NIPPON SANSO Holdings Corporation

Q3 Financial Results Briefing for the Fiscal Year Ending March 2021 Telephone Conference

February 2, 2021

(Updated based on voice record in English : March 8, 2021)

Presentation

Momiyama: Ladies and gentlemen, thank you very much for taking the time out of your busy schedules to attend the NIPPON SANSO Holdings Corporation Conference Call for the First Three Quarters of the Fiscal Year Ending March 31, 2021. I am Momiyama of the Investor Relations Department. Thank you.

Before we begin the briefing, I would like to provide you with some information about the materials. We have emailed the material for today's meeting to those who have registered to attend, even though it was just before the meeting. The information is also posted on the IR page of the corporate website.

I would now like to introduce today's attendees. Mr. Alan Draper, Executive Officer of Group Finance & Accounting Office, and CFO. Mr. Moroishi, Executive Officer of Group Planning. Mr. Umehara, General Manager of Investor Relations, Group Finance & Accounting Office. Mr. Yoshida, General Manager of Accounting, Group Finance & Accounting Office.

Next, I would like to give you an overview of today's proceedings. First of all, CFO Draper will give the opening remarks. After that, Mr. Umehara, General Manager of Investor Relations, will give an overview of the financial results in accordance with the material. There will be time for questions and answers after the presentation. When it is time for the question-and-answer session, you will be informed of the specific procedure, and voice guidance will also be provided. Please note that today's session is being conducted bilingually in Japanese and English, with simultaneous interpretation provided.

Mr. Alan Draper, Executive officer of Group Finance & Accounting Office and CFO, will give opening remarks.

Draper: My name is Alan Draper and first and foremost, I would like to thank all of our employees for their hard work and effort in these challenging times; whether they are located in a manufacturing facility, delivery truck, plant, or at home, they are getting their jobs done. I would also like to emphasize and especially thank our front-line workers. These employees are the true heroes of today ensuring that our critical products (medical O2 and medical equipment) are delivered safely to medical institutions and hospitals without fail. We appreciate their support, professionalism, and efforts.

I would like to start the meeting today with a brief update on our business performance before handing the call over to Umehara-san.

For the Q3 October-to-December period versus last year, sales were down minus 1% and core operating income up 4%, reflecting the hard work and solid performance of our team, in which everyone contributed in controlling costs, avoiding discretionary spend, and improved price performance.

Our YTD sales continued to claw back versus prior year and now sits at JPY592.2 billion, which is down 6.5% versus prior year, and JPY60.4 billion core OI, which is down 11.4% versus prior year.

This is a strong rebound as compared to the YTD September performance versus prior year, in which sales were down approximately 9% and core OI down minus 19%.

While there is always some degree of uncertainty, especially as countries experience second and third waves of the virus, we feel reasonably confident in our current outlook for the remainder of the year and have decided to revise our forecast.

Our revised forecast lowers sales from JPY830 billion to JPY802 billion, a decrease of 3.4%. And at the same time, we are raising our core OI guidance, plus 1.2% from JPY82 billion to JPY83 billion. In addition, we are raising our operating income forecast from JPY82 billion to JPY84.6 billion and increasing net income guidance to JPY48.1 billion from JPY44 billion, an increase of 9.3%.

Operating profit contains a positive settlement of a legal claim that occurred in Q3, totaling approximately JPY2.6 billion, and also includes a potential nonrecurring charge of JPY1 billion in the upcoming fourth-quarter forecast. These two nonrecurring items are below core OI.

The net income increase of 9.3% over previous forecast is a result of higher profitability in core OI, net nonrecurring gain impact, and lower interest and tax expense than expected earlier this year. Our team is focused on controlling items that are within our control and will continue to do so in the future.

I will now pass the call over to Umehara-san for an overall business update.

Umehara: From my side, my name is Umehara from IR Division. I will like to provide the explanation.

First is the operating environment. Compared to October, there are many countries which are seeing expansion of COVID-19 infections. However, our Group has not seen major disruption in the production of industrial gases or its distribution at this point. Each region is trending towards recovery, but there has been economic stagnation due to expansion of infection as well as reduction in manufacturing activities.

1-1. Overview of business performance (YTD)

(Billions of yen)	FYE2020 Q3 result Margin	FYE2021 Q3 result Margin	YoY Change % Change
Revenue	633.4	592.2	-41.2 -6.5%
Core operating income	68.2 10.8%	60.4 10.2%	-7.8 -11.4%
Non-recurring profit and loss	3.6	2.6	-1.0
Operating income	71.8 11.4%	63.1 10.7%	-8.7 -12.2%
Finance costs	-10.9	-8.4	+2.5
Income before income taxes	60.9	54.7	-6.2
Income tax expenses	-18.3	-16.4	+1.9
Net income	42.5	38.2	-4.3
(Attribution of net income) **Net income attributable to owners of the parent**	41.3 6.5%	37.3 6.3%	-4.0 -9.8%
Net income attributable to non-controlling interests	1.1	0.9	-0.2

- Foreign currency translations (average rate during the period)

Unit：JPY	USD	EUR	SGD	AUD
FYE2020 Q3	108.89	121.12	79.59	74.93
FYE2021 Q3	105.54	122.61	76.92	74.75

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Let me move on to talk about overview of our performance on page three.

Revenue was JPY592.2 billion, down JPY41.2 billion or down 6.5% YoY. Impact of foreign exchange rate, compared to last year, is negative JPY4.2 billion. And excluding this factor, it was JPY37 billion decline in revenue.

For your reference, ForEx for US dollars was JPY108.89 to a dollar last third quarter, and this third quarter, it was JPY105.54 to a dollar. In euro, it was JPY121.12 to the euro last third quarter, and it was JPY122.61 to a euro this third quarter. The ForEx impact was negative JPY4.6 billion in US dollars, and positive JPY1.5 billion for appreciation of the yen to the euro, and there was a negative JPY1.1 billion impact from other currencies.

1-1. Overview of business performance (YTD)

【Revenue】

(Billions of yen)	FYE2020 Q3 result	FYE2021 Q3 result	Difference	% Change
Gas Business in Japan	260.2	**242.2**	-18.0	-6.9%
Gas Business in the U.S.	148.8	**139.3**	-9.5	-6.4%
Gas Business in Europe	125.3	**115.9**	-9.4	-7.5%
Gas Business in Asia and Oceania	79.1	**77.0**	-2.1	-2.6%
Thermos Business	19.8	**17.6**	-2.2	-11.2%
Revenue Total	633.4	**592.2**	-41.2	-6.5%

【Operating income】

(Billions of yen)	FYE2020 Q3 result	FYE2021 Q3 result	Difference	% Change
Gas Business in Japan	19.9	**19.1**	-0.8	-4.2%
Gas Business in the U.S.	16.7	**16.0**	-0.7	-4.2%
Gas Business in Europe	19.2	**14.5**	-4.7	-24.1%
Gas Business in Asia and Oceania	8.1	**8.1**	-0.0	-0.4%
Thermos Business	6.0	**3.5**	-2.5	-41.3%
Eliminations or Corporate	-1.9	**-0.9**	+1.0	-
Core operating income Total	68.2	**60.4**	-7.8	-11.4%
Non-recurring profit and loss	3.6	**2.6**	-1.0	-
Operating income Total	71.8	**63.1**	-8.7	-12.2%

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Next is core operating income. It was JPY60.4 billion, down JPY7.8 billion or 11.4% from the previous year. The ForEx impact was negative JPY400 million. Excluding this factor, the core operating income was down JPY 7.4 billion.

Next is nonrecurring profit and loss. It was JPY1 billion YoY at JPY2.6 billion. This JPY2.6 billion profit came from settlement in a litigation from breach of contract involving crude oil helium gas supplier in the US. Operating Income including the nonrecurring profit was JPY63.1 billion, down JPY8.7 billion from the previous year or 12.2% decline.

Finance costs was booked at a negative JPY8.4 billion, declining by JPY2.5 billion to the previous year.

Net income attributable to the owners of the parent for the quarter was JPY37.3 billion, down JPY4 billion or 9.8%. Overall, both revenue and profits declined.

1-2. Business Performance by Segment: Gas Business in Japan (YTD)

(Billions of yen)				FYE2020 Q3 result	FYE2021 Q3 result	Difference	% Change
Revenue	Gases	Packaged	Air separation gases, other	11.4	**10.1**	-1.3	-11.0%
			Packaged subtotal	11.4	**10.1**	-1.3	-11.0%
		Bulk	Air separation gases	36.4	**34.0**	-2.4	-6.7%
			Carbon dioxide	17.8	**16.7**	-1.1	-6.4%
			Helium	3.4	**3.8**	+0.4	+14.5%
			Other gases	7.5	**6.5**	-1.0	-12.9%
			Bulk subtotal	65.2	**61.2**	-4.0	-6.2%
		On-site	Air separation gases	53.7	**48.5**	-5.2	-9.7%
			Other gases	4.8	**4.5**	-0.3	-6.1%
			On-site subtotal	58.5	**53.1**	-5.4	-9.4%
		LP gas		20.3	**17.2**	-3.1	-15.4%
		Specialty gases		19.7	**20.1**	+0.4	+2.4%
			Subtotal	175.3	**161.9**	-13.4	-7.7%
	Equipment and installation, other		Gas-related and plant, other	55.3	**50.6**	-4.7	-8.5%
			Electronics-related	11.1	**13.3**	+2.2	+19.0%
			Welding and cutting-related	18.3	**16.3**	-2.0	-10.8%
			Subtotal	84.8	**80.3**	-4.5	-5.4%
	Revenue Total			**260.2**	**242.2**	**-18.0**	**-6.9%**
Segment income				**19.9**	**19.1**	**-0.8**	**-4.2%**

Reasons for changes in revenue

- Bulk & On-site (Air separation gases):
  Demand decreased sharply across the manufacturing sector as a whole.
- Equipment and installation, other (Electronics-related):
  Sales of Equipment and installation for semiconductor manufacturers increased.

Reason for change in segment income

- In bulk gases, earnings decreased mainly due to a decrease in revenue from air separation gases.
- Lower costs due to falling fuel prices.
- In Electronics related, earnings increased due to an increase in revenue from Equipment and installation.

I would like to talk about each segment now. First is Gas Business in Japan. Please turn to page five.

We are on a recovery trend. The revenue was JPY242.2 billion, down JPY18 billion or 6.9% from the previous year. I would like to talk about the reason for increase and decline. Packaged gas was negative JPY1.3 billion. Bulk gases went down by JPY4 billion in revenue. Domestic manufacturing demand is recovering in automotive industry, but still weak in steel, non-ferrous metal, transport equipment, metallic processing, and chemicals. We have seen decline in all areas including oxygen, nitrogen, argon, and carbon dioxide.

For on-site, revenue declined by JPY5.4 billion. It is due to decline in the demand in steel, specialty steel, non-ferrous metal, and chemicals.

LP gas saw a decline of JPY3.1 billion in revenue. There was a decline in selling price due to its link to import price.

Specialty gases saw an increase in revenue by JPY400 million. Demand in memories and CMOS sensors remained robust. Other electronics-related products, LCD are on the path to recovery but there is a low demand from solar panels.

For gas-related and plant due to a large-scale project booked in the previous year, by comparison, it declined JPY4.7 billion YoY.

In electronics, construction for semiconductor were robust and there were also MOCVD equipment-related sales and their revenue went up by JPY2.2 billion.

In welding- and cutting-related, because the market remained weak, revenue was down by JPY2 billion.

Next is segment income. It was JPY19.1 billion, down JPY800 million or 4.2% YoY. The reasons for change in segment income were as follows. Due to reduction of fuel-adjustment cost or electricity cost, there was JPY800 million increase in income. However, in packaged and bulk gases, even with the positive impact of price provision due to significant demand decrease in the domestic manufacturing industry, income declined by JPY900 million. On the other hand, in carbon dioxide, even with the reduction in income in restaurant industry, the result was flat YoY.

For on-site, in addition to reduction in income for steel plants like the previous year, there were a decline in income in specialty steel and petrochemicals. Thus, it was JPY 600 million decline in income.

For LP gas, in addition to reduction in demand, there was a decline in the import price, leading to decrease in income. However, there was an increase by JPY100 million YoY.

In specialty gases, demand for CMOS and memories were robust, but P&L remained flat. Gas-related and plant saw onetime demand increase from medical industry but due to not having a large plant project we had last year, the overall income including gas equipment was down JPY1.3 billion.

Electronics-related equipment and installation saw increase in income by JPY800 million. Welding- and cutting-related saw a decline in revenue leading to JPY400 million decrease in income. Due to onetime profit and reduction in the expenses in the second quarter, there is an increase in income by JPY700 million.

1-2. Business Performance by Segment: Gas Business in the U.S. (YTD)

(Billions of yen)				FYE2020 Q3 result	FYE2021 Q3 result	Difference	% Change
Revenue	Gases	Packaged	Air separation gases, other	36.1	30.4	-5.7	-15.7%
			Packaged subtotal	36.1	30.4	-5.7	-15.7%
		Bulk	Air separation gases	27.7	25.5	-2.2	-7.9%
			Carbon dioxide	19.3	18.0	-1.3	-7.1%
			Helium	4.3	5.4	+1.1	+25.0%
			Other gases	6.6	8.5	+1.9	+27.8%
			Bulk subtotal	58.2	57.6	-0.6	-1.1%
		On-site	Air separation gases	7.1	6.5	-0.6	-8.2%
			Other gases	9.9	8.9	-1.0	-10.4%
			On-site subtotal	17.0	15.4	-1.6	-9.5%
		LP gas		2.8	2.5	-0.3	-11.9%
		Specialty gases		4.9	4.9	+0.0	+0.0%
			Subtotal	119.3	111.0	-8.3	-6.9%
	Equipment and installation, other		Electronics-related	3.5	4.5	+1.0	+28.5%
			Welding and cutting-related	25.9	23.7	-2.2	-8.5%
			Subtotal	29.5	28.3	-1.2	-4.0%
	Revenue Total			148.8	139.3	-9.5	-6.4%
Segment income				16.7	16.0	-0.7	-4.2%

*Impact of foreign currency translation: Negative impacts of ¥4.57 billion on revenue and ¥0.52 billion on segment income

Reasons for changes in revenue

- Packaged & Bulk: Demand decreased sharply across the manufacturing sector as a whole.
- Helium: Revenue increased due to pricing effects.
- On-site: Revenue decreased due to low levels of operation.
- Welding and cutting-related: Revenue decreased due to a soft demand for automobile and construction industry.

Reason for change in segment income

- In bulk gases, earnings decreased mainly due to a decline in revenue from air separation gases.
- Earnings decreased due to a decline in revenue from packaged gases and welding and cutting-related business.
- Temporary income and removal of prior-year amounts from non-operating transactions.
- Rationalization.

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Let me move on to talk about Gas Business in the US on slide six.

Revenue for Gas Business in the US was JPY139.3 billion, down JPY9.5 billion or 6.4% YoY. The impact of ForEx was negative JPY4.6 billion. Excluding this factor, the amount of decline in revenue was JPY4.9 billion.

In the supplementary material, the numbers include impact from foreign exchange rate. I will give you changes from the previous year, excluding the foreign exchange factor.

Packaged, negative JPY4.6 billion; Bulk, positive JPY1.2 billion; on-site, negative JPY1.1 billion; LP gas, negative JPY300 million; specialty gas, positive JPY200 million. In equipment and installation, electronics-related was positive JPY1.1 billion; welding-and cutting-related, negative JPY1.4 billion.

Packaged gas is on the path to recovery. However, demand has significantly declined in automotive, transport equipment-related, and metal processing. Breakdown for positive of JPY1.1 billion in Bulk is as follows: separate gas, negative JPY1.3 billion; carbon dioxide and dry ice, negative JPY800 million. All gases are seeing a recovery trend from the second quarter to the third quarter. Helium was positive JPY1.2 billion and other gases saw a positive JPY2 billion in revenue.

On-site saw overall decline in demand, including separate and other gases. Revenue declined by JPY1.1 billion YoY. In the electronics-related area, domestic demand went up and specialty gas increased by JPY200 million YoY. Equipment installation saw JPY1.1 billion increase in revenue.

For welding- and cutting-related, sales have seen recovery from decline in automotive and construction-related demand trough, but revenue went significantly down by JPY1.4 billion.

Next is segment income. It was JPY16 billion, JPY700 million or 4.2% declined from the previous year. ForEx impact was negative JPY500 million, and if we exclude the ForEx factor, the income has declined by JPY200 million.

Breakdown of comparison to last year is as follows. In the previous year, in the second quarter, there was onetime income of JPY1.3 billion that did not exist this year. For Bulk and Packaged, there was a significant impact by deceleration of the economy by COVID-19 in the first quarter. However, due to price provisioning after second quarter, separate gas was positive JPY200 million, carbon dioxide was positive JPY200 million in income. Hard goods, packaged-related JPY400 million decline in income. On the other hand, due to price revision, helium went up by JPY300 million in income YoY.

On-site saw a decrease in income by JPY100 million. In equipment-related, electronics went down by JPY100 million in income. Cost cut by rationalization contributed by JPY400 million in income. There was onetime profit in the second quarter, amounting to JPY600 million.

1-2. Business Performance by Segment: Gas Business in Europe (YTD)

(Billions of yen)				FYE2020 Q3 result	FYE2021 Q3 result	Difference	% Change
Revenue	Gases	Packaged	Air separation gases, other	31.0	27.4	-3.6	-11.5%
			Packaged subtotal	31.0	27.4	-3.6	-11.5%
		Bulk	Air separation gases	28.9	27.6	-1.3	-4.5%
			Carbon dioxide	18.7	17.0	-1.7	-8.8%
			Helium	5.9	5.5	-0.4	-6.5%
			Other gases	5.3	5.3	-0.0	-0.6%
			Bulk subtotal	58.9	55.5	-3.4	-5.7%
		On-site	Air separation gases	16.4	15.3	-1.1	-7.2%
			Other gases	2.8	2.5	-0.3	-10.1%
			On-site subtotal	19.3	17.8	-1.5	-7.6%
		Specialty gases		5.0	4.9	-0.1	-2.5%
			Subtotal	114.3	105.8	-8.5	-7.5%
	Equipment and installation, other		Gas-related and plant, other	8.6	8.0	-0.6	-6.4%
			Welding and cutting-related	2.3	2.0	-0.3	-12.2%
			Subtotal	10.9	10.1	-0.8	-7.7%
	Revenue Total			125.3	115.9	-9.4	-7.5%
Segment income				19.2	14.5	-4.7	-24.1%

*Impact of foreign currency translation: Positive impacts of ¥1.54 billion on revenue and ¥0.23 billion on segment income
*The financial information presented under FYE2020 Q3 results differs from the information previously disclosed in FYE2020 Q3 because product aggregation categories were revised in the term under review.

Reasons for changes in revenue

- Packaged: Lower revenue centered on air separation gases, in addition to soft sales mainly in the refrigerant gas business (next-generation refrigerant gas) in Italy.
- Bulk & On-site: Demand decreased sharply across the manufacturing sector as a whole. (large impact on business results due to the spread of COVID-19)

Reason for change in segment income

- Earnings decreased due to a large decline in revenue across Bulk, Packaged and all other areas generally.
- Earnings decreased due to soft sales in the refrigerant gas business (next-generation refrigerant gas) .
- In bulk gases, earnings increased due to pricing effects.

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Next, I will explain about the European Business. Please turn to slide seven.

Europe had been hit hard by COVID expansion from early stages. Main markets for European Gas Business, namely Spain and Italy, have been hit hard. After the second quarter, these countries started showing recovery and during October to December time frame, their revenue was greater than the previous year on a local currency basis.

Revenue for European Business was JPY115.9 billion, down JPY9.4 billion or 7.5% YoY. The impact of ForEx was positive JPY1.5 billion and excluding this factor, the decline in the revenue for this business was JPY10.9 billion.

In the supplementary materials, impact from ForEx is included in the segment-by-segment information. I would like to inform you of the change from the previous year excluding the ForEx impact. Packaged, negative JPY4 billion; Bulk, negative JPY4.1 billion; on-site, negative JPY1.7 billion; specialty gas, negative JPY200 million; equipment and installation, negative JPY700 million in gas-related; and welding-and cutting-related, negative JPY300 million.

In Packaged, there was an impact from sluggish demand in switch to next-generation alternative fluorocarbon in the refrigerant business in Italy. In Bulk gas, due to overall decrease in demand, air separation gas was minus JPY1.7 billion; carbon dioxide, minus JPY1.9 billion; and helium, minus JPY0.5 billion.

On-site, while the steel demand is on recovery towards the third quarter, this business was impacted by the slowdown in the first half and was minus JPY1.7 billion. Specialty gas, mainly due to demand decrease in car electronics, was minus JPY0.2 billion. Gas-related and plant was minus JPY0.7 billion. Welding- and cutting-related was minus JPY0.3 billion.

Segment income decreased largely to JPY14.5 billion, down JPY4.7 billion or 24.1% YoY. Impact of foreign currency translation was plus JPY0.2 billion. Excluding translational impact, segment income would be down JPY4.9 billion YoY. Although there were positive factors such as price revisions, the reason for the decline in income was the decrease in sales volume due to decrease in demand in the whole industry caused by the new coronavirus.

1-2. Business Performance by Segment: Gas Business in Asia and Oceania (YTD)

(Billions of yen)				FYE2020 Q3 result	FYE2021 Q3 result	Difference	% Change
Revenue	Gases	Packaged	Air separation gases, other	2.7	2.6	-0.1	-5.5%
			Packaged subtotal	2.7	2.6	-0.1	-5.5%
		Bulk	Air separation gases	12.3	11.0	-1.3	-10.8%
			Carbon dioxide	1.3	1.3	-0.0	-4.7%
			Helium	4.1	4.1	+0.0	+0.2%
			Other gases	2.0	2.1	+0.1	+2.4%
			Bulk subtotal	19.9	18.5	-1.4	-6.7%
		On-site	Air separation gases	2.7	2.6	-0.1	-4.8%
			On-site subtotal	2.7	2.6	-0.1	-4.8%
		LP gas		11.2	10.8	-0.4	-3.2%
		Specialty gases		20.5	23.8	+3.3	+15.8%
			Subtotal	57.2	58.5	+1.3	+2.2%
	Equipment and installation, other		Gas-related and plant, other	12.8	10.6	-2.2	-16.7%
			Electronics-related	5.2	4.3	-0.9	-16.7%
			Welding and cutting-related	3.7	3.4	-0.3	-8.7%
			Subtotal	21.8	18.5	-3.3	-15.3%
	Revenue Total			79.1	77.0	-2.1	-2.6%
Segment income				8.1	8.1	-0.0	-0.4%

*Impact of foreign currency translation: Negative impacts of ¥1.03 billion on revenue and ¥0.07 billion on segment income

Reasons for changes in revenue

- Bulk: In the Philippines, shipment volume decreased, as demand fell sharply in response to the impact of city lockdowns. Revenue similarly decreased in other regions as well.
- Specialty gases: Shipments were favorable in China and Taiwan.

Reason for change in segment income

- Earnings increased due to an increase in revenue from specialty gases in China and Taiwan.
- Profitability improved in the LP gas business in Australia.
- Earnings decreased due to a decrease in revenue in South East Asia as a whole.

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Next, I would like to speak about our Asia/Oceania Gas Business. Please turn to page eight.

Gas Business in Asia and Oceania was also impacted largely by COVID-19 in the first quarter. However, a recovery trend is also seen in the Industrial Gas Business. Demand for electronics in East Asia is strong without being impacted by the new coronavirus.

Revenue was JPY77 billion, down JPY2.1 billion or 2.6% YoY. Impact of foreign currency translation was minus JPY1.1 billion. Without translational impact, revenue would be down by JPY1 billion YoY.

Revenue by product in the supplementary materials includes translational impact, so I would like to give you the variance from the previous year excluding translational impact. Packaged, down JPY0.1 billion; Bulk, down JPY0.9 billion; on-site, down JPY0.1 billion; LP gas, down JPY0.3 billion; specialty gas was up JPY3.5 billion; gas-related and plant, down JPY2 billion; electronics-related, down JPY1 billion; and welding and cutting, down JPY0.2 billion.

As for the breakdown of the minus JPY0.9 billion in Bulk, in air separation gases, demand slowed in the Philippines, Thailand, Australia, and Vietnam which led to a decrease in revenue by JPY1.1 billion. Carbon dioxide was flat. And helium, due to recovery in Indian sales, was up JPY0.2 billion.

LP gas in Australia reflects the reduction in CP price into its sale price. Thus, revenue was down by JPY0.3 billion. Demand in specialty gas is increasing given the strong semiconductor market. By region, China's revenue was up JPY2.7 billion; Taiwan, up JPY1.1 billion; Singapore, up JPY0.4 billion; while South Korea's revenue decreased by JPY0.8 billion; and Others, up by JPY0.1 billion.

In gas-related and plants, although there were smart construction projects, due to sluggish fire prevention-related facilities in Singapore and Malaysia's L-NOX, revenue decreased by JPY2 billion.

In electronics-related equipment and installation, revenue decreased by JPY1 billion because the revenue from construction in Taiwan is recognized on a percentage-of-completion method. In welding- and cutting-related, L-NOX's revenue was down by JPY0.2 billion being impacted by suspension of construction activities due to COVID-19 in Singapore in the first quarter.

Next, segment income. Segment income was JPY8.1 billion, the same level as last year. Impact of foreign currency translation was minus JPY0.1 billion. Without translational impact, segment income would be up JPY0.1 billion. Income of L-NOX was down JPY0.1 billion due to decline in revenue. Philippines and Thailand incomes were down JPY0.2 billion and JPY0.1 billion respectively. Industrial gases in Vietnam, India, and China were almost flat.

Supagas in Australia was plus JPY0.3 billion YoY and is maintaining profit contribution due to decline in LP gas procurement price. In the electronics-related, specialty gases was up JPY0.2 billion. This includes equipment and installation.

1-2. Business Performance by Segment: Thermos Business (YTD)

(Billions of yen)		FYE2020 Q3 result	FYE2021 Q3 result	Difference	% Change
Revenue	Japan	17.2	**15.1**	-2.1	-12.4%
	Overseas	2.6	**2.5**	-0.1	-3.8%
	Revenue Total	**19.8**	**17.6**	**-2.2**	**-11.2%**
Segment income		**6.0**	**3.5**	**-2.5**	**-41.3%**

*Impact of foreign currency translation: Negative impacts of ¥0.07 billion on revenue and ¥0.01 billion on segment income

Reasons for changes in revenue

- Japan: Sales opportunities were lost due to restrictions on movement and voluntary suspension of business activities at retail stores, resulting in a decrease in shipment volume.
Meanwhile, stay-at-home demand supported firm sales of frying pans and tumblers.
- Overseas: Revenue decreased due to a decline in shipment volume in various regions.

Reason for change in segment income

- Japan: Earnings from the main products such as portable mugs decreased due to a substantial decline in revenue, as the Group was unable to capitalize on sales opportunities associated with periods of high demand such as the leisure season.
- Overseas: In addition to adjustments to operation levels at production plants, sales slowed at group companies accounted for by the equity.

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Next, I would like to explain about the Thermos Business, page nine please.

Revenue was JPY17.6 billion, down JPY2.2 billion or down 11.2% YoY. Translational impact was minus JPY0.7 billion. Without translational impact, revenue would be down by JPY2.1 billion.

Japan's revenue was down JPY2.1 billion. Demand in our mainstay products, sports bottles, and portable mugs declined due to the spread of COVID-19. Also, demand for our gift products for inbound tourists was also gone. On the other hand, demand for pans and tumblers used for stay-at-home consumption continued to increase in the third quarter, pushing up this category's performance.

As for our Overseas Business, Korea was impacted by the slow economy and change in sales environment due to the Japan/Korea relationships. And product plants in Malaysia and the Philippines were impacted by suspension due to the lockdown in the first quarter. However, all in all, operation is picking up recently and if we exclude translational impact of foreign currency, we are on par YoY.

Segment income was JPY3.5 billion, which is down JPY2.5 billion or 41.3% YoY. There was almost no translational impact. Income in Japan was down by JPY0.8 billion due to decline in revenue. As for overseas, due to lockdown of plants, income was down by JPY0.5 billion. Gain on equity method and others, down JPY1.1 billion. This is mainly due to the delay in recovery of the Chinese domestic economy.

This concludes my explanation on the third quarter of the year ending March 2021.

2-1. Full-Year Forecast for FYE2021 (YTD)

(Billions of yen)	FYE2020 Result Margin	FYE2021 Forecast (Announced Feb 2) Margin	YoY Change % Change	FYE2021 Forecast (Announced May12, 2020) Margin
Revenue	**850.2**	**802.0**	**-48.2** -5.7%	**830.0**
Core operating income	**90.3** 10.6%	**83.0** 10.3%	**-7.3** -8.1%	**82.0** 9.9%
Non-recurring profit and loss	3.5	1.6	-1.9	–
Operating income	**93.9** 11.0%	**84.6** 10.5%	**-9.3** -9.9%	**82.0** 9.9%
Finance costs	-14.7	-11.7	+3.0	-14.5
Income before income taxes	**79.1**	**72.9**	**-6.2**	**67.5**
Income tax expenses	-24.0	-23.3	-0.7	-21.5
Net income	55.0	49.6	-5.4	46.0
(Attribution of net income) **Net income attributable to owners of the parent**	**53.3** 6.3%	**48.1** 6.0%	**-5.2** -9.8%	**44.0** 5.3%
Net income for the year attributable to non-controlling interests	1.6	1.5	-0.1	2.0

- Foreign currency translations (average rate during the period)

Unit：JPY	USD	EUR
FYE2021 est. (announced on Feb. 2)	105	123
FYE2021 est. (announced on May 12, 2020)	108	120
FYE2020 actual	108.95	120.85

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Lastly, I would like to speak about the revisions we made for our full-year forecast for March 2021 that we announced today. Please turn to page 10.

This time, we have revised our full-year forecast that we announced in our tanshin on May 12th last year. Revenue is revised down by JPY28 billion or 3.4% from our original forecast to JPY802 billion. Other business showed some recovery after a big dip in the first quarter due to COVID-19. Recovery and demand is slow due to prolonging impact of the coronavirus and fulfillment of investments by customers as well.

On the other hand, our core operating income is revised up by JPY1 billion or 1.2% to JPY83 billion. Operating income, up to JPY84.6 billion, which is up by JPY2.6 billion or 3.2% from our original forecast. Although we were impacted by a decline revenue, business performances in the US and Europe were relatively strong compared to expectation. In addition, efforts to improve productivity, reduction of costs, and indirect expenses have contributed to this result.

As for nonrecurring losses, some point out the possibility of nonrecurring losses being accrued in the Asia and Oceania segment. We would like to gather necessary information in the fourth quarter in order to report to you the situation in details on year-end.

Net income is revised up by JPY3.6 billion or 7.8% from original forecast. And net income attributed to owners of the parent has been revised to JPY48 billion, up JPY4.1 billion or 9.3%.

Exchange rate has been changed from JPY108 to the dollar to JPY105, and from JPY120 to the euro to JPY123 to the euro.

2-2. Full-Year Forecast for FYE2021 by Segment (YTD)

【Revenue】

(Billions of yen)	FYE2020 Result	FYE2021 Forecast (Announced Feb.2)	Difference	% Change	FYE2021 Forecast (Announced Jul 30, 2020)
Gas Business in Japan	356.1	**330.9**	-25.2	-7.1%	356.0
Gas Business in U.S.	198.8	**186.5**	-12.3	-6.2%	192.0
Gas Business in Europe	165.5	**157.7**	-7.8	-4.7%	153.0
Gas Business in Asia and Oceania	104.5	**102.3**	-2.2	-2.1%	103.0
Thermos Business	25.1	**24.6**	-0.5	-2.1%	26.0
Revenue Total	850.2	**802.0**	-48.2	-5.7%	830.0

【Operating income】

(Billions of yen)	FYE2020 Result	FYE2021 Forecast (Announced Feb. 2)	Difference	% Change	FYE2021 Forecast (Announced Jul 30, 2020)
Gas Business in Japan	28.7	**27.2**	-1.5	-5.4%	31.2
Gas Business in U.S.	22.2	**21.4**	-0.8	-3.9%	16.3
Gas Business in Europe	24.8	**21.0**	-3.8	-15.5%	19.8
Gas Business in Asia and Oceania	9.9	**9.5**	-0.4	-4.5%	10.3
Thermos Business	7.2	**5.7**	-1.5	-21.1%	6.3
Eliminations or Corporate	-2.6	**-1.8**	+0.8	-	-1.9
Core operating income Total	90.3	**83.0**	-7.3	-8.1%	82.0
Non-recurring profit and loss	3.5	**1.6**	-1.9	-	-
Operating income Total	93.9	**84.6**	-9.3	-9.9%	82.0

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Also, I would like to explain the revisions we made for our full-year forecast by segment we announced on July 30 using page 11.

As for Gas Business in Japan, revenue is revised down to JPY330.9 billion, which is down JPY25.1 billion from our previous forecast. Core operating income is JPY27.2 billion, down JPY4 billion. Major factors are amidst the slow economy due to the spread of COVID-19, recovery in demand for capital investments planned by our users in the second half was slow, resulting in slower-than-expected growth in equipment and installation business performance.

Next, Gas Business in the US. Revenue is revised down from the previous forecast by JPY5.5 billion to JPY186.5 billion, including the impact of the change in exchange rate, while core operating income will be up by JPY5.1 billion to JPY21.4 billion. Revenue has been impacted by COVID-19 in the first quarter mainly. Core operating income reflects improvement in productivity and strict cost management as well as the unexpected onetime gain in the second quarter.

Next, Gas Business in Europe. Revenue is revised up by JPY4.7 billion, including impact from change in exchange rate, up to JPY157.7 billion. Core operating income is expected to be JPY21 billion, up to JPY1.2 billion from the previous forecast. Although this segment was heavily damaged by the slowdown in demand, mainly in the mining and manufacturing sector, as well as the spread of COVID-19, On-Site business for steel production is seeing a recovery and efforts for productivity improvement have contributed.

Next, Gas Business in Asia and Oceania. Revenue is revised down by JPY0.7 billion from the previous forecast to JPY102.3 billion. Core operating income down by JPY0.8 billion to JPY9.5 billion. This is due to the lockdown in Thailand and Myanmar from January and the softening of supply/demand balance of helium in China. Also, the impact of an LP price is declining in Australia as well and given these situations, both revenue and profit has been revised down.

Separate from this, as was explained earlier, at the operating profit level, the nonrecurring profit, which is the nonrecurring losses, is also being posted.

As for Thermos Business, revenue is revised down by JPY1.4 billion from the previous forecast to JPY24.6 billion. Core operating income is revised down by JPY0.6 billion to JPY5.7 billion. Although there were positive impacts such as increase in stay-at-home products such as pans and vacuum insulation tumblers, the slowdown in demand due to the impact from restrictions to go out being implemented globally and the prolonged expansion of COVID-19 infection seeing no signs of convergence are the major factors.

With this, I would like to conclude my explanation of the overview of our third-quarter results and the revisions we made for our full-year forecast for the fiscal year ending March 2021. Thank you very much.

Momiyama: CFO, Mr. Alan, and Umehara-san at the Head of IR, thank you very much for the presentation.

Question & Answer

Momiyama: We would like to go into the Q&A session. I would like to give you some housekeeping announcement before we begin. The co-presenters today are Alan who is the CFO as well as Umehara who is the Head of IR. The response to the Q&A will be made primarily by Alan. What he will say will be translated in the Japanese line by the simultaneous interpreter. I hope to have your understanding. And the investors who are attending today, we have already informed you of the two lines in two languages, but those of you who are participating in the Japanese line, please ask your question in Japanese; and those of you participating in the English, please speak in English. We hope to ask for your cooperation.

There is a question from the Japanese line.

Azuma: This is Azuma from Jefferies. Thank you very much for your presentation. I have a question to the CFO. Your company, its profitability, when we take a look at that, compared to the global top three, the profitability is lower. So, excluding the low profitability in Japan, but in comparing the European division in your company and comparing the competitors in Europe, the profitability is still low. Why is that? And how would you be improving that in the future? That's my question.

Draper: Thank you. This is Alan. So first of all, as you mentioned, I'll go through a few different scenarios. In the Japanese business, we have a distributor model. So that, along with the R&D costs that are basically assigned to the business here in Japan, that results in a lower EBIT operating income from a global perspective when you look at results.

From a European perspective, the EBITDA percentage is on par, I think, with the competitors. Sometimes when you have acquisitions, you have a lot of goodwill and amortization rates. And if you consider those, they're pretty significant over the past two years due to the December 18th acquisition. So I think our EBITDA is probably on par with our competitors, and not significantly different.

In the US, our on-site business is smaller than our competitors. So we don't have a huge on-site platform. In general, we do about 15% of on-site business. And as you know, that's one of the largest profitability factors. So it's a bit of a mix in some countries; in other countries, it's the way we do business with distributors; and the other business, I think we're about on par.

When you look at what are we going to do to improve, we just started the NIPPON SANSO hold company structure October 1st. Part of the reason for that structure is to take the strong performing areas that they're very successful in certain areas and leverage those to the countries or the businesses or regions that aren't as successful. So it's really sharing best practices, sharing applications, sharing knowledge between businesses, making sure that we utilize the strengths of each individual country or region, and share those amongst the broader organization. So that's something that we're going to do.

There's a lot of opportunities on productivity, leveraging procurement, and other things and other initiatives that we're looking at. But that obviously takes a little while after we introduce the hold company structure to start getting traction on these items.

Thank you.

Azuma: If I may add one. In the US, there's less position as the manufacturer. So, if you increase position as a manufacturer, I think your profitability may increase. However, in Europe, I think the only thing you can do is to grow revenue. But do you think revenues will grow in Europe?

Draper: I think, overall, we're always looking at ways to expand applications within our existing customers, finding new and creative ways to use our product. Our products are actually, obviously, vital to almost anything that's manufacturing. Manufactured industrial gases are utilized. And also, we're always looking for, obviously, price opportunities to make sure we're recovering price.

So I think we'll continue to improve across the globe in all regions. But I don't see or have any major concern from a European perspective. In fact, the business is doing pretty well right now for this past quarter, as you heard, where steel and chemicals are returning. And while the short term might be a bit bumpy due to the COVID crisis and the number of waves coming through from a virus perspective, I think the prospects are very significant, and we'll continue to perform well. And then, obviously, there's always opportunistic acquisitions and additional CapEx that we could look at as well. So that's how I think about the European Business.

Azuma: Thank you so much.

Momiyama: Next, we would like to take the question from the Japanese line.

Enomoto: BofA Securities. My name is Enomoto. One is related to the financial performance. I would like to know how to look at the fourth quarter. Segment-by-segment, there are, I think, a diversity. So if you could go segment-by-segment from third quarter to fourth quarter, how it will change? Especially in the European segment, I think that the income will be going up. But seasonality-wise, I think this is weak. So I would like to know the profitability situation, how it will evolve in the fourth quarter?

Draper: From a European perspective, overall, as you mentioned, we're continuing to grow and recover. So what we expect in the fourth quarter is improvement in our largest businesses. So Southern Europe, Spain, and Italy, as you probably know, is a significant portion of our business. We're seeing positive GDP comments and numbers that are coming out. Obviously, we have to get through this crisis, but we expect to have reasonable growth certainly in the fourth quarter. And the management team reaffirmed that over the last several days that everything's going smooth, and they're expecting to achieve the numbers that we've laid out here in our fourth-quarter forecast.

And regarding next year, obviously, we'll talk about next year a bit more when we do our full-year plan. We're in the planning process right now. And over the next six to eight weeks, we'll be finalizing our outlook for 2022 fiscal year ending.

Enomoto: My second question is different from your financials. I have a question regarding your dry ice business. Vaccine transportation perhaps will use dry ice, so more demand in dry ice. But dry ice demand in the US and Europe recently, has it increased? That's my first question. And also, dry ice will be used in Japan as well. So, in transporting vaccine, how do you foresee the supply/demand situation of dry ice?

Draper: Overall, dry ice, we've been seeing an uptick in dry ice, but it's not necessarily related to the vaccine. We do a lot on home delivery, food delivery which there's been a lot more of that type of, obviously, process around the globe. As people are staying home, there's more delivery of food, there's more food chilling and freezing and usage from that perspective. But certainly, from a carrier perspective, we're using CO2 dry ice. So I think it will continue in the non-vaccine use.

When it comes to the vaccine, we have an extensive CO2 network, as you know, throughout US, Europe, and Japan. With respect to CO2 and dry ice, we've been in talks with both pharma, companies, and governments in order to ensure an adequate and safe supply. However, we're not going to disclose exactly where we are in those. There are nondisclosure agreements, but we'll be participating in Japan, Europe, and US with some type of support from a CO2 dry ice perspective, and we don't think there's going to be any dry ice shortage or anything from that perspective. So, we will be participating. I don't think it's going to be a huge performance help. It's going to be a bit of a tailwind across the globe, but we'll be participating on that basis around the globe.

Enomoto: My last question is related to the initiatives that you're taking towards hydrogen. In Japan, carbon neutral is an objective aimed by the Japanese government. I think that you're involved in this area, and I was wondering what kind of a future scenario could be possible. For example, in your products, whether you would be working in manufacturing or in the distribution. And so, if there is any view about that, I would like to know.

Draper: Overall, the sustainable projects are good for the environment. We fully support obviously sustainable initiatives. Today, we provide hydrogen in the US and to a lesser degree in Europe. Our hydrogen customers are in many different industries. Some of our customers utilize hydrogen that we produce for transportation today, so we're participating in some green initiatives already. We have a fleet of CO2 ships in Europe which also are transporting, shipping, and relocating CO2 or have the possibility to, I should say, and we're supporting potential CO2 sequestration efforts.

Globally, we're working hard to reduce our energy footprint through cost-reduction projects, productivity initiatives, and these types of projects that are obviously good for the environment and also obviously good from a financial perspective.

We're in the process of discussing many sustainable initiatives. These projects are around the globe and there's projects such as decarbonization, biogas, biofuel, HyCO, oxy-combustion, and mobility projects. These projects are large, they're long-term projects, they take several months, even six months to a year to negotiate. We have the skills and the qualifications to perform in this area, and we think there'll probably be some opportunities that come along. But as of right now, there's nothing been significant that's come to fruition, but we'll actively work in this area and we want to make sure we get the right opportunity for our business.

Enomoto: Thank you very much.

Momiyama: Thank you for your question. Next, we'd like to move on to the next question.

Yamada: My name is Yamada. My first question is with regards to the nonrecurring profit and loss, the numbers. Pretax segment income, the JPY2.7 billion positive which is related to litigation settlements that I saw there, why do you describe your numbers in this way? And then net is JPY2.6 billion. Why do you separate the two numbers? And in the fourth quarter, JPY1.1 billion nonrecurring losses that expect in Asia and Oceania. What is it? And what is the possibility of occurrence of that a nonrecurring loss of JPY1.1 billion?

Draper: Our nonrecurring is about JPY2.6 billion that came through a legal settlement. We consider that noncore because it's not in our operating results. So we separately identify that on an independent line or separate line as nonrecurring.

When we talk about the fourth quarter, we became aware of a situation in Asia that requires a more thorough review and consideration from our vantage point. We're not certain of the outcome. We were just notified about some issues about a week or so ago. And so this is really a new development but we wanted to make sure that we communicated openly with the investors to make sure that there were no surprises at the end of the year. I don't anticipate the amount being anything more than JPY1 billion, but it could be also less.

Yamada: In the noncore, why is the litigation, the settlement is included in this line item? So the amount received for the settlement for the equity method.

Yoshida: This is Yoshida and I would like to respond to your question. The settlement amount had been included in the equity method company. And according to the holding of the shares of the equity method company, the settlement amount was booked. So that was why it was booked in the equity method.

Yamada: For the helium, the amount the helium had not been supplied, the amount for the settlement is already completed?

Yoshida: That's correct.

Yamada: Thank you very much. So I would like to ask about the cash flow. Net debt did not decrease so much, even though your performance improved. I would like to know the background.

So, in Europe, you previously talked about Norway salmon, a growing project? Is the investment resumed? Or is there any particular reason? So, in terms of the opportunity for growth in Europe, the investment opportunities, do you think that will be bearing fruit and you would be able to actually invest?

Draper: The project is a little bit delayed in Norway. It will be starting up in about two months. That's the salmon farm oxygen plant. So that'll be coming through in March. There was some delay because there's restrictions on folks entering Norway and how long you can stay and those types of restrictions. So it's a little bit complicated. So it's a couple of months later than expected.

But overall, that's certainly going to be producing cash flow dividends, positive cash flow very quickly. We have a good feel that the plant is going to be loaded up very fast. Obviously, salmon is common in Norway, but it's also very common in Japan. So we'll continue to load that up quickly.

When you talk about cash flows, I think we're doing pretty well on cash flows. I know we're going to be doing some debt payments coming up and doing a few other things because we have a lot of cash on our balance sheet. So we've got nearly USD1 billion, JPY100 billion of cash on our balance sheet, and everyone's trying to protect and be careful in case a liquidity crisis comes into play. So we've been paying what we need to do, maybe a little extra. We're probably going to do that again in February-March time frame. So we'll continue to improve our debt position and I see our debt position and debt-to-equity ratio coming down certainly this year and as we look into the next couple of years.

Yamada: So the debt/equity ratio and the cash flow as well is in line with your expectancy. Is that correct? Okay.

And one last point. As for Asia and Oceania Gas Business, the factor of variants, electronics, specialty gas JPY3.5 billion increase YoY, but the factor only explains the up JPY200 million. So the marginal profit looks very bad. Is there additional expenses here?

Umehara: This is Umehara. I would like to explain. Electronics Business in Asia, it is true that we are not generating profit yet. However, with regards to construction projects, major profit, we are not able to gain major profit not limited to this project. And as for gas profitability, many of our projects have high profitability. However, competition is becoming very fierce and in the areas which are not our major products, our competitors' products are coming in. Low-priced competitor products are coming in. So, as for profit, there is a trend in decline.

Also the new factory is being built. So, compared to the previous year, there are depreciation burden as well. It is not that demand is declining and our competitiveness is declining. That is not the case.

Yamada: So the start-up cost and fixed cost increase for the start of the new plant, that is impacting the profit. So when that is completed, can the marginal profit increase?

Umehara: Yes. That's the directionality that we have in mind. The new plant is just being tested right now and the utilization will increase in the future. And we believe that the profitability will come along with it.

Yamada: Thank you very much.

Momiyama: Thank you very much for your question. And that would be the last questioner.

Kono: This is Kono from Nomura Securities. On page 11, this is a breakdown of the new plan and I would like to ask about the US Gas Business. The sales is down from the original plan, but the profit is significantly up. So the reason you believe that the profitability is increasing for the US Gas Business, that's what I would like you to explain to me.

Draper: This business has been performing very well lately. They've been really doing well on price, productivity, cost-reduction actions, doing a lot with helium. So they've been really pushing the business well. So while volumes are flat to down a bit in some areas, they've actually managed to get operating leverage and getting operating income improvements. So they're able to increase their operating income even though sales were light of their forecast. And they feel pretty good about how things look for the fourth quarter.

Kono: Which factor is the largest? Is it the price raising, productivity? Maybe you can give me some numbers on which factor is the largest in pushing up the operating income of US Business.

Draper: So overall, I would say it's probably this is going to be a bit of an estimate for probably about 1/3 on price and 2/3 on cost reduction and productivity. They've got a program called the Right Way Program, which they've been really pushing hard. As soon as the pandemic came in, they were doing a lot on their cost side. So they're really taking a lot of the costs out and anyone that leaves, they're not replacing and they're doing a lot of good jobs, and making sure that costs stay low and obviously down YoY. So that's my estimate, about 1/3 price, 2/3 cost.

Kono: There is another question I would like to ask you. This is related to Yamada-san's question, which was asked earlier, about the Asia Business. If we look at the OI—core OI evolvement, it was JPY3.3 billion, and there was a JPY900 million drop this quarter, and the sales was flat. So I'm sure that there were start-up costs for the new plant, from July to September and October to December. Is the reason why the profitability had gone down, is that reason the same?

Umehara: This is Umehara. In terms of the recent change, the profitability decrease did not come from the plant start-up; it was more about sales-related. We were selling the products which we were procuring, and there were price competitions in that area. It is not just about electronics. So helium or industrial gases, there were some concerns that we had, and that's why we are expecting a negative. So it is not just about electronics. So I hope that you would be able to understand it that way.

Kono: So, overall, the competition is fiercer?

Moroishi: This is Moroishi of Corporate Planning. Especially in China, helium's price, sales price, or market price, is declining. And that impact is included in the fourth quarter and factored in in the fourth quarter, to be more conservative.

Kono: Understood. Thank you very much.

Momiyama: Thank you for your questions. Since it is time to end, we would like to end the Q&A session. Due to time constraints, we were not able to take all questions. We'd like to answer your questions with the individual on separate occasion. With this, we would like to conclude the third-quarter teleconference for the financial results ending March 2021. We would like to disclose the details of today's teleconference in our corporate website. Thank you very much for your participation. And thank you very much for your questions. Thank you.

[END]

Reminder

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