TAIYO NIPPON SANSO
The Gas Professionals

May 13, 2019
Taiyo Nippon Sanso Corporation

# Consolidated Financial Performance for Fiscal Year 2019 (Based on IFRS)

(Amounts less than ¥1 million are omitted)

## 1. Financial results for the FYE2019 (April 1, 2018 – March 31, 2019)

### (1) Operating results

(Percentages indicate year-on-year change)

| | Revenue | | Core operating income | | Operating income | | Net income | | Net income attributable to owners of the parent | | Total comprehensive income | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (¥ million) | % | (¥ million) | % | (¥ million) | % | (¥ million) | % | (¥ million) | % | (¥ million) | % |
| FYE2019 | 740,341 | 14.6 | 65,819 | 9.6 | 66,863 | 11.7 | 43,709 | (13.9) | 41,291 | (15.6) | 29,745 | (31.8) |
| FYE2018 | 646,218 | 11.1 | 60,033 | 9.7 | 59,862 | 11.5 | 50,754 | 40.2 | 48,919 | 40.8 | 43,596 | 4.3 |

(Reference) Income before income taxes FYE2019: ¥62,083 million (11.1%) FYE2018: ¥55,897 million (11.4%)
Core operating income is calculated as operating income excluding certain gains and expenses attributable to non-recurring factors (non-recurring items).

| | Basic earnings per share (yen) | Diluted net income per share (yen) | Return on equity attributable to owners of the parent (%) | Income before income taxes to total assets ratio (%) | Core operating income to revenue ratio (%) |
|---|---|---|---|---|---|
| FYE2019 | 95.42 | — | 10.4 | 4.6 | 8.9 |
| FYE2018 | 113.04 | — | 13.3 | 6.0 | 9.3 |

(Reference) Share of profit (loss) of associates and joint ventures accounted for using the equity method
FYE2019: ¥3,836 million FYE2018: ¥2,836 million

### (2) Financial position

| | Total assets (¥ million) | Total equity (¥ million) | Equity attributable to owners of the parent (¥ million) | Equity attributable to owners of the parent ratio (%) | Equity attributable to owners of the parent per share (yen) |
|---|---|---|---|---|---|
| FYE2019 (March 31, 2019) | 1,771,015 | 435,854 | 406,602 | 23.0 | 939.56 |
| FYE2018 (March 31, 2018) | 931,047 | 412,072 | 386,457 | 41.5 | 893.01 |

### (3) Consolidated cash flows

| | Cash flows from operating activities (¥ million) | Cash flows from investing activities (¥ million) | Cash flows from financing activities (¥ million) | Balance of cash and cash equivalents at term-end (¥ million) |
|---|---|---|---|---|
| FYE2019 | 98,685 | (754,969) | 664,925 | 59,620 |
| FYE2018 | 83,199 | (52,088) | (39,859) | 47,809 |

## 2. Dividends

| | Annual Dividend | | | | | Total amount of dividends | Payout ratio (consolidated) | Ratio of dividends to equity attributable to owners of the parent (consolidated) |
|---|---|---|---|---|---|---|---|---|
| | End of 1st quarter | End of 2nd quarter | End of 3rd quarter | Term end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | ¥ million | % | % |
| FYE2018 | — | 11.00 | — | 12.00 | 23.00 | 9,957 | 20.3 | 2.7 |
| FYE2019 | — | 12.00 | — | 13.00 | 25.00 | 10,822 | 26.2 | 2.7 |
| FYE2020 (est.) | — | 13.00 | — | 13.00 | 26.00 | | 19.7 | |

## 3. Forecasts for business operations for FYE2020 full term (April 1, 2019 – March 31, 2020)

(Percentages indicate year-on-year change)

| | Revenue | | Core operating income | | Operating income | | Net income | | Net income attributable to owners of the parent | | Basic earnings per share (yen) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (¥ million) | % | (¥ million) | % | (¥ million) | % | (¥ million) | % | (¥ million) | % | (Yen) |
| First half of FYE2020 | 435,000 | 32.0 | 46,000 | 63.4 | 46,000 | 58.8 | 26,700 | 42.6 | 25,500 | 44.2 | 58.92 |
| Full term | 890,000 | 20.2 | 95,000 | 44.3 | 102,000 | 52.6 | 59,500 | 36.1 | 57,000 | 38.0 | 131.71 |

(Reference) Income before income taxes First half of FYE2019: ¥39,000 million (44.1%) FYE2019 full term: ¥86,500 million (39.3%)

* Explanation concerning the appropriate use of forecasts for business operations and other notable matters

- This report contains business forecasts and other forward-looking statements that are based on information currently available to the Company and certain assumptions judged to be reasonable by management. The Company gives no assurances that business forecasts will be attained. Moreover, actual results may differ materially from business forecasts due to various factors. For details on the assumptions of the forecasts and related matters, please see page 4, "(3) Future Outlook," in "1. Overview of the Business Results."

## 4. Overview of Business Results for the Fiscal Year Under Review

### (1) Overview

The business environment surrounding **the Taiyo Nippon Sanso Group (TNSC Group)** in the fiscal year under review (from April 1, 2018 to March 31, 2019) saw strong production activities in both domestic and overseas manufacturing industries, and shipments of air separation gases (oxygen, nitrogen, and argon) were steady. In the electronics-related field, deliveries in some product fields declined in Japan.

Against this backdrop, the TNSC Group achieved the following results for the fiscal year under review. Revenue on a consolidated basis increased 14.6% year on year to ¥740,341 million, core operating income rose 9.6% to ¥65,819 million, operating income increased 11.7% to ¥66,863 million, and net income attributable to owners of the parent decreased by 15.6% to ¥41,291 million.

The Company completed the acquisition of the European business of Praxair, Inc. of the United States on December 3, 2018. The adjustments for segment income for the fiscal year under review include ¥2,695 million in acquisition-related expenses for the European business (advisory costs, etc.).

Core operating income is calculated as operating income excluding certain gains and expenses attributable to non-recurring factors (non-recurring items).

## (2) Overview of Business Performance by Reportable Segment

A breakdown of business performance by reportable segment is as follows.
Segment income represents core operating income.
From the fiscal year under review, the TNSC Group changed its reportable segments. Therefore, to facilitate the year-on-year comparisons shown below, the figures for the previous fiscal year have been reclassified based on the changes to the reportable segments. Moreover, the Gas Business in Europe has been added as a reportable segment, and the results of the European business acquired from Praxair, Inc. of the United States have been presented in this segment.

**Gas Business in Japan**
In the industrial gas-related business, revenue from air separation gases, a core product, performed steadily for use primarily in the key industries of steel and chemicals. In addition, revenue from on-site business increased since a new on-site plant started operations in October 2017. Hard goods significantly expanded revenue, mainly due to metal processing. In the medical business, there was a contribution to earnings from the medical equipment sales company, IMI Co., Ltd., acquired in October 2018. In the electronics-related field, revenue from electronic materials gases declined.

As a result, in the Gas Business in Japan, revenue increased 5.5% year on year to ¥363,951 million, while segment income decreased 5.0% to ¥29,808 million.

**Gas Business in the United States**
In the industrial-gas related business, revenue from bulk gas and hard goods increased significantly following a steady performance in the manufacturing sector. In the on-site business, the start of operation at a new project for a chemicals manufacturer contributed to revenue. In addition, revenue rose partly due to a contribution from the HyCO business*, which was acquired from Linde Gas North America LLC ("Linde America"), a subsidiary of German company LindeAktiengesellschaft ("Linde AG") in February 2019. In the electronics-related field, revenue from equipment and installation rose substantially.

As a result, in the Gas Business in the United States, revenue increased 8.5% year on year to ¥187,323 million, and segment income rose 15.3% to ¥15,634 million.

* HyCO stands for hydrogen ($H_2$) and carbon monoxide (CO), which are separated from natural and other gases through a technology called Steam Methane Reforming (SMR). The HyCO business provides large-scale supply of $H_2$ and CO to oil refining and petrochemical industries through a pipeline.

**Gas Business in Europe**
The European business acquired from Praxair, Inc. of the United States comprises the industrial gas business in Germany, Spain, Portugal, Italy, Norway, Denmark, Sweden, the Netherlands and Belgium, the carbon dioxide gas business in the United Kingdom, Ireland, the Netherlands and France, and the helium-related businesses.

In the Gas Business in Europe, revenue was ¥55,101 million and segment income was ¥6,567 million.

**Gas Business in Asia & Oceania**
In the industrial gas-related business, revenue increased due to steady sales centered on bulk gas in China and Southeast Asia. In Australia, sales of LPG and related equipment were brisk. In the electronics-related business, revenue declined due to the impact of a change in accounting treatment in Taiwan, however, shipments of electronic materials gases were strong.

As a result of the above, in the Gas Business in Asia & Oceania, revenue increased 2.9% year on year to ¥106,164 million, while segment income decreased 0.9% to ¥9,149 million.

**Thermos Businesses**
In the Thermos Business, revenue increased year on year mainly due to solid sales centered on sports-use vacuum bottles in Japan, as well as the positive impact of sales promotions for frying pans with detachable handles, a new product launched in February 2019. Overseas, sales were favorable in South Korea.

As a result, in the Thermos Business, revenue increased 9.6% year on year to ¥27,800 million, and segment income rose 18.6% to ¥9,189 million.

### (3) Future Outlook

In the Gas Business in Japan, sales of air separation gas are expected to increase, albeit moderately, based on firm demand from the key industries of steel, chemicals and transportation equipment. Additionally, in the electronics-related field, the Company aims to increase sales of electronic materials gases to internationally competitive semiconductor manufacturers. In the Gas Business in the United States, we expect to increase sales of bulk gas and hard goods on the back of steady production activities in the manufacturing sector. The HyCO business, which was acquired from Linde America of the United States in February 2019, is also expected to contribute to earnings growth. In the Gas Business in Europe, which was acquired from Praxair, Inc. of the United States in December 2018, the Company expects to maintain high profitability and steady growth. In the Gas Business in Asia & Oceania, earnings growth is expected mainly owing to the launch of new projects in the Philippines and Vietnam. In the Thermos Business, the Company will generate earnings by launching new products that capture customer needs, such as frying pans with detachable handles, which were rolled out in February 2019.

The Company's full-year forecasts for the fiscal year ending March 31, 2020 are outlined below. The assumed exchange rates for the primary foreign currencies of the U.S. dollar and euro are US$1 = ¥110 and €1 = ¥125, respectively.

| | Revenue | Core operating income | Operating income | Net income | Net income attributable to owners of the parent |
|---|---|---|---|---|---|
| FYE2020 (¥ billion) | 890.0 | 95.0 | 102.0 | 59.5 | 57.0 |
| FYE2019 (¥ billion) | 740.3 | 65.8 | 66.8 | 43.7 | 41.2 |
| Change (%) | 20.2 | 44.3 | 52.6 | 36.1 | 38.0 |

### (4) Basic Policy on Profit Distribution and Dividends for FYE2019 and FYE2020

The Company's basic policy is to continuously maintain a stable dividend, while remaining mindful of the need to retain internal reserve to enhance and strengthen the business structure. The Company will strive to return profits to shareholders through a dividend policy linked to consolidated business performance.

In accordance with this policy, the Company plans to set the year-end dividend for the fiscal year under review at ¥13 per share. Therefore, the Company plans to pay an annual dividend of ¥25 per share, including an interim dividend of ¥12 per share. For the fiscal year ending March 31, 2020, the Company plans to pay an annual dividend of ¥26 per share, including an interim dividend of ¥13 per share.

## 5. Management Policies, Business Environment and Key Priorities

### (1) Management Policies of the Company

The TNSC Group has embraced the corporate philosophy of "Market-driven collaborative innovation: Improving the future through gases." The TNSC Group has also adopted the following aspirations as the basic policy guiding its corporate activities: We pride ourselves on our ability to act on customer feedback and to partner with a wide range of industries to help improve the quality of life. And we shape the future through gas technologies, crafting a harmonious relationship between people, society and the planet. " Under this policy, the TNSC Group aims to achieve sustained growth and increase corporate value.

### (2) Medium- and Long-Term Management Strategies

The TNSC Group's long-term vision, formulated in May 2014, calls for the prompt achievement of consolidated revenue of ¥1 trillion. Guided by this vision, the TNSC Group achieved its numerical targets for Ortus Stage 1, a three-year medium-term management plan that commenced in the fiscal year ended March 31, 2015. The TNSC Group is now implementing Ortus Stage 2, a four-year medium-term management plan that began in the fiscal year ended March 31, 2018.

Furthermore, the TNSC Group's business scale has expanded significantly following the acquisition of the European business of Praxair, Inc. of the United States in December 2018, and the acquisition of a portion of the HyCO business and related assets from Linde America, a subsidiary of German company Linde AG, in February 2019. The TNSC Group has therefore revised the numerical targets for the fiscal year ending March

31, 2021, the final year of Ortus Stage 2.

The basic policies and key strategies laid out when the medium-term management plan was formulated will be maintained until the plan's final fiscal year. The key strategies are structural reform, innovation, globalization and M&A.

| | FYE2019 Results (Ortus Stage 2 – 2nd Year) | FYE2021 Plan (Ortus Stage 2 – Final Year) |
|---|---|---|
| Revenue | ¥740.3 billion | ¥910.0 billion |
| Core operating income | ¥65.8 billion | ¥100.0 billion |
| Core operating income ratio | 8.9% | 11.0% |
| Overseas revenue ratio | 47.9% | 55.0% |
| ROCE (Note 1) | 6.2% | 7.1% |
| Adjusted net D/E ratio (Note 2) | 1.54 | 1.27 |

Notes:

1. The Company closely monitors the balance between core operating income, capital and interest-bearing debt. Accordingly, the Company measures capital efficiency using return on capital employed (ROCE), which is calculated as core operating income divided by invested capital (outstanding interest-bearing debt + equity attributable to owners of parent).
2. This indicator was added as a numerical benchmark when the Company revised its numerical targets in February 2019. The adjusted net D/E ratio is an indicator of financial soundness calculated as adjusted interest-bearing debt (interest-bearing debt – equity-type debt – cash and cash equivalents) divided by adjusted equity attributable to owners of the parent (equity attributable to owners of the parent + equity-type debt). Equity-type debt refers to the amount of debt procured by hybrid finance that has been recognized as equity credit by rating agencies.

### (3) Key Priorities of the Company

In order to achieve the targets of the medium-term management plan in the fiscal year ending March 31, 2021, its final fiscal year, the TNSC Group will address the following key priorities:

**Expand the Domestic Gas Business**
Aiming to achieve sustained growth, the TNSC Group will strive to expand the gas and peripheral businesses, including gas-related equipment and services, and to maximize Group-wide synergies. In addition, the TNSC Group will strengthen its earnings capabilities mainly by promoting structural reforms in production and logistics.

**Globalization**
The TNSC Group initiated global business expansion in the 1980s. With the acquisition of the European business of Praxair, Inc. of the United States in December 2018, these efforts culminated in the creation of a global network spanning the four hubs of Japan, the United States, Europe, and Asia and Oceania. Looking ahead, the TNSC Group will enhance its collective capabilities by leveraging its networks in each region and bringing together their strengths. By doing so, the TNSC Group will expand its business scale further and improve its earnings capabilities.

**Strengthen the Financial Position**
Based on the generation of stable operating cash flow, the TNSC Group will strive to systematically reduce interest-bearing debt and improve the net D/E ratio at an early stage.

**Safety, Quality, and Compliance**
The TNSC Group will strengthen measures to ensure safety, quality and compliance around the world, in order to lay a solid business foundation that will enable sustained growth.

## 6. Basic Policy on the Selection of Accounting Standards

From the fiscal year ended March 31, 2017, the TNSC Group has adopted International Financial Reporting Standards (IFRS) primarily for the purpose of improving the international comparability of financial statements in the capital markets and to unify accounting procedures within the TNSC Group.

## 7. Notes to the consolidated financial statements

**Note regarding going concern assumption**

Not applicable.

## 8. Change in accounting policy

From the fiscal year under review, the TNSC Group has adopted IFRS 15, "Revenue from contracts with customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (hereinafter collectively referred to as "IFRS 15").

In accordance with the adoption of IFRS 15, the TNSC Group recognizes revenue, based on the following 5-step model, in an amount that reflects the consideration to which the Group expects to be entitled in exchange for goods or services transferred to customers.

Step 1: Identify the contract with the customer
Step 2: Identify performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the performance obligations are satisfied

The TNSC Group conducts gas businesses in Japan and overseas, mainly for customers in the steel, chemical, and electronics industries, and has built production and sales structures for its main products in Japan, the United States, Europe, and Asia & Oceania. In addition, the TNSC Group conducts the manufacture and sales business of housewares such as stainless steel vacuum bottles.

Regarding product sales in these businesses, because a customer acquires control over a product at the time the product is delivered, TNSC judges that its business obligations have been satisfied and recognizes its revenue, at the time the product is delivered.

Revenue is measured from the price promised in the contract with the customer, after deducting such amounts as discounts, rebates and returns.

The amount of the price in the sales contract of a product is generally collected within one year from the time when control over the product is transferred to a customer, and does not include the important element of the interest.

The impact of the adoption of IFRS 15 on the consolidated financial statements of the TNSC Group was negligible. When IFRS 15 was adopted, a method, which was recognized as a transitional measure, was used to recognize the cumulative effect of adopting this standard on the date of starting the adoption. However, the cumulative financial impact on the date of starting the adoption of this standard was negligible.

## 9. Segment information

**Outline of reportable segments**

The TNSC Group conducts gas businesses in Japan and overseas, mainly for customers in the steel, chemical, and electronics industries, and has built production and sales structures for its main products in Japan, the United States, Europe, and Asia & Oceania.

In addition, the TNSC Group conducts the manufacture and sales business of housewares such as stainless steel vacuum bottles. Therefore, the Company has established the following five reportable segments: Gas Business in Japan, Gas Business in the United States, Gas Business in Europe, Gas Business in Asia & Oceania, and Thermos Business.

**Changes to reportable segments**

To display the results of the Thermos Business more clearly, from the fiscal year under review, the TNSC Group has changed the four existing reportable segments of Gas Business in Japan, Gas Business in the United States, Gas Business in Asia & Oceania, and Thermos & Other Businesses, to the four segments of Gas Business in Japan, Gas Business in the United States, Gas Business in Asia & Oceania, and Thermos Business. Furthermore, the Gas Business in Europe has been added as a new reportable segment due to the acquisition of the European business of Praxair, Inc. of the United States.

To facilitate the year-on-year comparisons, the figures for the preceding fiscal year have been reclassified based on the changes to the reportable segments.

The principal products and services included in the four segments are shown in the table below.

| Business segment | Main products and services |
|---|---|
| Gas Business in Japan | Oxygen, nitrogen, argon, carbon dioxide, helium, hydrogen, acetylene, gas-related equipment, specialty gases (electronic materials gases, pure gases, etc.), electronics-related equipment and installation, semiconductor manufacturing equipment, cutting and welding equipment, welding materials, plants and machinery, liquid petroleum gas (LPG) and related equipment, medical-use gases (oxygen, nitrous oxide, etc.), medical equipment, stable isotopes |
| Gas Business in the United States | |
| Gas Business in Europe | |
| Gas Business in Asia & Oceania | |
| Thermos Business | Housewares |

The accounting methods adopted for the reported operating segments are the same as the methods adopted to prepare the consolidated financial statements for the preceding fiscal year. Revenue from inter-segment transactions and transfers is based primarily on prevailing market prices.

**(1) Figures of revenue and income (loss) by reportable segment**

**FYE2018 (April 1, 2017 – March 31, 2018)**

(¥ million)

| | Business segment | | | | | Total | Adjust-ments (Note 1) | Amounts on the Consolidated Statements of Income |
|---|---|---|---|---|---|---|---|---|
| | Gas Business in Japan | Gas Business in the United States | Gas Business in Europe | Gas Business in Asia & Oceania | Thermos Business | | | |
| Revenue | | | | | | | | |
| Revenue to external customers | 345,048 | 172,646 | — | 103,166 | 25,356 | 646,218 | — | 646,218 |
| Revenue from inter-segment transactions and transfers | 10,837 | 11,430 | — | 2,132 | 30 | 24,431 | (24,431) | — |
| Total | 355,886 | 184,076 | — | 105,299 | 25,386 | 670,649 | (24,431) | 646,218 |
| Segment income (Note 2) | 31,380 | 13,559 | — | 9,236 | 7,749 | 61,925 | (1,891) | 60,033 |
| Other items | | | | | | | | |
| Depreciation and amortization | 16,283 | 19,319 | — | 6,603 | 1,050 | 43,256 | 10 | 43,266 |
| Impairment loss | 0 | — | — | — | — | 0 | — | 0 |
| Share of profit (loss) of associates and joint ventures accounted for using the equity method | 279 | (121) | — | (28) | 3,357 | 3,487 | 0 | 3,488 |

Notes:
1. The ¥1,891 million negative adjustment for segment income is comprised of ¥312 million of intersegment eliminations and companywide expenses of ¥1,578 million that were not allocated to any particular reportable segment. These companywide expenses related principally to basic research expenses that were not allocated to a particular reportable segment.
2. Segment income represents core operating income, which is calculated as operating income excluding certain gains or losses attributable to non-recurring factors (non-recurring items).

**FYE2019 (April 1, 2018 – March 31, 2019)**

(¥ million)

| | Business segment | | | | | Total | Adjust-ments (Note 1) | Amounts on the Consolidated Statements of Income |
|---|---|---|---|---|---|---|---|---|
| | Gas Business in Japan | Gas Business in the United States | Gas Business in Europe | Gas Business in Asia & Oceania | Thermos Business | | | |
| Revenue | | | | | | | | |
| Revenue to external customers | 363,951 | 187,323 | 55,101 | 106,164 | 27,800 | 740,341 | — | 740,341 |
| Revenue from inter-segment transactions and transfers | 8,177 | 14,426 | — | 3,813 | 37 | 26,454 | (26,454) | — |
| Total | 372,129 | 201,749 | 55,101 | 109,977 | 27,837 | 766,795 | (26,454) | 740,341 |
| Segment income (Note 2) | 29,808 | 15,634 | 6,567 | 9,149 | 9,189 | 70,350 | (4,531) | 65,819 |
| Other items | | | | | | | | |
| Depreciation and amortization | 18,077 | 21,710 | 8,855 | 6,257 | 1,090 | 55,992 | 118 | 56,111 |
| Impairment loss | 97 | — | — | 1,340 | — | 1,438 | — | 1,438 |
| Share of profit (loss) of associates and joint ventures accounted for using the equity method | 52 | (121) | (6) | (10) | 3,923 | 3,835 | 0 | 3,836 |

Notes:

1. The ¥4,531 million negative adjustment for segment income is comprised of ¥237 million of intersegment eliminations and companywide expenses of ¥1,598 million that were not allocated to any particular reportable segment, as well as the expenses of ¥2,695 million to acquire the European business. These companywide expenses related principally to basic research expenses that were not allocated to a particular reportable segment.
2. Segment income represents core operating income, which is calculated as operating income excluding certain gains or losses attributable to non-recurring factors (non-recurring items).

**(2)Reconciliation of segment income with income before income taxes**

(¥ million)

| | FYE2018 (April 1, 2017 to March 31, 2018) | FYE2019 (April 1, 2018 to March 31, 2019) |
|---|---|---|
| Segment income | 60,033 | 65,819 |
| Gain on sales of noncurrent assets | 1,209 | 1,336 |
| Share of profit (loss) of associates and joint ventures accounted for using the equity method | (651) | — |
| Impairment loss | (162) | (20) |
| Other | (565) | (272) |
| Operating income | 59,862 | 66,863 |
| Financial revenue | 1,299 | 2,294 |
| Financial expenses | (5,264) | (7,074) |
| Income before income taxes | 55,897 | 62,083 |

**Per-Share Information**
Basic earnings per share and the basis for share appraisal are as follows.

| | FYE2018 (April 1, 2017 to March 31, 2018) | FYE2019 (April 1, 2018 to March 31, 2019) |
|---|---|---|
| Net income attributable to owners of the parent company (¥ million) | 48,919 | 41,291 |
| Average number of shares (thousand shares) | 432,762 | 432,758 |
| Weighted average number of shares (¥) | 113.04 | 95.42 |

Note: Diluted earnings per share are not listed as there are no dilutive shares.

**Important subsequent events**
Not applicable.