Air Water Group: Value Creation by Weaving

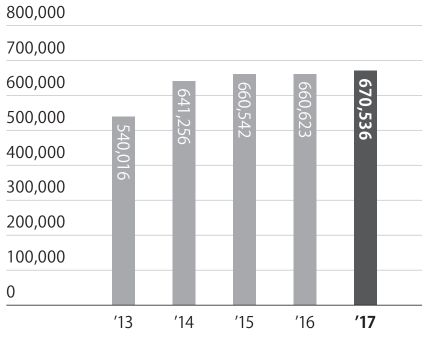
AIR WATER
ANNUAL REPORT 2017

Year Ended March 31, 2017
Financial Section

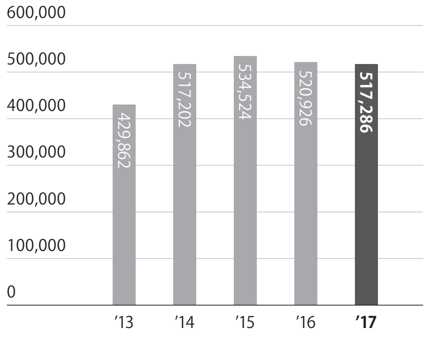
AIR WATER INC.

Financial Highlight

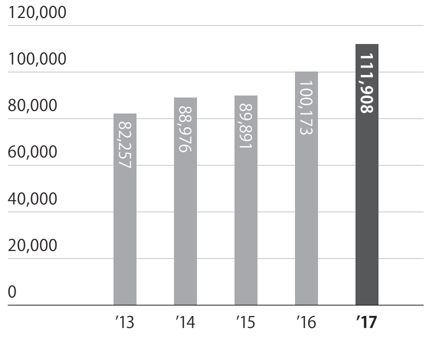
Net Sales (million JPY)



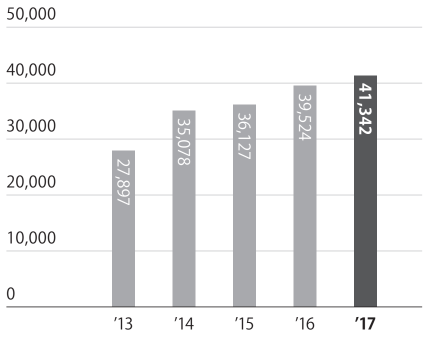
Cost of Sales (million JPY)



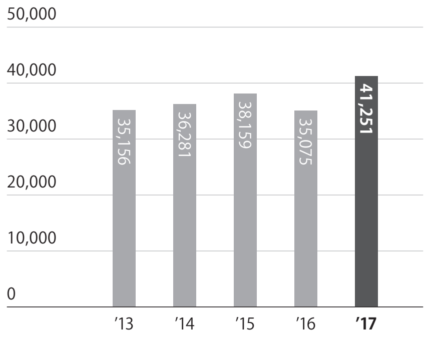
Selling, General and Administrative Expenses (million JPY)



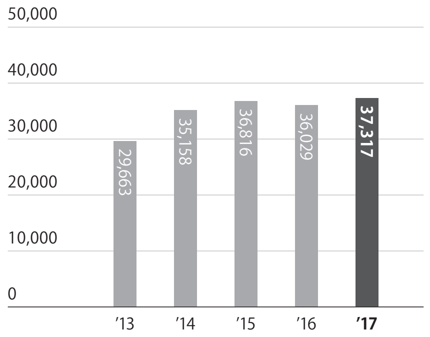
Operating Income (million JPY)



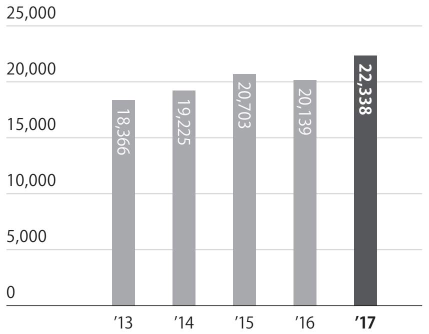
Ordinary Income (million JPY)



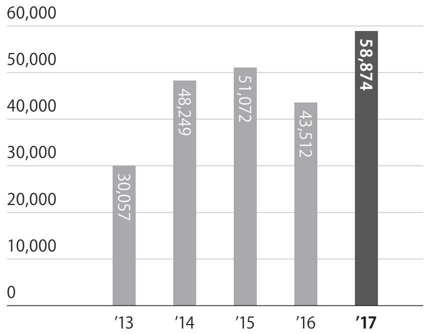
Income before Income Taxes (million JPY)



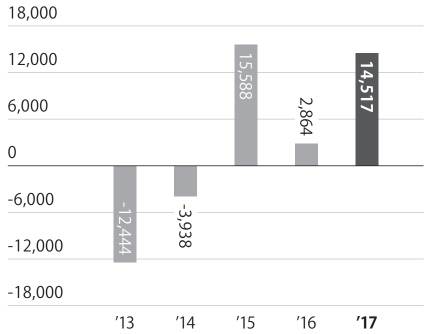
Net Income Attributable to Shareholders of the Parent (million JPY)



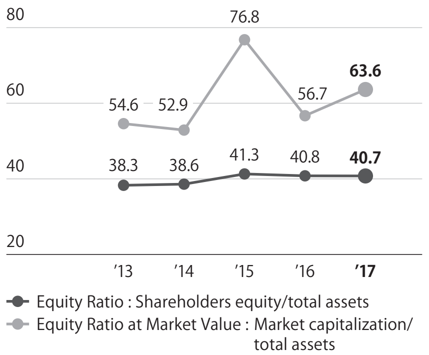
Cash Flows from Operating Activities (million JPY)



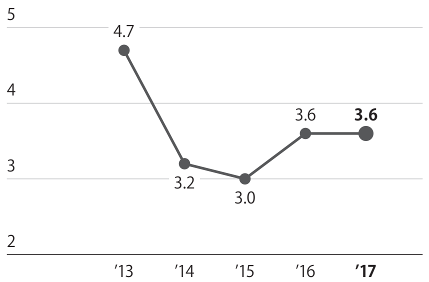
Free Cash Flow (million JPY)



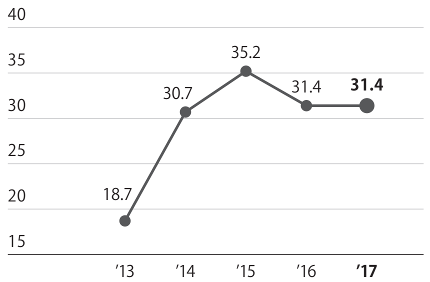
Equity Ratio & Equity Ratio at Market Value (%)



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



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



Business Overview and Analysis of Financial Condition and Cash Flows

1. Business Overview

The business environment surrounding the Air Water Group benefited from an improvement in the manufacturing industry in Japan, particularly exports of electronic components and automobiles, in step with the recovering world economy, including the steady economy in the United States. Japan also showed evidence of a moderate recovery in general, partly backed by the depreciation of the yen in the second half of the fiscal year. Meanwhile, consumer spending had yet to turn up, given the continuously cautious stance of companies on investment in new production equipment, despite improving corporate earnings, and the recovery of the overall Japanese economy lacked momentum.

Within this context, the Group steadily executed the main measures described in NEXT-2020 Ver. 3, the medium-term management plan with the basic concept of challenges for structural reform and sustainable growth. The Industrial Gas Business, which benefited from a continuation of generally firm demand for gas across the manufacturing industry, and the Agriculture and Food Products Business, which sought to expand growth through active M&A, showed a favorable performance. The Medical Business and the Energy Business produced stronger results than in the previous year, thanks to progress in the structural reforms to strengthen earnings power. However, the Chemical Business fell short of a full-fledged recovery, despite signs of improvement, and the difficult business environment continued, particularly in the tar distillation business.

As a result, for the fiscal year ended March 31, 2017, net sales were ¥670,536 million (up 1.5% year on year), operating income was ¥41,342 million (up 4.6%), ordinary income was ¥41,251 million (up 17.6%), and profit attributable to owners of parent was ¥22,338 million (up 10.9%).

2. Analysis of Financial Condition

Assets

Current assets increased by ¥14,340 million from the end of the previous fiscal year, totaling ¥256,484 million, partly as the result of an increase in trade notes and accounts receivable .

Property, plant and equipment increased by ¥8,986 million from the end of the previous fiscal year, to ¥238,751 million due in part to increases in machinery and equipment and buildings and structures.

Investments and other assets were up ¥29,956 million, totaling ¥133,881 million, chiefly as a result of an increase in investment securities.

These changes resulted in total assets of ¥629,116 million, an increase of ¥53,283 million from the end of the previous fiscal year.

Liabilities

Total liabilities were ¥348,365 million, an increase of ¥28,712 million from the end of the previous consolidated fiscal year. This was due in part to an increase in debt.

Net Assets

Net assets totaled ¥280,751 million, an increase of ¥24,570 million from the end of the previous consolidated fiscal year. This was the result of increasing net income attributable to shareholders of the parent and an increase in non-controlling interests, among other factors.

Net assets per share grew to ¥1,312.55 from ¥1,196.92 at the end of the previous consolidated fiscal year, and the equity ratio changed to 40.7% from 40.8% at the end of the previous fiscal year.

Business Overview and Analysis of Financial Condition and Cash Flows

3. Analysis of Cash Flows

Cash and cash equivalents at the end of the consolidated fiscal year were ¥30,412 million, an increase of ¥6,816 million compared to the end of the previous consolidated fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities increased by ¥15,361 million compared to the previous consolidated fiscal year as a result of deductions in corporate taxes, etc. arising from income before taxes, other adjustments and depreciation and amortization. The result was a net positive cash flow of ¥58,874 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥44,357 million, an increase of ¥3,709 million compared to the previous consolidated fiscal year. This was primarily the result of a rise in the purchase of investment securities, despite the generation of proceeds from transfer of business.

Free cash flow was therefore ¥14,517 million, an increase of ¥11,651 million from the previous consolidated fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities in the fiscal year was ¥8,553 million, an increase of ¥437 million in expenditures compared to the previous consolidated fiscal year. This was primarily the result of an increase in the purchase of treasury stock.

Risk Factors

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

Forward-looking statements in the following are assumptions based on the consolidated results of the fiscal year ended March 31, 2017.

(1) Market

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

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

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

(2) Rising Fuel Costs

If the price of crude oil increases, shipping expenses, including the cost of light oil, fuel oil, ocean freight and air freight, will increase.

If such increases in cost cannot be passed on to the customer, profits may be affected.

(3) Drug Pricing System

The Air Water Group supplies gases for medical treatment and provides services to medical institutions.

Therefore, depending on the contents of the revisions of drug prices, there may be an influence on the cost of gases used for medical treatment and medical services.

(4) Safety and Quality

The Air Water Group produces and sells high-pressure gases and other products in compliance with the Japanese government’s High-Pressure Gas Safety Act and Liquid Petroleum Gas Act. Accordingly, the Group’s business performance or financial conditions could be affected in the event of an industrial accident or similar event.

The Group produces, imports and sells gases for medical treatments and medical equipment in compliance with the Law on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices. Therefore, business performance or financial conditions could be affected in the event of a product defect resulting in a recall or liability compensation.

The Group also produces and sells frozen foods, ham and delicatessen products in compliance with the Food Safety Basic Act, the Food Sanitation Act, the Japan Agricultural Standards (JAS) Act for proper labeling, and other relevant laws and regulations. Accordingly, Group business performance or financial conditions could be affected by the loss of consumer confidence in the event of problems related to quality.

(5) Business Investment

The Air Water Group has been actively expanding its business in recent years through mergers and acquisitions.

Accordingly, Group business performance and financial conditions could be affected in the event that such investments do not perform as anticipated.

(6) Competitor Companies

Each business field in the Air Water Group competes with a variety of other companies, and there is also the potential of competition from new companies entering the same markets.

Consequently, Group business performance and financial conditions could be affected if measures such as business expansion or cost reductions are not implemented in a timely manner in response to such competition.

(7) Environmental Regulations

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

(8) Natural Disasters

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

(9) Litigation, Measures Taken by Regulatory Authorities and Other Legal Procedures

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

Consolidated Balance Sheets

AIR WATER INC.
As of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
ASSETS			
Current assets:			
Cash and deposits (Note 3 and 7)	**¥ 31,211**	¥ 23,853	**$ 278,198**
Notes and accounts receivable - trade	**157,036**	149,037	**1,399,733**
Inventories (Note 4)	**49,227**	43,959	**438,782**
Short-term loans receivable	**4,180**	3,402	**37,258**
Deferred tax assets (Note 9)	**4,404**	3,979	**39,255**
Other current assets (Note 3)	**11,781**	19,103	**105,009**
Allowance for doubtful accounts	**(1,355)**	(1,190)	**(12,078)**
Total current assets	**256,484**	242,143	**2,286,157**
Property, plant and equipment (Note 7):			
Land (Note 6)	**70,376**	65,158	**627,293**
Buildings and structures	**143,987**	132,087	**1,283,421**
Machinery, equipment and vehicles	**288,220**	274,249	**2,569,035**
Lease assets	**33,111**	27,990	**295,133**
Construction in progress	**12,358**	11,614	**110,152**
Other	**26,966**	35,655	**240,360**
	575,018	546,753	**5,125,394**
Less accumulated depreciation	**336,267**	316,988	**2,997,299**
Total property, plant and equipment	**238,751**	229,765	**2,128,095**
Investments and other assets:			
Investment securities (Note 5 and 7)	**75,554**	57,635	**673,447**
Investments in capital	**3,027**	2,386	**26,981**
Long-term loans receivable	**9,852**	10,099	**87,816**
Net defined benefit asset (Note 18)	**6,958**	4,310	**62,020**
Deferred tax assets (Note 9)	**2,954**	2,880	**26,330**
Deferred tax assets for land revaluation (Note 6 and 9)	**66**	85	**588**
Goodwill	**17,321**	14,881	**154,390**
Other assets (Note 7)	**19,367**	12,360	**172,627**
Allowance for doubtful accounts	**(1,218)**	(711)	**(10,857)**
Total investments and other assets	**133,881**	103,925	**1,193,342**
Total assets	**¥ 629,116**	¥ 575,833	**$ 5,607,594**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
LIABILITIES			
Current liabilities:			
Notes and accounts payable:			
Trade	**¥ 94,925**	¥ 90,940	**$ 846,109**
Construction	**7,490**	9,142	**66,762**
Short-term borrowings, including current portion of long-term debt (Note 7)	**52,878**	45,911	**471,325**
Lease obligations (Note 7)	**2,726**	2,172	**24,298**
Accrued expenses	**21,916**	19,903	**195,347**
Income taxes payable (Note 9)	**7,041**	7,657	**62,760**
Provision for directors' bonuses	**140**	147	**1,248**
Other current liabilities	**15,340**	11,105	**136,732**
Total current liabilities	**202,456**	186,977	**1,804,581**
Non-current liabilities:			
Long-term debt (Note 7)	**98,849**	95,076	**881,086**
Lease obligations (Note 7)	**17,951**	14,636	**160,005**
Deferred tax liabilities (Note 9)	**12,072**	7,946	**107,603**
Deferred tax liabilities for land revaluation (Note 6 and 9)	**902**	921	**8,040**
Provision for directors' retirement benefits	**802**	1,020	**7,149**
Net defined benefit liability (Note 19)	**8,569**	7,869	**76,379**
Other non-current liabilities	**6,764**	5,208	**60,291**
Total non-current liabilities	**145,909**	132,676	**1,300,553**
Contingent liabilities (Note 12)			
Total liabilities	**348,365**	319,653	**3,105,134**
NET ASSETS (Note 10)			
Shareholders' equity:			
Capital stock			
Authorized — 480,000,000 shares			
Issued — 195,027,751 shares in 2017 196,108,608 shares in 2016	**32,264**	32,264	**287,584**
Capital surplus	**33,706**	33,911	**300,437**
Retained earnings	**192,021**	174,392	**1,711,569**
Treasury stock, at cost 3,677,306 shares in 2017 2,596,449 shares in 2016	**(4,646)**	(2,712)	**(41,412)**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	**9,353**	5,012	**83,368**
Deferred gains or losses on hedges	**(73)**	(291)	**(651)**
Revaluation reserve for land (Note 6)	**(8,504)**	(8,504)	**(75,800)**
Foreign currency translation adjustments	**404**	633	**3,601**
Remeasurements of defined benefit plans (Note 19)	**1,459**	21	**13,005**
Total accumulated other comprehensive income	**2,639**	(3,129)	**23,523**
Subscription rights to shares (Note 20)	**381**	422	**3,396**
Non-controlling interests	**24,386**	21,032	**217,363**
Total net assets	**280,751**	256,180	**2,502,460**
Total liabilities and net assets	**¥ 629,116**	¥ 575,833	**$ 5,607,594**

Consolidated Statements of Income

AIR WATER INC.
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Net sales	**¥ 670,536**	¥ 660,623	**$ 5,976,789**
Cost of sales	**517,286**	520,926	**4,610,803**
Gross profit	**153,250**	139,697	**1,365,986**
Selling, general and administrative expenses	**111,908**	100,173	**997,486**
Operating income	**41,342**	39,524	**368,500**
Non-operating profit:			
Interest and dividend income	**1,003**	1,203	**8,940**
Other - net	**3,329**	3,066	**29,673**
	4,332	4,269	**38,613**
Non-operating loss:			
Interest expense	**1,278**	1,385	**11,391**
Share of loss of entities accounted for using equity method	**1,292**	5,440	**11,516**
Other - net	**1,853**	1,893	**16,517**
	4,423	8,718	**39,424**
Ordinary income	**41,251**	35,075	**367,689**
Extraordinary income:			
Gain on sales of non-current assets	**289**	147	**2,576**
Gain on transfer of business (Note 13)	**933**	—	**8,316**
Gain on bargain purchase	**1,081**	2,863	**9,635**
Other - net	**250**	2,976	**2,229**
	2,553	5,986	**22,756**
Extraordinary loss:			
Loss on sales and retirement of non-current assets	**1,745**	1,444	**15,554**
Loss on valuation of investment securities	**320**	2,268	**2,852**
Loss on business of subsidiaries and associates (Note 14)	**2,030**	281	**18,094**
Loss on disaster (Note 15)	**894**	51	**7,969**
Other - net	**1,498**	988	**13,353**
	6,487	5,032	**57,822**
Income before income taxes	**37,317**	36,029	**332,623**
Income taxes (Note 9):			
Current	**12,911**	13,776	**115,082**
Deferred	**457**	(77)	**4,073**
	13,368	13,699	**119,155**
Net income for the period	**23,949**	22,330	**213,468**
Net income attributable to non-controlling interests	**(1,611)**	(2,191)	**(14,359)**
Net income attributable to shareholders of the parent	**¥ 22,338**	¥ 20,139	**$ 199,109**

	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income - basic	**¥ 114.53**	¥ 102.73	**$ 1.02**
Net income - diluted	**114.30**	102.49	**1.02**
Cash dividends applicable to the year	**34.00**	28.00	**0.30**

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

Consolidated Statements of Comprehensive Income

AIR WATER INC.
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Net income	**¥ 23,949**	¥ 22,330	**$ 213,468**
Other comprehensive income			
Valuation difference on available-for-sale securities	**4,490**	(4,458)	**40,021**
Deffered gains and losses on hedges	**277**	(153)	**2,469**
Revaluation reserve for land	**—**	220	**—**
Foreign currency translation adjustments	**(454)**	(41)	**(4,047)**
Remeasurements of defined benefit plans, net of tax	**1,482**	(1,658)	**13,210**
Share of other comprehensive income of associates accounted using equity method	**(121)**	(39)	**(1,078)**
Other comprehensive income (Note 16)	**5,674**	(6,129)	**50,575**
Comprehensive income	**29,623**	16,201	**264,043**
Comprehensive income attributable to			
Shareholders of the parent	**27,770**	14,136	**247,526**
Non-controlling interests	**1,853**	2,065	**16,517**

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

Consolidated Statements of Changes in Net Assets

AIR WATER INC.
Years ended March 31, 2016

Millions of yen

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

Millions of yen

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

AIR WATER INC.
Years ended March 31, 2017

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Shareholders' equity
Balance at April 1, 2016	**¥ 32,264**	**¥ 33,911**	**¥ 174,392**	**¥ (2,712)**	**¥ 237,855**
Changes in items during the period					
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(187)			(187)
Dividends from surplus			(5,492)		(5,492)
Net income attributable to shareholders of the parent			22,338		22,338
Change in scope of consolidation			693		693
Increase by merger			90		90
Purchase of treasury stock				(2,364)	(2,364)
Disposal of treasury stock		(18)		430	412
Net changes in items other than shareholders' equity					
Total changes in items during the period	**—**	**(205)**	**17,629**	**(1,934)**	**15,490**
Balance at March 31, 2017	**¥ 32,264**	**¥ 33,706**	**¥ 192,021**	**¥ (4,646)**	**¥ 253,345**

Millions of yen

	Accumulated other comprehensive income								
	Valuation difference on available -for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2016	**¥ 5,012**	**¥ (291)**	**¥ (8,504)**	**¥ 633**	**¥ 21**	**¥ (3,129)**	**¥ 422**	**¥ 21,032**	**¥ 256,180**
Changes in items during the period									
Change in treasury shares of parent arising from transactions with non-controlling shareholders						—			(187)
Dividends from surplus						—			(5,492)
Net income attributable to shareholders of the parent						—			22,338
Change in scope of consolidation						—			693
Increase by merger						—			90
Purchase of treasury stock						—			(2,364)
Disposal of treasury stock						—			412
Net changes in items other than shareholders' equity	4,341	218	—	(229)	1,438	5,768	(41)	3,354	9,081
Total changes in items during the period	**4,341**	**218**	**—**	**(229)**	**1,438**	**5,768**	**(41)**	**3,354**	**24,571**
Balance at March 31, 2017	**¥ 9,353**	**¥ (73)**	**¥ (8,504)**	**¥ 404**	**¥ 1,459**	**¥ 2,639**	**¥ 381**	**¥ 24,386**	**¥ 280,751**

Consolidated Statements of Changes in Net Assets

AIR WATER INC.
Years ended March 31, 2017

Thousands of U.S. dollars (Note 1)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock, at cost	Shareholders' equity
Balance at April 1, 2016	**$ 287,584**	**$ 302,264**	**$ 1,554,434**	**$ (24,173)**	**$ 2,120,109**
Changes in items during the period					
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(1,667)			(1,667)
Dividends from surplus			(48,953)		(48,953)
Net income attributable to shareholders of the parent			199,109		199,109
Change in scope of consolidation			6,177		6,177
Increase by merger			802		802
Purchase of treasury stock				(21,071)	(21,071)
Disposal of treasury stock		(160)		3,832	3,672
Net changes in items other than shareholders' equity					
Total changes in items during the period	**—**	**(1,827)**	**157,135**	**(17,239)**	**138,069**
Balance at March 31, 2017	**$ 287,584**	**$ 300,437**	**$ 1,711,569**	**$ (41,412)**	**$ 2,258,178**

Thousands of U.S. dollars (Note 1)

	Accumulated other comprehensive income								
	Valuation difference on available -for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2016	**$ 44,675**	**$ (2,594)**	**$ (75,800)**	**$ 5,642**	**$ 187**	**$ (27,890)**	**$ 3,761**	**$ 187,468**	**$ 2,283,448**
Changes in items during the period									
Change in treasury shares of parent arising from transactions with non-controlling shareholders						—			(1,667)
Dividends from surplus						—			(48,953)
Net income attributable to shareholders of the parent						—			199,109
Change in scope of consolidation						—			6,177
Increase by merger						—			802
Purchase of treasury stock						—			(21,071)
Disposal of treasury stock						—			3,672
Net changes in items other than shareholders' equity	38,693	1,943	—	(2,041)	12,818	51,413	(365)	29,895	80,943
Total changes in items during the period	**38,693**	**1,943**	**—**	**(2,041)**	**12,818**	**51,413**	**(365)**	**29,895**	**219,012**
Balance at March 31, 2017	**$ 83,368**	**$ (651)**	**$ (75,800)**	**$ 3,601**	**$ 13,005**	**$ 23,523**	**$ 3,396**	**$ 217,363**	**$ 2,502,460**

Consolidated Statements of Cash Flows

AIR WATER INC.
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Cash flows from operating activities:			
Income before income taxes	**¥ 37,317**	¥ 36,029	**$ 332,623**
Depreciation and amortization	**25,525**	26,620	**227,516**
Amortization of goodwill	**2,455**	2,286	**21,883**
Loss on business of subsidiaries and associates	**2,030**	281	**18,094**
Gain on bargain purchase	**(1,081)**	(2,863)	**(9,635)**
Increase (decrease) in allowance for doubtful accounts	**902**	(753)	**8,040**
Increase (decrease) in net defind benefit liability	**(783)**	(709)	**(6,979)**
Interest and dividend income	**(1,003)**	(1,203)	**(8,940)**
Interest expense	**1,278**	1,385	**11,391**
Share of (profits) loss of entities accounted for using equity method	**1,292**	5,440	**11,516**
Loss (gain) on sales and retirement of noncurrent assets	**1,456**	1,297	**12,978**
Gain on transfer of business	**(933)**	—	**(8,316)**
Loss on disaster	**894**	51	**7,969**
Compensation income	**—**	(2,662)	**—**
Decrease (increase) in notes and accounts receivable	**2,573**	(894)	**22,934**
Decrease (increase) in inventories	**(818)**	(866)	**(7,291)**
Increase (decrease) in notes and accounts payable	**(3,727)**	(4,580)	**(33,221)**
Other - net	**(1,086)**	(3,016)	**(9,681)**
Subtotal	**66,291**	55,843	**590,881**
Interest and dividends income received	**1,345**	1,399	**11,989**
Interest expense paid	**(1,273)**	(1,386)	**(11,347)**
Proceeds from compensation	**7,222**	—	**64,373**
Payments for loss on disaster	**(140)**	—	**(1,248)**
Income taxes paid	**(14,571)**	(12,344)	**(129,878)**
Net cash provided by (used in) operating activities	**¥ 58,874**	¥ 43,512	**$ 524,770**
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(33,238)**	(34,830)	**(296,265)**
Proceeds from sales of property, plant and equipment	**3,379**	3,987	**30,119**
Purchase of intangible assets	**(5,884)**	(3,124)	**(52,447)**
Purchase of investment securities	**(12,484)**	(1,112)	**(111,276)**
Proceeds from sales of investment securities	**210**	195	**1,872**
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	**(9,044)**	(8,877)	**(80,613)**
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	**2,112**	—	**18,825**
Proceeds from transfer of business	**10,426**	—	**92,932**
Payments of loans receivable	**(8,178)**	(6,795)	**(72,894)**
Collection of loans receivable	**8,718**	10,738	**77,707**
Other - net	**(374)**	(830)	**(3,334)**
Net cash provided by (used in) investing activities	**¥ (44,357)**	¥ (40,648)	**$ (395,374)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**(9,167)**	4,741	**(81,710)**
Proceeds from long-term debt	**24,732**	15,304	**220,447**
Repayment of long-term debt	**(16,927)**	(17,125)	**(150,878)**
Proceeds from issuance of bonds	**—**	10,000	**—**
Redemption of bonds	**—**	(10,019)	**—**
Additional purchase of investments in subsidiaries	**(471)**	(2,679)	**(4,198)**
Proceeds from sale-leaseback transactions	**4,225**	365	**37,659**
Repayment of lease obligations	**(3,126)**	(2,631)	**(27,863)**
Purchase of treasury stock	**(2,364)**	(62)	**(21,071)**
Proceeds from sales of treasury stock	**412**	274	**3,672**
Cash dividends paid	**(5,486)**	(5,681)	**(48,899)**
Cash dividends paid to non-controlling interests	**(381)**	(602)	**(3,396)**
Net cash provided by (used in) financing activities	**¥ (8,553)**	¥ (8,115)	**$ (76,237)**
Effect of exchange rate changes on cash and cash equivalents	**(294)**	(100)	**(2,620)**
Net increase (decrease) in cash and cash equivalents	**5,670**	(5,351)	**50,539**
Cash and cash equivalents at beginning of year	**23,596**	28,763	**210,322**
Increase in cash and cash equivalents resulting from merger	**538**	102	**4,796**
Increase in cash and cash equivalents from newly consolidated subsidiary	**608**	82	**5,419**
Cash and cash equivalents at end of year (Note 3)	**¥ 30,412**	¥ 23,596	**$ 271,076**

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

Notes to Consolidated Financial Statements

AIR WATER INC.

1. Basis of presenting consolidated financial statements

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

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

The translation of the Japanese yen amounts into U.S. dollar amounts was included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(1) Scope of Consolidation and application of equity method

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

There were 101 consolidated subsidiaries for the year ended March 31, 2017 (85 for the year ended March 31, 2016) and 17 companies accounted for using the equity method for the year ended March 31, 2017 (15 for the year ended March 31, 2016).

Changes in the scope of consolidation during the year ended March 31, 2017 were as follows:

(a) Due mainly to new acquisitions, 20 subsidiaries became consolidated subsidiaries.

(b) Due mainly to dissolution and extinction because of merger, 4 subsidiaries were excluded from the scope of consolidation.

Changes in the scope of consolidation during the year ended March 31, 2016 were as follows:

(a) Due to new acquisitions, 7 subsidiaries became consolidated subsidiaries.

(b) Due to an increase in materiality, 1 subsidiary became a consolidated subsidiary.

(c) Due to dissolution and extinction because of merger, 4 subsidiaries were excluded from the scope of consolidation.

Changes in the scope of equity method application during the year ended March 31, 2017 were as follows:

(a) Due mainly to new acquisitions, 3 subsidiaries became equity-method affiliates.

(b) Due to dissolution and extinction because of merger, 1 subsidiary was excluded from the scope of consolidation.

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

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

(2) Accounting changes

For the year ended March 31, 2017

(Application of Practical Solution on a Change in Depreciation Method)

Some of consolidated subsidiaries has adopted the “Practical solution on a change in depreciation method due to Tax Reform 2016” (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 32, June 17, 2016) applicable from the current fiscal year, and changed their depreciation method used for structures and equipment attached to buildings from declining-balance method to straight-line method.

The effect of this change on earnings for the current fiscal year was insignificant.

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

(Additional Information)

(Application of Guidance on Recoverability of Deferred Tax Assets)

The ‘Implementation guidance on recoverability of deferred tax assets’ (ASBJ Guidance No.26, March 28, 2016) was applied from the current fiscal year.

(Transactions for the delivery of the company’s own stock to employees through trusts)

The Company has been conducting transactions for the delivery of its own stock to the Employee Stock Ownership Group through trusts for the welfare of its employees.

(a) Details of transactions
The Company introduced a trust-type Employee Stock Ownership Plan (hereafter “the ESOP”) by resolution of the Board of Directors meeting held on May 13, 2016 to increase mid- and long-term corporate value and promote employee welfare. The ESOP is an incentive plan for all employees who belong to the Air Water group Employee Stock Ownership Group (hereafter “the Group”). The Employee Stock Ownership Trust (hereafter “the Trust”), which was set up for this incentive plan, borrows the funds necessary from a bank and acquires a substantial number of stocks that the Trust takes and holds for five years after the establishment. Those stocks are acquired from the stock market during a fixed period of time and sold automatically and continuously to the Group. The Trust is to be terminated when all of the stocks with the Trust are sold. If profit accumulates from an increase in stock price, that profit is distributed to the members of the Group who satisfy with the requirements to receive it. If loss accumulates with a fall in stock price and the obligations of the Trust cannot be fully performed, the Company performs on behalf of the Trust based on the contract with the bank concerning compensation for the borrowing of the Trust.

(b) The remaining stocks in the Trust
The Company recorded the remaining stocks in the Trust as treasury stock in net assets based on the book value of the Trust, which was ¥2,041 million and 1,191,300 stocks as of March 31, 2017.

(c) The book value of the borrowing recorded in gross price method
¥2,046 million as of March 31, 2017

For the year ended March 31, 2016

(Application of accounting standards for business combinations)

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

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

Notes to Consolidated Financial Statements

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

This change had no material impact on consolidated financial statement.

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

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

(Additional Information)

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

(a) Details of transactions

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

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

(b) The remaining stocks in the Trust

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

(c) The book value of the borrowing recorded in gross price method

Because of the termination of the ESOP, there was no book value of the borrowing as of the fiscal year ended March 31, 2016.

(3) Securities

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

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

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

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

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

(4) Inventories

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

(5) Derivatives and hedge accounting

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

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

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

(6) Property, plant and equipment

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

(7) Lease assets

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

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

(8) Amortization of intangible assets

Intangible assets are carried at cost. Amortization is computed by the straight-line method.

(9) Amortization of goodwill

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

(10) Allowance for doubtful accounts

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

(11) Provision for directors' and statutory auditors' bonuses

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

(12) Provision for directors' retirement benefits

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

(13) Accounting treatment for retirement benefits

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

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

(14) Standards for recognition of construction revenue

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

(15) Research and development expenses

Research and development expenses, which were ¥2,832 million ($25,243 thousand) and ¥2,900 million for the years ended March 31, 2017 and 2016, respectively, are recognized when paid and are included in general and administrative expenses.

(16) Translation of foreign currencies

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

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

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

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

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

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

3. Statements of cash flows

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash on hand and in banks in the consolidated balance sheets	**¥ 31,211**	¥ 23,853	**$ 278,198**
Time deposits with maturities exceeding 3 months	**(799)**	(957)	**(7,122)**
Securities included in other current assets	**—**	700	**—**
Cash and cash equivalents in the consolidated statements of cash flows	**¥ 30,412**	¥ 23,596	**$ 271,076**

Details of t he assets and liabilities of significant newly acquired subsidiaries were as follows:

			Millions of yen
For the year ended March 31, 2017	**Daisen Ham Co., Ltd.**	**Plecia Group**	**Kawamoto Corporation**
Current assets	¥ 2,966	¥ 3,647	¥ 12,901
Non-current assets	2,434	3,140	3,230
Current liabilities	(1,748)	(3,445)	(6,884)
Non-current liabilities	(640)	(984)	(5,343)
Goodwill	2,274	2,147	—
Gain on bargain purchase	—	—	(1,044)
Non-controlling interests	(61)	—	(1,948)
Acquisition cost of stock	5,225	4,505	912
Cash and cash equivalents of acquired companies	(750)	(1,553)	(2,928)
Net expenditure (revenue)	**¥ 4,475**	**¥ 2,952**	**¥ (2,016)**

			Thousands of U.S. dollars
	Daisen Ham Co., Ltd.	**Plecia Group**	**Kawamoto Corporation**
Current assets	$ 26,437	$ 32,507	$ 114,992
Non-current assets	21,695	27,988	28,790
Current liabilities	(15,580)	(30,706)	(61,360)
Non-current liabilities	(5,704)	(8,771)	(47,624)
Goodwill	20,269	19,137	—
Gain on bargain purchase	—	—	(9,306)
Non-controlling interests	(544)	—	(17,363)
Acquisition cost of stock	46,573	40,155	8,129
Cash and cash equivalents of acquired companies	(6,685)	(13,842)	(26,099)
Net expenditure (revenue)	**$ 39,888**	**$ 26,313**	**$ (17,970)**

Notes to Consolidated Financial Statements

For the year ended March 31, 2016	Kawasaki Kasei Chemicals Group	Kyusyuya Co.,Ltd	Taylor-Wharton Malaysia Sdn. Bhd.
			Millions of yen
Current assets	¥ 10,150	¥ 3,793	¥ 1,138
Non-current assets	10,357	2,384	1,376
Current liabilities	(3,802)	(2,587)	(700)
Non-current liabilities	(2,862)	(950)	(22)
Goodwill	—	1,955	259
Gain on bargain purchase	(2,863)	—	—
Non-controlling interests	(6,908)	(1,187)	—
Acquisition cost of stock	4,072	3,408	2,051
Acquisition cost before business combination	—	(70)	—
Gain on step acquisition	—	(75)	—
Cash and cash equivalents of acquired companies	(175)	(1,377)	(36)
Net expenditure (revenue)	**¥ 3,897**	**¥ 1,886**	**¥ 2,015**

4. Inventories

Inventories as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Merchandise and finished goods	**¥ 28,068**	¥ 26,060	**$ 250,183**
Work-in-process	**7,676**	5,887	**68,419**
Raw materials and supplies	**13,483**	12,012	**120,180**
	¥ 49,227	¥ 43,959	**$ 438,782**

5. Securities

Available-for-sale securities with available fair market values at March 31, 2017 and 2016 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference gain (loss)	Book value	Acquisition cost	Difference gain (loss)	Book value	Acquisition cost	Difference gain (loss)
		2017			2016			**2017**	
Securities with book values exceeding acquisition costs:									
Stocks	**¥ 31,849**	**¥ 15,363**	**¥ 16,486**	¥ 21,883	¥ 11,417	¥ 10,466	**$ 283,885**	**$ 136,937**	**$ 146,948**
Other	**92**	**61**	**31**	23	22	1	**820**	**544**	**276**
Subtotal	**31,941**	**15,424**	**16,517**	21,906	11,439	10,467	**284,705**	**137,481**	**147,224**
Securities with book values not exceeding acquisition costs:									
Stocks	**5,059**	**6,211**	**(1,152)**	7,315	9,389	(2,074)	**45,093**	**55,361**	**(10,268)**
Subtotal	**5,059**	**6,211**	**(1,152)**	7,315	9,389	(2,074)	**45,093**	**55,361**	**(10,268)**
Total	**¥ 37,000**	**¥ 21,635**	**¥ 15,365**	¥ 29,221	¥ 20,828	¥ 8,393	**$ 329,798**	**$ 192,842**	**$ 136,956**

6. Land revaluation

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

The difference between the book value and the fair value of the revalued land as of March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Revalued land	**¥ (5,053)**	¥ (5,144)	**$ (45,040)**

7. Short-term borrowings and long-term debt

The weighted average interest rate of short-term borrowings as of March 31, 2017 and 2016 was 0.42% and 0.38%, respectively.

Long-term debt as of March 31, 2017 and 2016 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Loans from banks and insurance companies due 2032	**¥ 113,591**	¥ 96,683	**$ 1,012,488**
(weighted average interest rate - 0.57%)			
0.27% unsecured bonds due 2020	**10,000**	10,000	**89,135**
Lease obligations through 2032	**20,677**	16,808	**184,303**
	144,268	123,491	**1,285,926**
Less amount due within one year	**27,468**	13,779	**244,835**
	¥ 116,800	¥ 109,712	**$ 1,041,091**

The aggregate annual maturities of short-term debt and long-term debt as of March 31, 2017 were as follows:

Years ending March 31,	Millions of yen **2017**	Thousands of U.S. dollars **2017**
2018	**¥ 27,468**	**$ 244,835**
2019	**22,434**	**199,965**
2020	**15,968**	**142,330**
2021	**27,969**	**249,300**
2022	**8,548**	**76,192**
2023 and thereafter	**41,881**	**373,304**

As of March 31, 2017, assets were pledged as collateral for short-term debt of ¥4,706 million ($41,947 thousand), long-term debt of ¥5,490 million ($48,935 thousand) and others of ¥2,448 million ($21,820 thousand) as follows:

	Millions of yen **2017**	Thousands of U.S. dollars **2017**
Land	**¥ 6,047**	**$ 53,900**
Buildings and structures	**3,075**	**27,409**
Machinery and equipment	**1,533**	**13,664**
Cash and deposits (time deposits)	**143**	**1,275**
Investment securities	**412**	**3,672**
Other (investments and other assets)	**277**	**2,469**
	¥ 11,487	**$ 102,389**

As of March 31, 2016, assets were pledged as collateral for short-term debt of ¥7,439 million, long-term debt of ¥6,412 million and others of ¥2,184 million as follows:

	Millions of yen
	2016
Land	¥ 9,405
Buildings and structures	3,022
Machinery and equipment	1,808
Cash and deposits (time deposits)	143
Investment securities	129
Other (property, plant and equipment)	30
Other (investments and other assets)	361
	¥ 14,898

8. Derivative financial instruments and hedging transactions

Derivative financial instruments and hedging transactions were as follows:

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

For the years ended March 31, 2017 and 2016

None

(2) Derivatives transactions for which hedge accounting applies

① Currency related

For the year ended March 31, 2017

Hedge accounting method	Type of transaction	Hedged items	Contract amount (Millions of yen)	Portion over 1 year (Millions of yen)	Fair value (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Portion over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Allocation method	Forward exchange contracts:							
	Purchased option to sell							
	U.S. dollars	Accounts receivable - trade	**1,192**	**71**	**(13)**	**10,625**	**633**	**(116)**
	Euro	Accounts receivable - trade	**471**	**43**	**2**	**4,198**	**383**	**18**
	Chinese yuan	Accounts receivable - trade	**662**	**—**	**(1)**	**5,901**	**—**	**(9)**
	Thai baht	Accounts receivable - trade	**56**	**—**	**—**	**499**	**—**	**—**
	Purchased option to buy							
	U.S. dollars	Accounts payable - trade	**3,106**	**37**	**69**	**27,685**	**330**	**615**
	Euro	Accounts payable - trade	**213**	**139**	**4**	**1,898**	**1,239**	**36**
	Chinese yuan	Accounts payable - trade	**1,088**	**—**	**(12)**	**9,698**	**—**	**(107)**
	Singapore dollars	Accounts payable - trade	**128**	**116**	**(1)**	**1,141**	**1,034**	**(9)**
Total			**¥ 6,916**	**¥ 406**	**¥ 48**	**$ 61,645**	**$ 3,619**	**$ 428**

For the year ended March 31, 2016

Hedge accounting method	Type of transaction	Hedged items	Contract amount (Millions of yen)	Portion over 1 year (Millions of yen)	Fair value (Millions of yen)
Allocation method	Forward exchange contracts:				
	Purchased option to sell				
	U.S. dollars	Accounts receivable - trade	832	7	23
	Euro	Accounts receivable - trade	492	54	(5)
	Thai baht	Accounts receivable - trade	30	—	—
	Purchased option to buy				
	U.S. dollars	Accounts payable - trade	5,880	28	(219)
	Euro	Accounts payable - trade	100	14	1
	Chinese yuan	Accounts payable - trade	1,293	—	(1)
	Singapore dollars	Accounts payable - trade	91	—	(3)
	Other				
	U.S. dollars	Short-term loans receivable	59	—	—
Total			¥ 8,777	¥ 103	¥ (204)

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

② Interest rate related

For the year ended March 31, 2017

Hedge accounting method	Type of transaction	Hedged item	Contract amount (Millions of yen)	Portion over 1 year (Millions of yen)	Fair value (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Portion over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferral hedge accounting	Interest rate swap: Receive floating rate and pay fixed rate	Long-term loans payable	**¥ 7,872**	**¥ 5,603**	**¥ (143)**	**$ 70,167**	**$ 49,942**	**$ (1,275)**
Special treatment of interest rate swaps	Interest rate swap: Receive floating rate and pay fixed rate	Long-term loans payable	**38,840**	**31,216**	**(Note 2)**	**346,198**	**278,242**	**(Note 2)**
Total			**¥ 46,712**	**¥ 36,819**	**¥ (143)**	**$ 416,365**	**$ 328,184**	**$ (1,275)**

For the year ended March 31, 2016

Hedge accounting method	Type of transaction	Hedged item	Contract amount (Millions of yen)	Portion over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferral hedge accounting	Interest rate swap: Receive floating rate and pay fixed rate	Long-term loans payable	¥ 8,305	¥ 7,871	¥ (282)
Special treatment of interest rate swaps	Interest rate swap: Receive floating rate and pay fixed rate	Long-term loans payable	39,394	39,084	(Note 2)
Total			¥ 47,699	¥ 46,955	¥ (282)

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

9. Income taxes

The Companies are subject to a number of taxes based on income, which, in aggregate, indicate a statutory tax rate in Japan of approximately 30.8% for the year ended March 31, 2017 and 33.0% for the year ended March 31, 2016

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2017 and 2016.

	2017	2016
Statutory tax rate	**30.8%**	33.0%
Non-deductible expenses	**1.9**	2.0
Amortization of goodwill	**1.7**	1.6
Equity in earnings of non-consolidated subsidiaries and affiliates	**1.0**	4.9
Per capita inhabitants taxes	**0.8**	0.6
Gain on bargain purchases	**(0.8)**	(2.6)
Effect of changes in tax rates	**—**	1.2
Increase (decrease) in valuation allowance	**(1.6)**	(0.6)
Loss carryforwards	**(0.9)**	(2.1)
Other	**2.9**	0.0
Effective tax rate	**35.8%**	38.0%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Loss on business of subsidiaries and affiliates	**¥ 3,408**	¥ 2,812	**$ 30,377**
Net defined benefit liability	**3,055**	2,727	**27,231**
Excess bonuses accrued	**1,942**	1,779	**17,310**
Impairment loss	**1,745**	1,592	**15,554**
Net operating loss carried forward for tax purposes	**1,585**	651	**14,128**
Loss on valuation of investment securities	**655**	631	**5,838**
Accrued enterprise taxes	**575**	618	**5,125**
Other	**6,248**	5,123	**55,691**
Total deferred tax assets	**19,213**	15,933	**171,254**
Valuation allowance	**(7,727)**	(6,153)	**(68,874)**
Net deferred tax assets	**11,486**	9,780	**102,380**
Deferred tax liabilities:			
Variance of estimate of capital consolidation	**(4,708)**	(3,166)	**(41,964)**
Retained earnings appropriated for allowable tax reserves	**(4,010)**	(3,025)	**(35,743)**
Net unrealized holding gains on securities	**(3,097)**	(2,559)	**(27,605)**
Gain on contribution of securities to retirement benefit trust	**(1,713)**	(939)	**(15,269)**
Other	**(2,673)**	(1,179)	**(23,826)**
Total deferred tax liabilities	**(16,201)**	(10,868)	**(144,407)**
Net deferred tax assets (net deferred tax liabilities)	**¥ (4,715)**	¥ (1,088)	**$ (42,027)**

Deferred tax assets and liabilities for land revaluation difference as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets	**¥ 3,252**	¥ 3,252	**$ 28,987**
Valuation allowance	**(3,102)**	(3,102)	**(27,650)**
Net deferred tax assets	**150**	150	**1,337**
Deferred tax liabilities	**¥ (986)**	¥ (986)	**$ (8,789)**

10. Net assets

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

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

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

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

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

At the Board of Directors meeting held on May 12, 2017, the Company resolved the appropriation of surplus as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥20.00 = U.S. $0.18 per share)	**¥ 3,924**	**$ 34,976**

The above mentioned appropriation has not been reflected in the consolidated financial statements as of March 31, 2017. Such appropriations are recognized in the period in which they are approved.

11. Segment information

1. General information about reportable segments

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

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

2. Basis of measurement for reported segment sales, segment profit or loss, segment assets and other material items

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

Notes to Consolidated Financial Statements

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

Millions of yen

For the year ended March 31, 2017	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Adjustment (Note 2)	Amounts reported on consolidated financial statements (Note 1)
Net sales:									
Customers	¥ 199,453	¥ 61,343	¥ 129,961	¥ 45,031	¥ 118,404	¥ 116,344	¥ 670,536	¥ —	¥ 670,536
Intersegment	3,568	65	296	1,907	603	14,302	20,741	(20,741)	—
Total	203,021	61,408	130,257	46,938	119,007	130,646	691,277	(20,741)	670,536
Segment profit (loss)	16,592	(985)	9,230	3,851	4,029	8,469	41,186	65	41,251
Segment assets	205,326	51,567	98,824	29,091	78,358	127,283	590,449	38,667	629,116
Other items:									
Depreciation and amortization	11,516	2,460	1,570	1,691	2,673	5,615	25,525	—	25,525
Amortization of goodwill	879	—	360	237	855	124	2,455	—	2,455
Interest income	6	1	3	3	4	11	28	129	157
Interest expense	414	12	61	8	56	97	648	630	1,278
Equity in earnings of non-consolidated subsidiaries and affiliates	288	(2,157)	36	30	—	509	(1,294)	2	(1,292)
Investment amounts to equity method companies	948	758	9,612	547	—	4,964	16,829	—	16,829
Increase in amounts of fixed assets and intangible fixed assets	14,550	2,896	2,876	2,371	3,426	8,931	35,050	5,537	40,587

Thousands of U.S. dollars

For the year ended March 31, 2017	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Adjustment (Note 2)	Amounts reported on consolidated financial statements (Note 1)
Net sales:									
Customers	$ 1,777,814	$ 546,778	$ 1,158,401	$ 401,382	$ 1,055,388	$ 1,037,026	$ 5,976,789	$ —	$ 5,976,789
Intersegment	31,804	579	2,638	16,998	5,375	127,480	184,874	(184,874)	—
Total	1,809,618	547,357	1,161,039	418,380	1,060,763	1,164,506	6,161,663	(184,874)	5,976,789
Segment profit (loss)	147,892	(8,780)	82,271	34,326	35,912	75,488	367,109	580	367,689
Segment assets	1,830,163	459,640	880,863	259,301	698,440	1,134,531	5,262,938	344,656	5,607,594
Other items:									
Depreciation and amortization	102,647	21,927	13,994	15,073	23,826	50,049	227,516	—	227,516
Amortization of goodwill	7,835	—	3,209	2,113	7,621	1,105	21,883	—	21,883
Interest income	53	9	27	27	36	98	250	1,149	1,399
Interest expense	3,690	107	544	71	499	865	5,776	5,615	11,391
Equity in earnings of non-consolidated subsidiaries and affiliates	2,567	(19,226)	321	267	—	4,537	(11,534)	18	(11,516)
Investment amounts to equity method companies	8,450	6,756	85,676	4,876	—	44,246	150,004	—	150,004
Increase in amounts of fixed assets and intangible fixed assets	129,691	25,813	25,635	21,134	30,537	79,606	312,416	49,354	361,770

Notes:
1. Segment profit is adjusted to be consistent with ordinary income reported on the consolidated statements of income.
2. Adjustments are as follows:
   (1) The adjustment to intersegment of -¥20,741 million (-$184,874 thousand) is the elimination of intersegment transactions.
   (2) The adjustment to segment profit of ¥65 million ($580 thousand) is the sum of corporate expenses, research and development department expenses, profit or loss related to financing and equity in earnings and losses of non-consolidated subsidiaries and affiliates.
   (3) The adjustment to segment assets of ¥38,667 million ($344,656 thousand) is the sum of eliminated intersegment assets of -¥37,732 million (-$336,322 thousand) and corporate assets of ¥76,399 million ($680,978 thousand) that cannot be assigned to any particular segment.
   (4) The adjustment to interest income of ¥129 million ($1,149 thousand) is interest income that cannot be assigned to any particular segment.
   (5) The adjustment to interest expense of ¥630 million ($5,615 thousand) is interest expense that cannot be assigned to any particular segment.
   (6) The adjustment to equity in earnings of non-consolidated subsidiaries and affiliates of ¥2 million ($18 thousand) is investment by corporate that cannot be assigned to any particular segment.
   (7) The adjustment to increase in amounts of fixed assets and intangible fixed assets of ¥5,537 million ($49,354 thousand) is mostly corporate assets that cannot be assigned to any particular segment.

Millions of yen

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

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

(Related information)
1. Information by area

For the years ended March 31, 2017 and 2016

(1) Net sales

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

(2) Property, plant and equipment

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

2. Information by major customer

For the year ended March 31, 2017

This information was omitted because no single external customer accounted for 10% or more of sales as shown on the consolidated income statements.

For the year ended March 31, 2016

Customer	Sales (Millions of yen)	Related segments
NIPPON STEEL & SUMITOMO METAL CORPORATION	¥ 77,462	Industrial Gas, Chemical, Other

3. Information on impairment loss on non-current assets for each reportable segment

Millions of yen

For the year ended March 31, 2017	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Impairment loss	**¥ —**	**¥ 27**	**¥ 10**	**¥ —**	**¥ 179**	**¥ 387**	**¥ 603**	**¥ 2**	**¥ 605**

Thousands of U.S. dollars

	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Impairment loss	**$ —**	**$ 241**	**$ 89**	**$ —**	**$ 1,596**	**$ 3,449**	**$ 5,375**	**$ 18**	**$ 5,393**

Millions of yen

For the year ended March 31, 2016	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Impairment loss	¥ 0	¥ 107	¥ 10	¥ —	¥ 11	¥ 4	¥ 132	¥ 2	¥ 134

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

Millions of yen

For the year ended March 31, 2017	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Amortization of goodwill	**¥ 879**	**¥ —**	**¥ 360**	**¥ 237**	**¥ 855**	**¥ 124**	**¥ 2,455**	**¥ —**	**¥ 2,455**
Balance at end of period	**¥ 4,751**	**¥ —**	**¥ 2,549**	**¥ 856**	**¥ 8,449**	**¥ 716**	**¥ 17,321**	**¥ —**	**¥ 17,321**

Thousands of U.S. dollars

	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Amortization of goodwill	**$ 7,835**	**$ —**	**$ 3,209**	**$ 2,113**	**$ 7,621**	**$ 1,105**	**$ 21,883**	**$ —**	**$ 21,883**
Balance at end of period	**$ 42,348**	**$ —**	**$ 22,720**	**$ 7,630**	**$ 75,310**	**$ 6,382**	**$ 154,390**	**$ —**	**$ 154,390**

Millions of yen

For the year ended March 31, 2016	Reportable Segment: Industrial Gas	Chemical	Medical	Energy	Agriculture and Food Products	Other	Total	Eliminations and Corporate	Total
Amortization of goodwill	¥ 842	¥ —	¥ 343	¥ 370	¥ 614	¥ 117	¥ 2,286	¥ —	¥ 2,286
Balance at end of period	¥ 5,663	¥ —	¥ 2,584	¥ 927	¥ 4,883	¥ 824	¥ 14,881	¥ —	¥ 14,881

5. Information on gain on negative goodwill for reportable segments

For the year ended March 31, 2017

The amount which was accounted for as negative goodwill is immaterial and the record of this amount was omitted.

For the year ended March 31, 2016

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

12. Contingent liabilities

As of March 31, 2017, the Companies were contingently liable with respect to notes receivable discounted in the amount of ¥391 million ($3,485 thousand). As of the same date, the Companies were also contingently liable as guarantors for loans of other companies and employees in the amount of ¥15,680 million ($139,763 thousand).

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

13. Gain on transfer of business

Gain on transfer of business was due to a lease business transfer from a consolidated company.

14. Loss on business of subsidiaries and associates

Loss on business of subsidiaries and associates was provided based on estimated loss from business of subsidiaries and associates.

15. Loss on disaster

Loss on disaster was due to the Kumamoto Earthquake in April 2016.

Notes to Consolidated Financial Statements

16. Comprehensive income

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	**¥ 6,473**	¥ (6,652)	**$ 57,697**
Reclassification adjustments	**(4)**	(92)	**(36)**
Subtotal, before tax	**6,469**	(6,744)	**57,661**
Tax (expense) or benefit	**(1,979)**	2,286	**(17,640)**
Subtotal, net of tax	**¥ 4,490**	¥ (4,458)	**$ 40,021**
Deferred gains or losses on hedges			
Increase (decrease) during the year	**¥ 275**	¥ (357)	**$ 2,451**
Reclassification adjustments	**131**	137	**1,168**
Subtotal, before tax	**406**	(220)	**3,619**
Tax (expense) or benefit	**(129)**	67	**(1,150)**
Subtotal, net of tax	**¥ 277**	¥ (153)	**$ 2,469**
Revaluation reserve for land			
Increase (decrease) during the year	**¥ —**	¥ —	**$ —**
Reclassification adjustments	**—**	—	**—**
Subtotal, before tax	**—**	—	**—**
Tax (expense) or benefit	**—**	220	**—**
Subtotal, net of tax	**¥ —**	¥ 220	**$ —**
Foreign currency translation adjustments			
Increase (decrease) during the year	**¥ (454)**	¥ (41)	**$ (4,047)**
Reclassification adjustments	**—**	—	**—**
Subtotal, before tax	**(454)**	(41)	**(4,047)**
Tax (expense) or benefit	**—**	—	**—**
Subtotal, net of tax	**¥ (454)**	¥ (41)	**$ (4,047)**
Remeasurements of defined benefit plans, net of tax			
Increase (decrease) during the year	**¥ 2,036**	¥ (1,998)	**$ 18,148**
Reclassification adjustments	**121**	(361)	**1,079**
Subtotal, before tax	**2,157**	(2,359)	**19,227**
Tax (expense) or benefit	**(675)**	701	**(6,017)**
Subtotal, net of tax	**¥ 1,482**	¥ (1,658)	**$ 13,210**
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	**¥ (121)**	¥ (39)	**$ (1,078)**
Total other comprehensive income	**¥ 5,674**	¥ (6,129)	**$ 50,575**

17. Finance leases

Information on finance leases that do not transfer ownership of the leased assets to the lessee and were commenced prior to April 1, 2008 and accounted for as operating leases for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
(1) Future minimum lease payments, including financing charges:			
Due within one year	**¥ 250**	¥ 512	**$ 2,229**
Due after one year	**43**	310	**383**
	¥ 293	¥ 822	**$ 2,612**

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
(2) Original lease obligations, payments made and remaining balance:			
Original lease obligations	**¥ 1,898**	¥ 3,990	**$ 16,918**
Payments made	**1,615**	3,226	**14,395**
Remaining balance	**¥ 283**	¥ 764	**$ 2,523**
(3) Lease payments for the period	**¥ 308**	¥ 873	**$ 2,745**

If the above finance leases had been capitalized, depreciation of ¥254 million ($2,264 thousand) and interest of ¥17 million ($152 thousand) would have been recorded for the year ended March 31, 2017.

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

18. Operating leases

Obligations under non-cancelable operating leases as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
(1) Future minimum lease payments, including financing charges:			
Due within one year	**¥ 290**	¥ 380	**$ 2,585**
Due after one year	**1,923**	2,496	**17,140**
	¥ 2,213	¥ 2,876	**$ 19,725**

19. Employees' severance and pension benefits

1. Summary of adopted retirement benefit plans

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

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

2. Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance	¥ 29,812	¥ 27,577	$ 265,728
Service cost	1,367	1,280	12,185
Interest cost	230	292	2,050
Actuarial loss (gain)	(336)	172	(2,995)
Benefits paid	(1,865)	(1,965)	(16,624)
New acquisitions	1,236	1,911	11,017
Other	93	545	829
Ending balance	30,537	29,812	272,190

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance	¥ 29,380	¥ 29,451	$ 261,877
Expected return on plan assets	276	257	2,460
Actuarial loss (gain)	1,674	(1,834)	14,921
Contributions paid by the employer	2,311	1,671	20,599
Benefits paid	(1,353)	(1,506)	(12,060)
New acquisitions	558	1,034	4,974
Other	75	307	669
Ending balance	32,921	29,380	293,440

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance	¥ 3,128	¥ 3,285	$ 27,881
Retirement benefit cost	586	620	5,223
Benefits paid	(447)	(520)	(3,984)
Contributions paid by the employer	(92)	(111)	(820)
New acquisitions	763	39	6,801
Other	57	(185)	508
Ending balance	3,995	3,128	35,609

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligations	¥ 31,049	¥ 30,216	$ 276,754
Plan assets	(33,935)	(30,410)	(302,478)
	(2,886)	(194)	(25,724)
Unfunded retirement benefit obligations	4,497	3,753	40,083
Total net liability (asset) for retirement benefits at year end	1,611	3,559	14,359
Liability for retirement benefits	8,569	7,869	76,379
Asset for retirement benefits	(6,958)	(4,310)	(62,020)
Total net liability (asset) for retirement benefits at year end	1,611	3,559	14,359

(Note) Includes plans that applied the simplified method

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 1,367	¥ 1,280	$ 12,185
Interest cost	230	292	2,050
Expected return on plan assets	(276)	(257)	(2,460)
Net actuarial loss amortization	293	14	2,611
Past service costs amortization	(146)	(356)	(1,301)
Retirement benefit cost calculated with simplified method	586	620	5,223
Total retirement benefit costs for the fiscal year	2,054	1,593	18,308

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Prior service costs	¥ (146)	¥ (359)	$ (1,301)
Actuarial differences	2,303	(2,000)	20,527
Total balance at year end	2,157	(2,359)	19,226

(7) Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service costs	¥ (350)	¥ (501)	$ (3,120)
Unrecognized actuarial differences	(1,681)	468	(14,983)
Total balance at year end	(2,031)	(33)	(18,103)

(8) Plan assets
1) Plan assets comprise:

	2017	2016
Bonds	**21.9%**	23.4%
Equity securities	**39.4%**	37.7%
General accounts	**19.1%**	19.5%
Other	**19.6%**	19.4%
Total	**100.0%**	100.0%

(Note) The pension trust set up for corporate pension plans and lump-sum plans represented 29.9% of total plan assets for the year ended March 31, 2017 and 23.4% for the year ended March 31, 2016.

2) Long-term expected rate of return
The principal actuarial assumptions were as follows:

	2017		2016	
Discount rate	**mainly**	**0.96%**	mainly	0.96%
Long-term expected rate of return	**mainly**	**1.0%**	mainly	1.0%
Assumed rate of salary increase	**mainly**	**3.7%**	mainly	3.7%

(Note) The Company adopted a pension point system. The assumed rate of salary increase was the basis for the assumed rate of increase for pension points.

3. Defined contribution plan

Contributions to the plan from the Company and its consolidated subsidiaries were ¥398 million ($3,548 thousand) for the year ended March 31, 2017 and ¥369 million for the year ended March 31, 2016.

20. Stock options

1. Expenses recorded for stock options were ¥68 million ($606 thousand) in the year ended March 31, 2017 and ¥64 million in the year ended March 31, 2016 and were included in selling, general and administrative expenses.

2. Details, number, movement and price of stock options

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

Company name	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 8, 2007	July 30, 2008
Persons granted options	18 directors	17 directors
Number of options granted	60,100 shares of common stock	67,300 shares of common stock
Date of grant	August 31, 2007	September 1, 2008
Vesting conditions	Holder relinquishes position as a director of the Company	Holder relinquishes position as a director of the Company
Eligible employment period	—	—
Exercise period	Within 5 years after the vesting date from September 1, 2007 to August 31, 2027	Within 5 years after the vesting date from September 2, 2008 to September 1, 2028

Company name	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 12, 2009	August 13, 2010
Persons granted options	20 directors	19 directors
Number of options granted	80,100 shares of common stock	88,700 shares of common stock
Date of grant	September 1, 2009	September 1, 2010
Vesting conditions	Holder relinquishes position as a director of the Company	Holder relinquishes position as a director of the Company
Eligible employment period	—	—
Exercise period	Within 5 years after the vesting date from September 2, 2009 to September 1, 2029	Within 5 years after the vesting date from September 2, 2010 to September 1, 2030

Company name	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 12, 2011	August 14, 2012
Persons granted options	18 directors	17 directors
Number of options granted	94,700 shares of common stock	85,400 shares of common stock
Date of grant	September 1, 2011	August 31, 2012
Vesting conditions	Holder relinquishes position as a director of the Company	Holder relinquishes position as a director of the Company
Eligible employment period	—	—
Exercise period	Within 5 years after the vesting date from September 2, 2011 to September 1, 2031	Within 5 years after the vesting date from September 1, 2012 to August 31, 2032

Company name	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 14, 2013	August 8, 2014
Persons granted options	17 directors	17 directors
Number of options granted	54,000 shares of common stock	47,800 shares of common stock
Date of grant	August 30, 2013	September 1, 2014
Vesting conditions	Holder relinquishes position as a director of the Company	Holder relinquishes position as a director of the Company
Eligible employment period	—	—
Exercise period	Within 5 years after the vesting date from August 31, 2013 to August 30, 2033	Within 5 years after the vesting date from September 2, 2014 to September 1, 2034

Company name	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 7, 2015	August 10, 2016
Persons granted options	17 directors	16 directors
Number of options granted	38,800 shares of common stock	43,300 shares of common stock
Date of grant	September 1, 2015	September 1, 2016
Vesting conditions	Holder relinquishes position as a director of the Company	Holder relinquishes position as a director of the Company
Eligible employment period	—	—
Exercise period	Within 5 years after the vesting date from September 2, 2015 to September 1, 2035	Within 5 years after the vesting date from September 2, 2016 to September 1, 2036

Company name	Nihonkaisui Co., Ltd.
Date of resolution	September 28, 2007
Persons granted options	5 directors and 5 employees
Number of options granted	408,991 shares of common stock
Date of grant	September 29, 2007
Vesting conditions	—
Eligible employment period	—
Exercise period	Within 5 years after the vesting date from September 29, 2009 to September 28, 2017

Notes to Consolidated Financial Statements

(2) The following table summarizes the numbers of stock options.

Company name	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 8, 2007	July 30, 2008	August 12, 2009	August 13, 2010	August 12, 2011	August 14, 2012
Before vesting options (number of shares)						
April 1, 2016	19,300	22,800	29,900	34,200	50,300	64,600
Granted	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Vested	6,200	7,300	8,300	9,400	15,700	15,300
March 31, 2017	13,100	15,500	21,600	24,800	34,600	49,300
After vesting options (number of shares)						
April 1, 2016	5,800	6,900	12,000	19,300	29,200	17,800
Vested	6,200	7,300	8,300	9,400	15,700	15,300
Exercised	10,100	11,900	13,600	21,000	31,000	15,700
Forfeited	—	—	—	—	—	—
March 31, 2017	1,900	2,300	6,700	7,700	13,900	17,400

Company name	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	Nihonkaisui Co., Ltd.
Date of resolution	August 14, 2013	August 8, 2014	August 7, 2015	August 10, 2016	September 28, 2007
Before vesting options (number of shares)					
April 1, 2015	45,000	47,800	38,800	—	—
Granted	—	—	—	43,300	—
Forfeited	—	—	—	—	—
Vested	12,800	11,800	8,800	—	—
March 31, 2016	32,200	36,000	30,000	43,300	—
After vesting options (number of shares)					
April 1, 2015	9,000	—	—	—	223,591
Vested	12,800	11,800	8,800	—	—
Exercised	9,500	5,400	4,000	—	—
Forfeited	—	—	—	—	—
March 31, 2016	12,300	6,400	4,800	—	223,591

The following table summarizes price per share.

Company name	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.
Date of resolution	August 8, 2007	July 30, 2008	August 12, 2009	August 13, 2010	August 12, 2011	August 14, 2012
Exercise price (yen)	¥1	¥1	¥1	¥1	¥1	¥1
Average stock price at exercise (yen)	1,791	1,792	1,792	1,841	1,916	1,852
Fair value price at grant date (yen)	1,001	1,104	868	746	741	715

Company name	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	AIR WATER INC.	Nihonkaisui Co., Ltd.
Date of resolution	August 14, 2013	August 8, 2014	August 7, 2015	August 10, 2016	September 28, 2007
Exercise price (yen)	¥1	¥1	¥1	¥1	¥540
Average stock price at exercise (yen)	1,792	1,715	1,715	—	—
Fair value price at grant date (yen)	1,100	1,410	1,602	1,641	—

21. Related party transactions

The Company directly owned 49% of Sakai Gases Center Co. Ltd.
Significant transactions between the Company and the related party for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Interest income	**¥ 79**	¥ 87	**$ 704**

The balance of loans of the Company due to the related party for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Short-term loans receivable	**¥ 800**	¥ 800	**$ 7,131**
Long-term loans receivable	**6,609**	7,409	**58,909**

22. Financial instruments

Financial instruments were as follows:

1. Qualitative information on financial instruments

(1) Policies for using financial instruments

The Companies restrict its funds management to time deposits and other short-term investments. Also, the Companies' policy is to raise funds mainly by borrowing from banks and issuing bonds. The Companies' policy is to use derivatives strictly as hedges to manage the risks of interest rate fluctuations and foreign currency exchange fluctuations that arise in export and import transactions. The Companies do not conduct any speculative transactions.

(2) Financial instruments, associated risks and the risk management system

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

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

Trade liabilities, including notes and accounts payable – trade, are mostly current liabilities with due dates within a year.

Short-term loans payable are primarily used for short-term fund raising related to operations. Bonds payable, long-term loans payable and lease obligations are used mainly for capital investment and are exposed to the risk of interest rate fluctuations.

(3) Supplemental information on the fair value of financial instruments

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

Notes to Consolidated Financial Statements

2. Fair value of financial instruments

Fair value, the carrying value reported in the balance sheets and any difference between the fair and carrying value as of March 31, 2017 and March 31, 2016 are set forth in the table below. Financial instruments for which it is extremely difficult to measure the fair value are not included.

Millions of yen

(For the year ended March 31, 2017)	Carrying value reported in the balance sheets (*1)	Fair value (*1)	Difference
(1) Cash and deposits	¥ 31,211	¥ 31,211	¥ —
(2) Notes and accounts receivable - trade	157,036	157,036	—
(3) Short-term loans receivable	4,179	4,179	—
(4) Investment securities			
Other securities	37,000	37,000	—
(5) Long-term loans receivable (*2)	9,852		
Allowance for doubtful accounts	(664)		
	9,188	9,261	73
(6) Notes and accounts payable - trade	(94,925)	(94,925)	—
(7) Short-term loans payable	(28,136)	(28,136)	—
(8) Current portion of long-term loans payable	(24,742)	(24,742)	—
(9) Current portion of lease obligations	(2,726)	(2,726)	—
(10) Bonds	(10,000)	(10,078)	(78)
(11) Long-term loans payable	(88,849)	(90,281)	(1,432)
(12) Lease obligations	(17,951)	(19,345)	(1,394)
(13) Derivative transactions (*3)	(95)	(95)	—

Thousands of U.S. dollars

	Carrying value reported in the balance sheets (*1)	Fair value (*1)	Difference
(1) Cash and deposits	$ 278,198	$ 278,198	$ —
(2) Notes and accounts receivable - trade	1,399,733	1,399,733	—
(3) Short-term loans receivable	37,249	37,249	—
(4) Investment securities			
Other securities	329,798	329,798	—
(5) Long-term loans receivable (*2)	87,816		
Allowance for doubtful accounts	(5,919)		
	81,897	82,547	651
(6) Notes and accounts payable - trade	(846,109)	(846,109)	—
(7) Short-term loans payable	(250,788)	(250,788)	—
(8) Current portion of long-term loans payable	(220,537)	(220,537)	—
(9) Current portion of lease obligations	(24,298)	(24,298)	—
(10) Bonds	(89,135)	(89,830)	(695)
(11) Long-term loans payable	(791,951)	(804,715)	(12,764)
(12) Lease obligations	(160,005)	(172,431)	(12,426)
(13) Derivative transactions (*3)	(847)	(847)	—

Millions of yen

(For the year ended March 31, 2016)	Carrying value reported in the balance sheets (*1)	Fair value (*1)	Difference
(1) Cash and deposits	¥ 23,853	¥ 23,853	¥ —
(2) Notes and accounts receivable - trade	149,037	149,037	—
(3) Short-term loans receivable	3,402	3,402	—
(4) Investment securities			
Other securities	29,221	29,221	—
(5) Long-term loans receivable (*2)	10,099		
Allowance for doubtful accounts	(788)		
	9,311	9,590	279
(6) Notes and accounts payable - trade	(90,940)	(90,940)	—
(7) Short-term loans payable	(34,303)	(34,303)	—
(8) Current portion of long-term loans payable	(11,608)	(11,608)	—
(9) Current portion of lease obligations	(2,172)	(2,172)	—
(10) Bonds	(10,000)	(10,111)	(111)
(11) Long-term loans payable	(85,076)	(87,372)	(2,296)
(12) Lease obligations	(14,636)	(15,822)	(1,186)
(13) Derivative transactions (*3)	(486)	(486)	—

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

Note 1. Valuation approach for fair value of financial instruments, securities and derivative transactions

(1) Cash and deposits, (2) Notes and accounts receivable - trade and (3) Short-term loans receivable
The fair value of these amounts is stated at the carrying amount, which is approximate to it.

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

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

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

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

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

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

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

Note 2. Financial instruments for which it is extremely difficult to assess the fair value.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted shares	¥ 38,554	¥ 28,414	$ 343,649

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

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

(For the year ended March 31, 2017)	Millions of yen Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	¥ 31,211	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	157,036	—	—	—
Short-term loans receivable	4,179	—	—	—
Long-term loans receivable	—	8,715	434	703
Total	¥ 192,426	¥ 8,715	¥ 434	¥ 703

	Thousands of U.S. dollars Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	$ 278,198	$ —	$ —	$ —
Notes and accounts receivable - trade	1,399,733	—	—	—
Short-term loans receivable	37,249	—	—	—
Long-term loans receivable	—	77,681	3,869	6,266
Total	$ 1,715,180	$ 77,681	$ 3,869	$ 6,266

(For the year ended March 31, 2016)	Millions of yen Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	¥ 23,853	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	149,037	—	—	—
Short-term loans receivable	3,402	—	—	—
Long-term loans receivable	—	9,182	345	572
Total	¥ 176,292	¥ 9,182	¥ 345	¥ 572

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

(For the year ended March 31, 2017)	Millions of yen Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Short-term loans payable	¥ 28,136	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	—	10,000	—	—
Long-term loans payable	24,742	20,129	14,029	16,243	6,843	31,605
Lease obligations	2,726	2,305	1,939	1,726	1,705	10,276
Total	¥ 55,604	¥ 22,434	¥ 15,968	¥ 27,969	¥ 8,548	¥ 41,881

	Thousands of U.S. dollars Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Short-term loans payable	$ 250,789	$ —	$ —	$ —	$ —	$ —
Bonds	—	—	—	89,135	—	—
Long-term loans payable	220,537	179,419	125,047	144,781	60,995	281,709
Lease obligations	24,298	20,545	17,283	15,385	15,197	91,595
Total	$ 495,624	$ 199,964	$ 142,330	$ 249,301	$ 76,192	$ 373,304

(For the year ended March 31, 2016)	Millions of yen Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Short-term loans payable	¥ 34,303	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	—	—	10,000	—
Long-term loans payable	11,608	20,571	17,701	11,713	17,298	17,793
Lease obligations	2,172	1,650	1,532	1,348	1,351	8,755
Total	¥ 48,083	¥ 22,221	¥ 19,233	¥ 13,061	¥ 28,649	¥ 26,548

Independent Auditor's Report

KPMG

Independent Auditor's Report

To the Board of Directors of AIR WATER INC.:

We have audited the accompanying consolidated financial statements of AIR WATER INC. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AIR WATER INC. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 28, 2017
Osaka, Japan