recorded in both trade receivables and borrowings, resulting in increases in trade receivables and bonds and borrowings.

(10) Levies

Under JGAAP, items that fall under the category of levies such as property tax were expensed in the fiscal year in which they were paid. Under IFRS, such levies are recorded in full at the time when the obligating event occurred, resulting in an increase in trade and other payables.

(11) Deferred tax assets and deferred tax liabilities

The Group adjusted the amounts of deferred tax assets and deferred tax liabilities due mainly to taxable temporary differences resulting from reconciliations from JGAAP to IFRS.

(12) Retirement benefit asset and retirement benefit liability

Under JGAAP, the Group recoded actuarial differences in an amount prorated by the straight-line method over a certain number of years within the average remaining service period of employees at the time of accrual starting from the year following the year of accrual. Under IFRS, however, actuarial differences are recognized in other comprehensive income as they accrue and immediately transferred to retained earnings.

Under JGAAP, past service costs were expensed by the straight-line method over a certain number of years within the average remaining service period of employees at the time of accrual. Under IFRS, past service costs are recognized in profit or loss when accrued. Therefore, adjustments for these are recognized in retained earnings.

In addition, under IFRS, unlike JGAAP, if a defined benefit plan is overfunded, the net defined benefit asset is capped at the ceiling of the asset, and if minimum funding requirements for past service exist, a decrease in assets or an increase in liabilities is made to the extent that the reduction or increase will not make the minimum funding contributions payable to the plan unavailable either as a refund or reduction in future contributions. Therefore, adjustments for this are recognized in other comprehensive income and immediately transferred to retained earnings.

(13) Retained earnings

The impact of adjustments associated with the application of IFRS on retained earnings is set forth below. The amounts stated are after adjustments for related tax effect and non-controlling interests.

Millions of yen

	End of FY 2018(As of March 31, 2019)
Adjustments to property, plant and equipment (see (3))	(14,988)
Adjustments to impairment of nonfinancial assets (see (5))	(2,090)
Adjustments to intangible assets (see (6))	(582)
Adjustments to levies (see (10))	(1,860)
Adjustments to retirement benefits (see (12))	(1,100)
Other	783
Total adjustments to retained earnings	(19,838)

(14) Other components of equity

With application of an exemption provided by IFRS 1, the Group has transferred the balance of accumulated translation differences related to the foreign operations in full to retained earnings at the transition date of April 1, 2018.

(15) Reclassification

In addition to the adjustments described above, the Group makes reclassifications to comply with the provisions of IFRS. Major reclassifications are as follows:

- Short-term time deposits with a deposit term of more than three months included in “Cash and deposits” under JGAAP are presented in “Other financial assets” under current assets under IFRS.
- “Merchandise and finished goods,” “Work in process,” and “Raw materials and supplies,” presented as separate line items under JGAAP are all presented in “Inventories” under IFRS.
- “Short-term borrowings” presented as a separate line item under JGAAP is presented in “Other financial assets” under current assets under IFRS.
- “Provision for doubtful accounts” presented as a separate line item under JGAAP, is included in “Trade and other receivables” and “Other financial assets” under IFRS.
- Reclassifications are made from “Merchandise and finished goods” and “Property, plant and equipment” to “Assets held for sale” in accordance with the presentation requirements under IFRS.
- Investments accounted for using the equity method included in “Investment securities” under JGAAP are presented as a separate line item, “Investments accounted for using equity method,” under IFRS.

(16) Differences in scope of consolidation

Certain insignificant subsidiaries not included in the scope of consolidation under JGAAP are included in the scope of consolidation under IFRS. Sakai Gas Center Inc.., which was classified as an associate accounted for using the equity method under JGAAP, is classified as a joint operation under IFRS.

Adjustments to profit or loss and comprehensive income of the fiscal year ended March 31, 2019

Millions of yen

Line items under JGAAP	JGAAP	Reclassification	Impact of changes in consolidation scope	Recognition and measurement differences	IFRS	Note	Line items under IFRS
Net sales	801,493	(25,599)	(706)	(32,899)	742,288	(1)	Revenue
Cost of sales	(631,232)	22,788	788	30,250	(577,404)	(1)	Cost of sales
Gross profit	170,261	(2,810)	82	(2,649)	164,884		Gross profit
Selling, general and administrative expenses	(126,681)	1,093	(40)	4,393	(121,235)	(2)	Selling, general and administrative expenses
		3,381	(96)	442	3,728		Other income
		(5,983)	(66)	(213)	(6,263)		Other expenses
		1,307	(5)	383	1,685		Share of profit of investments accounted for using equity method
Operating income	43,580	(3,011)	(125)	2,356	42,799		Operating income
Non-operating profit	6,624	(6,624)	-	-			
Non-operating loss	(3,227)	3,227	-	-			
Extraordinary income	833	(833)	-	-			
Extraordinary losses	(7,972)	7,972	-	-			
		1,858	(31)	(696)	1,130		Finance income
		(1,993)	(142)	318	(1,818)		Finance costs
Income before income taxes	39,838	594	(300)	1,977	42,111		Profit before income tax
Income taxes	(11,768)	230	(4)	396	(11,145)		Income tax expense
	28,070	825	(304)	2,374	30,965		Profit from continuing operations
		(825)	-	-	(825)	(3)	Loss from discontinued operations
Net income for the period	28,070		(304)	2,374	30,139		Profit
Net income attributable to shareholders of parent	26,468		(181)	2,528	28,815		Profit attributable to owners of parent
Net income attributable to non-controlling interests	1,601		(122)	(154)	1,324		Profit attributable to non-controlling interests

Millions of yen

Line items under JGAAP	JGAAP	Reclassifi-cation	Impact of changes in consolidation scope	Recognition and measurement differences	IFRS	Note	Line items under IFRS
Net income	**28,070**	-	**(304)**	**2,374**	**30,139**		Profit
Other comprehensive income							Other comprehensive income
Valuation difference on available-for-sale securities	**(3,593)**	-	-	**(1,884)**	**(5,478)**		Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income
Remeasurements of defined benefit plans, net of tax	**(2,442)**	-	-	**614**	**(1,828)**		Remeasurements of defined benefit plans
Foreign currency translation adjustments	**(286)**	-	-	**34**	**(252)**		Exchange differences on translation of foreign operations
Deferred gains and losses on hedges	**1,515**	-	-	**130**	**1,645**		Effective portion of cash flow hedges
Share of other comprehensive income of associates accounted for using equity method	**(192)**	-	-	**(7)**	**(200)**		Share of other comprehensive income of investments accounted for using equity method
Total other comprehensive income	**(4,999)**	-	-	**(1,113)**	**(6,113)**		Total other comprehensive income
Comprehensive income	**23,070**	-	**(304)**	**1,260**	**24,026**		Comprehensive income

Notes on adjustments to profit or loss and comprehensive income

(1) Revenue and cost of sales

Under JGAAP, transactions in which the Group was involved as an agent was presented in a gross amount in net sales and cost of sales. Under IFRS, however, such transactions are presented in net amounts, resulting in decreases in revenue and cost of sales.

(2) Selling, general, and administrative expenses

The Group amortized goodwill over a certain period under JGAAP. Under IFRS, however, it does not amortize goodwill, resulting in a decrease in selling, general and administrative expenses.

(3) Reclassification

Under IFRS, the items of discontinued operations from revenue to income taxes are separately presented and reclassified as discontinued operations.

Adjustments to cash flows for the fiscal year ended March 31, 2019

There were no significant differences between the consolidated statements of cash flows prepared under IFRS and JGAAP.

[English Translation of the Independent Auditor's Report Originally Issued in Japanese Language]

Independent Auditor's Report on the Consolidated Financial Statements

The Board of Directors of AIR WATER INC.

July 10, 2020

KPMG AZSA LLC
Osaka Office, Japan

Kazuhiro Matsuyama (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Tatsuya Kido (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Hiroto Fujimoto (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of AIR WATER INC. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the company's Annual Report, which comprise the Consolidated Statement of Financial Position as at March 31, 2020 and the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Artilce 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (hereinafter referred to as "IFRS").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Identify and assess the risks of material misstatement, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on our judgement, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Interest in the company

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the reader of audit report:

The Independent Auditor’s Report herein is the English translation of the Independent Auditor’s Report on the Consolidated Financial Statements as required by the Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan (“the FIEAJ”) and does not include the English translation of the Independent Auditor’s Report on the internal control audits as required by the Article 193-2, Paragraph 2 of the FIEAJ.

AIR WATER INC.