

**Second Quarter of Fiscal Year 2022**  
**Q&A Summary of Conference Call for Analysts and Institutional Investors**

Date : Wednesday, November 9, 2022 19:00 - 20:10 (Explanation: 30 minutes, Q&A: 40 minutes)

Format of the meeting : Conference call

Presenters : Masato Machida : Representative Director Executive Vice President,  
In Charge of Corporate Strategy Center

Koichi Nakai : Executive Officer, General Manager  
Corporate Communications Office

■ **Full-year results**

**Q: The primary factors in the downward revision of current full-year result forecast are the increases in the fuel price for biomass power generation and the cost of marine transportation. Is this a correct understanding?**

A: The primary cause of the downward revision is the biomass power generation business.

Increases in the price of palm kernel shell (PKS), which is the fuel for biomass power generation, the price of coal used as an auxiliary fuel, the cost of marine transportation and the rapid depreciation of the yen have negatively affected our business. Of the 8 billion yen downward revision of operating profit, 6.8 billion yen is from the Energy Solutions segment. Reconciling items related to the power generation business were also revised downward.

■ **Effect of new consolidation**

**Q: How much was invested in new M&A activities in the first half of the fiscal year? What is the effect of the new consolidation?**

A: The amount invested in new M&A activities in the first half of the fiscal year was 8.5 billion yen.

New consolidation contributed 9.5 billion yen to revenue and approximately 10% of operating profit, including the companies that were consolidated in the second half of the previous fiscal year.

<By business>

■ Digital & Industry

**Q: Operating profit for the second quarter (July to September) was 6.2 billion yen. Why did it increase by 0.3 billion yen year on year?**

A: In the second quarter (July to September), the industrial gas business in India remained strong due to high demand and foreign exchange gains. In Japan, strong sales of o-rings for semiconductor manufacturing equipment in the functional materials and electronic materials in the chemical business alongside gases and equipment for electronics, offset the impact of the delayed effect of the price correction of industrial gases.

We expect that the recovery of the automobile-related industries going forward will promote the continued recovery of demand for the industrial gases as a whole. A new VSU plant in Chiba began operating in November 2022, and we will strive to continue the growth of sales.

**Q: The first-half results appear slow in comparison to the full-year forecasts. The full-year forecast remains unchanged. What are your prospects regarding an increase in electricity expenses and the progress of the industrial gas price corrections?**

**Currently, the electronics-related markets appear increasingly stagnant. How will this impact your financial performance?**

A: In the first-half results, the progress of our activities to correct the prices of industrial gases was about 70%. In the second half, more progress will be made in price correction, the impact of the delayed effect of price correction in the first half will ease and profit is expected to increase. The full-year progress of price correction is expected to be approximately 90%.

We supply nitrogen gas to large semiconductor manufacturers in the electronics-related industries. Nitrogen is used mainly as an atmospheric gas, which is not significantly affected by the operating rate of customers' plants. We continuously received orders for equipment in the first half and currently have a large backlog. Therefore, we do not expect financial results to be significantly impacted, even if demand decreases in the second half. The strong sales of special chemical materials in the first half were affected by the depreciation of the yen. We are working to shift to US dollar-denominated transactions in the second half and expect that the impact of any fall in sales volume will recover from the decline.

**Q: Steel manufacturers in India are increasingly active. What effect will this have on your performance? What is your opinion about the possibility of acquiring projects?**

A: We are receiving orders in response to active inquiries.

Gas supply for a blast furnace manufacturer is characterized not only by the large amount of industrial gases used, but the use of various gases in the various manufacturing processes of a steelworks. In India, our track record in industrial gas operations for blast furnaces in Japan and our ability to respond flexibly and in detail have earned recognition. We are striving to receive orders for projects based on these strengths. In addition, if we are able to receive new contracts for large on-site services for blast furnaces, we will be able to build a source of industrial gas supply and increase sales together with lorry cylinder business.

■ **Energy solutions**

**Q: What factors were behind the 6.8 billion yen downward revision of the full-year financial forecast from 10.8 billion yen to 4 billion yen?**

A: About 90% was due to the biomass power generation business and the remainder is a loss on the sale of carbon dioxide and dry ice.

Approximately 40% of the downward revision in the biomass power generation business is marine transportation costs, approximately 30% is the prices of PKS and woody pellets and another approximately 30% is demurrage charges at Onahama Port. The increase in the price of coal used as an auxiliary fuel had a slight effect.

The increases in the prices of PKS and woody pellets have very similar trends. The price of woody pellets is slightly higher than the price of PKS.

**Q: You plan to make Air Water & Energia Power Onahama Corporation a wholly-owned subsidiary. However, every increase in the cost of PKS or marine transportation may continue to reduce operating profit unless the FIT system itself does not change. What efforts are you making, if any, to solve this issue?**

A: We are making arrangements to ease the impact of demurrage, including the revision of purchase contracts and approaching the authorities managing the port facilities. However, a drastic improvement is still difficult.

Currently, it is difficult to reduce the marine transportation cost of the relatively small 10,000-ton to 20,000-ton bulk carriers used to import PKS and woody pellets comparing the reduction of the cost of large vessels. However, we expect that these conditions will gradually improve going forward.

**Q: Can we expect that the business will turn a profit if marine transportation and other costs decrease, even if the price of PKS does not decrease?**

A: While it will be affected by the extent and timing of a decrease in the price of PKS, a decrease in marine transportation costs which are the primary cause of the deficit should result in a significant improvement.

**Q: What is your view of impairment risk?**

A: We think that impairment risk is low.

While the PKS price is currently rising due to the Russo-Ukrainian War, we expect that the possibility of rising higher than the current level is unlikely.

The cost of marine transportation is also projected to slowly decrease in the second half of the fiscal year.

The demurrage at Onahama Port was incurred due to the damage caused by an earthquake that struck Soma Port in early spring. The Ministry of Land, Infrastructure, Transport and Tourism announced that the restoration of Soma Port would be completed by FY2024. The impact of the demurrage will likely ease gradually after that.

## ■ Health & Safety

**Q: Profit is forecast to grow rapidly in the second half of FY2022. What are the causes for this?**

A: The key factors are growth in the Disaster Prevention business, Consumer Health businesses, and Safety Services.

In the Disaster Prevention business, we expect strong results from hospital renovation construction and gas fire extinguishing equipment for data centers. In the Consumer Health business, the effect of price corrections not enjoyed in the first half will likely benefit the business in the second half of the fiscal year.

The Service business has mainly supplied medical materials in the past. We will focus on the SPD business as a whole, including pharmaceuticals, which is expected to grow going forward. Moreover, we have a number of sterilization centers outside hospitals and will meet demand for outsourced hospital operations which is increasing due to COVID-19.

■ **Other businesses**

**Q: The first-half results indicate a year-on-year loss. Why?**

**The full-year forecast from the first half to the second half is the growth of profit. Why?**

A: The main factors in the loss are the power generation business and the overseas business of Nihonkaisui Co., Ltd.

Nihonkaisui Co., Ltd. incurred a loss due to the increase in the prices of coal and LNG used in salt manufacturing and an increase in fuel prices in its electric power business. We expect to be able to ease the impact in the second half by increasing the ratio of domestic materials in biomass power generation and adjusting the output of power generation while balancing it with fixed costs. The overseas business was affected by a delay in the procurement of industrial gas-related equipment and production materials in North America. At present, the impact of the delayed procurement is gradually decreasing. In terms of orders received, sales of liquefied hydrogen tanks used for hydrogen stations and fuels for forklifts at large distribution companies remain solid.

Further, our North American business is engaging primarily in the manufacturing of industrial gas-related equipment. Activities for M&A and the establishment of joint gas distributor companies are progressing, and the forecast includes the benefits of new consolidations. Sales of high-output UPS are also projected to recover slowly, which will be led by Singapore and the rest of Southeast Asia.

■ **Efforts to increase profitability**

**Q: What are the effects of the reorganization and synergy creation implemented in April 2022 on the profitability of the business?**

A: Our understanding is that the reorganization of the Group companies through the foundation of Air Water Performance Chemicals Inc. in the chemical industry and AW Agriculture & Foods in the agriculture and food industries in FY2021 resulted in steady progress in the increase of profitability. We will accelerate our efforts to reorganize the Group companies and create synergy under the new organizational structure that began in April 2022.

End of Q&A summary