FY 2020 1st Half Financial Results

(Fiscal Year Ended September 30, 2020)

November 18, 2020

Iwatani Corporation

Note: This document is a translation of a part of the original Japanese version and provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.

Contents

FY 2020 1st Half Overview

Analysis of Net Sales

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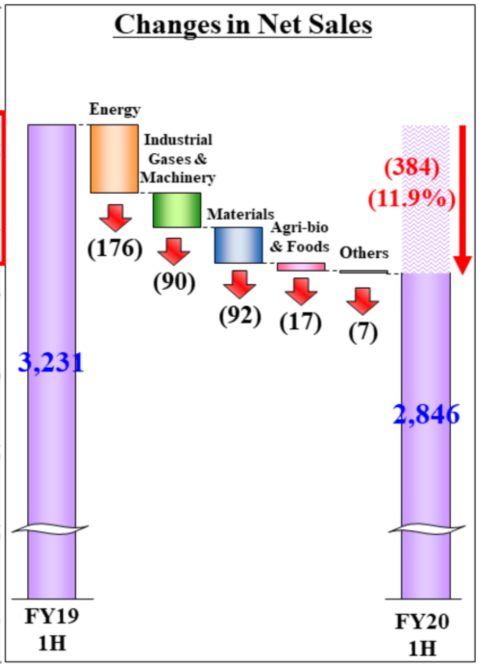
(Unit: 100 million Yen)

	FY20 1H Results (A)	FY19 1H Results (B)	Year-on-Year (A)-(B)	FY20 Forecast
Net sales	2,846	3,231	(384)	6,775
Gross profit	782	801	(18)	-
Operating profit	75	83	(7)	247
Non-operating profit	22	15	+6	29
Ordinary profit	97	98	(1)	276
Ordinary profit except for impact of LPG import price fluctuation	121	118	+3	276
Profit attributable to owners of parent	62	62	+0	173



Net sales decreased by JPY38.4 billion YoY to JPY284.6 billion due to a decrease in sales prices as LPG import prices remained at low levels, and the impact of the COVID-19 resulted in a decrease in sales of main products for the industrial sector.

Sales in the Energy segment decreased by JPY17.6 billion mainly due to a decrease in the import price of LPG, a decrease in LPG sales volume, mainly for commercial and industrial use, and a decrease in barter transactions overseas.

In the Energy segment, sales of LPG for household use, and portable gas cooking stoves, and cassette gas canisters were strong due to demand for staying at home and other factors. However, a JPY 2.4billion negative impact of LPG import price fluctuations caused by inventories, and a decline in sales of main products in the Industrial Gases & Machinery, Materials, and Agri-bio & Foods segments due to the impact of the COVID-19, led to a decrease in gross profit of JPY1.8 billion to JPY78.2 billion.

Analysis of Operating Profit

Iwatani

(Unit: 100 million Yen)

	FY20 1H Results (A)	FY19 1H Results (B)	Year-on-Year (A)-(B)	FY20 Forecast
Net sales	2,846	3,231	(384)	6,775
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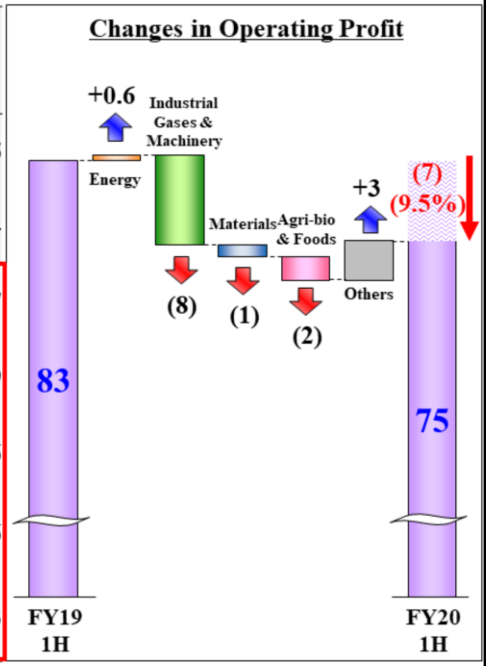
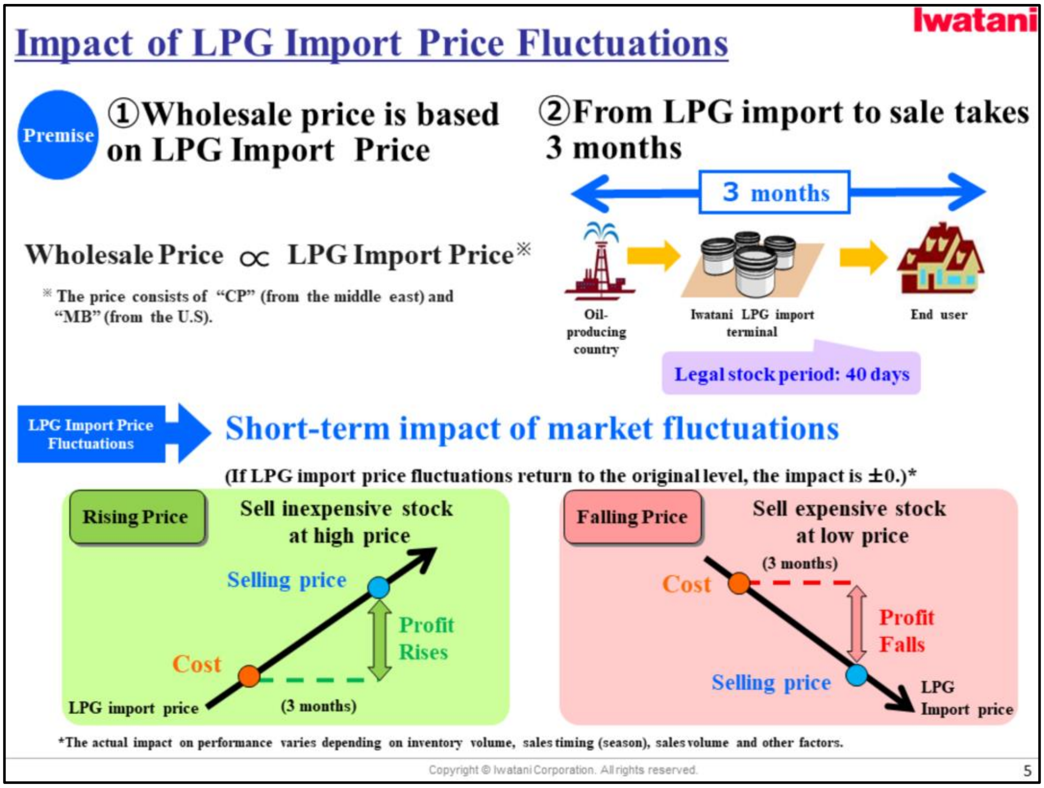


Operating profit was JPY7.5 billion, which decreased JPY700 million YoY, reflecting a JPY1 billion YoY decrease in SG&A expenses, including travel expenses.
Non-operating profit increased by JPY600 million YoY due to an increase in share of profit of entities accounted for using equity method. As a result, operating profit decreased by JPY100 million YoY to JPY9.7 billion, and ordinary profit except for impact of LPG import price fluctuation increased by JPY300 million YoY to JPY12.1 billion.
Profit attributable to owners of parent increased by JPY44 million to JPY6.2 billion due to a decrease in the corporate tax rate and other factors.

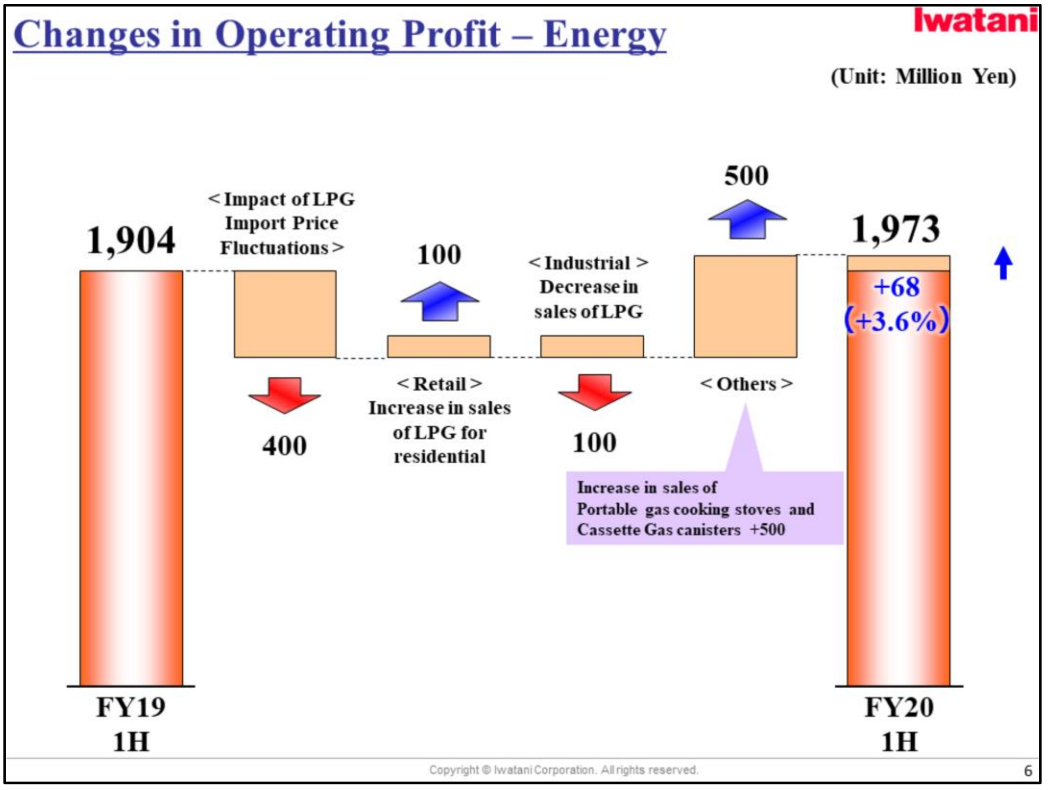


Next, I will briefly explain the impact of fluctuations in LPG import prices on business performance before explanation of the situation by segment.

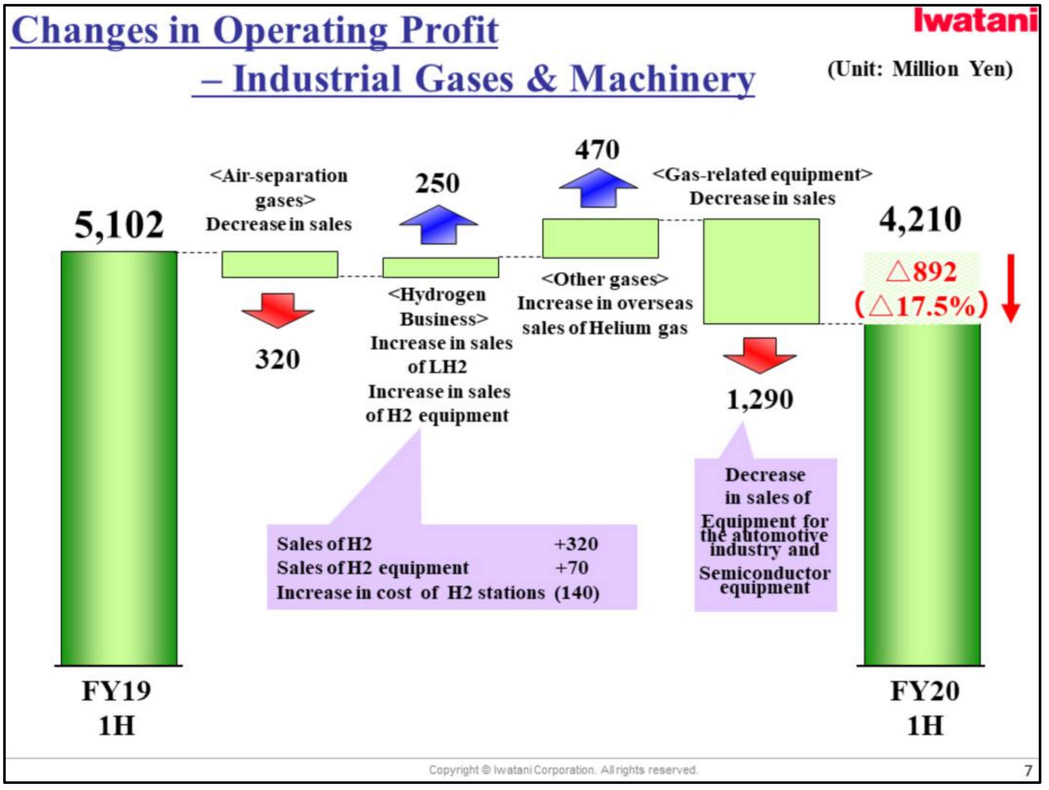
We import LPG from the Middle East and the United States, and import prices from the Middle East are referred to as Contract Price (CP). Import prices from the United States are referred to as Mont Belvieu (MB). These prices fluctuate every month.

In order to smooth out fluctuations in import prices, we had agreed to link selling prices to both CP and MB with many wholesalers.

On the other hand, we use the first-in, first-out (FIFO) method for inventory valuation, but since it takes time from the import of LPG to the sale, we sell the inventory of about three months ago. As a result, when the import price of LPG rises, we sell low-cost inventory at a high price, while when the import price falls, we sell high-cost inventory at a low price. These effects are called the impact of LPG import price fluctuations. The changes in CP are described on page 9 of "Overview of business results".



In the Energy segment, the impact of LPG import price fluctuations resulted in a YoY decrease of JPY400 million to JPY2.4 billion.
In the Retail sector, sales of LPG for residential use increased due to an increase in staying home rate. But sales volume for commercial and industrial use decreased due to a decrease in the occupancy rate of customers.
On the other hand, in others, sales of portable gas cooking stoves and cassette gas canisters were strong due to demand for staying at home and other factors.
As a result, operating profit in this segment increased 3.6% to JPY1.9 billion.
As of the end of September, we had 1 million LPG direct sales customers.

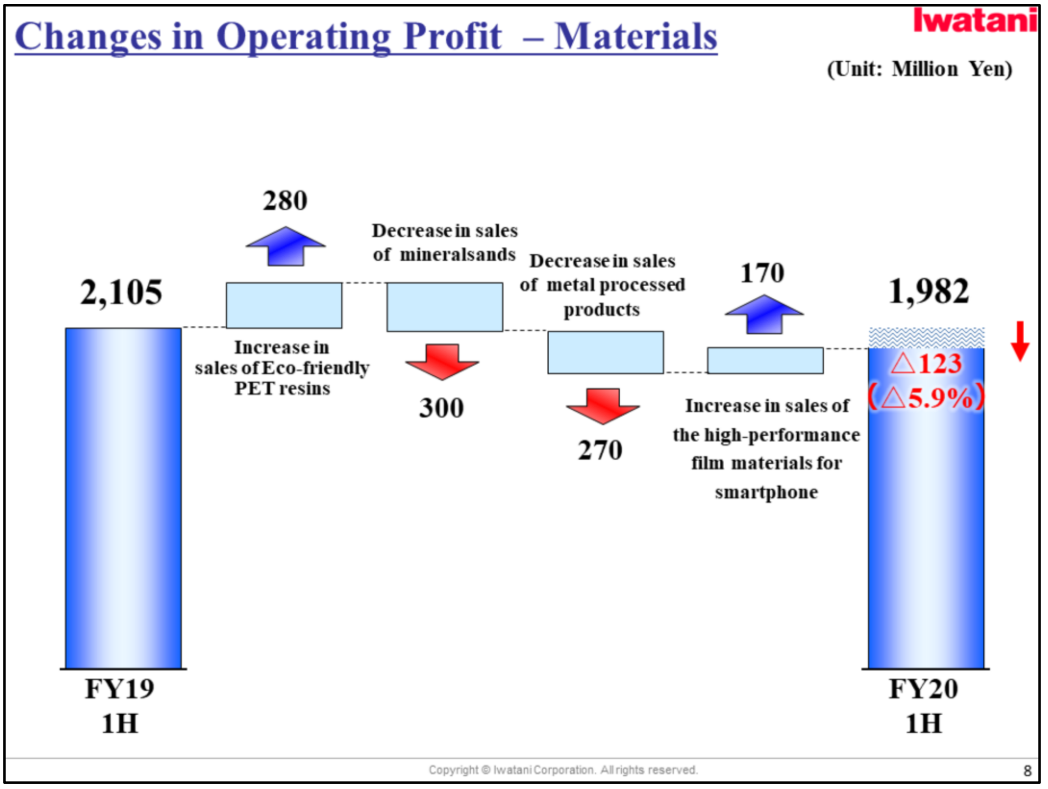


Regarding the Industrial Gases & Machinery segment, sales of air separation gases to the automotive and optical fiber industries declined, but in hydrogen business sales of hydrogen-related equipment grew in addition to increased sales of liquid hydrogen.

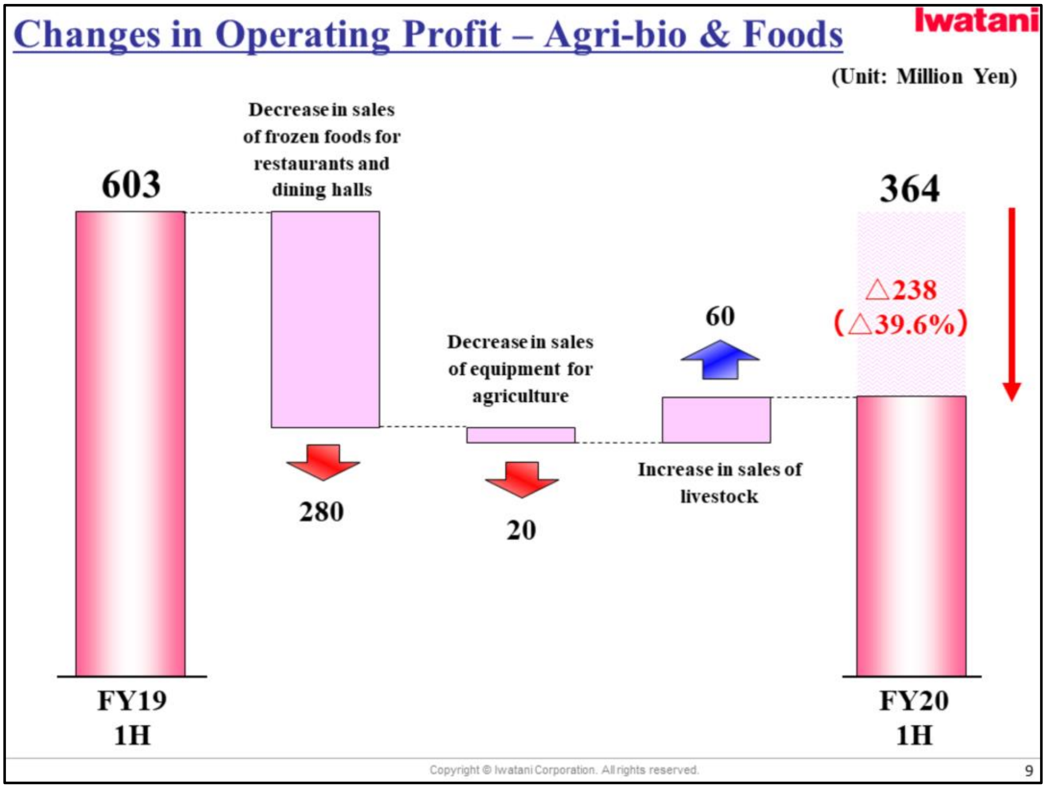
In other gases, profits increased due to an increase in overseas sales of helium and a decrease in depreciation expenses.

Meanwhile, sales of gas-related equipment declined, mainly in the automobile-related and semiconductor industries, due to the postponement of capital investment by customers.

As a result, operating profit in this segment decreased 17.5% to JPY4.2 billion.



In the Materials segment, sales of Eco-friendly PET resins increased for beverage bottles, as well as for packaging films.
With regard to mineral sands, production and sales of mining blocks acquired in Australia in the previous fiscal year were steady, but domestic and overseas sales declined due to sluggishness in the automobile-related industry and other industries.
Sales of metal processed products for air conditioners decreased, but sales of high-performance film materials for smartphones increased.
As a result, operating profit in this segment decreased 5.9% to JPY1.9 billion.



In the Agri-bio and Foods segment, sales of frozen foods for restaurants and dining halls declined. In addition, although there was a decrease in sales of equipment for agriculture, shipments of livestock increased.
As a result, operating profit in this segment decreased 39.6% to JPY300 million.

Balance Sheets (Consolidated Basis)

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(Unit: 100 million Yen)

	FY20 1H (A)	FY19 1H (B)	(A) - (B)	Major factors for changes
Current assets	1,958	1,972	(14)	Cash and deposits (+128)
Property, plant and equipment	1,740	1,693	+47	Investment in hydrogen business (H2 Stations, etc.) and LPG centers.
Intangible assets	167	172	(5)	
Investments and other assets	854	789	+65	Increase in investment securities due to stock market incline
Fixed assets	2,762	2,655	+107	
Total assets	4,720	4,628	+92	
Current liabilities	1,774	1,669	+104	Increase in borrowings due to reserve in cash and deposits
Long - term liabilities	874	1,191	(317)	Decrease in bonds
Total liabilities	2,648	2,861	(212)	Interest-bearing debt, gross 1,370, Ratio of Interest-bearing debt to total assets 29.0%
Equity capital	1,983	1,682	+300	(Capital ratio 42.0%) (Net D/E ratio 0.50pt)
Non-controlling interests	89	84	+4	
Net assets	2,072	1,766	+305	
Total liabilities and net assets	4,720	4,628	+92	

The following is an explanation of the Company's financial position.
Total assets at the end of September were JPY472 billion, an increase of JPY9.2 billion YoY.
Shareholders' equity increased by JPY30 billion YoY to JPY198.3 billion, mainly due to the conversion of JPY10.3 billion of the JPY30 billion of convertible bonds into shares as of September 30. Capital equity ratio improved by 5.7% to 42%.
Interest-bearing debt also decreased by JPY10.9 billion YoY to JPY137 billion, mainly due to the conversion of JPY10.3 billion of convertible bonds into shares.
The ratio of interest-bearing debt to total assets improved by 3% to 29%.
Convertible bonds were fully converted into common stock by October 9. The Share Capital amounted to JPY35 billion, which had been JPY20 billion for 30 years after 1990. With the enhancement of capital, we will make aggressive investments for further growth and work to expand our business scale and profitability.

Statements of Cash Flows

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(Unit: 100 million Yen)

	FY20 1H(A)	FY19 1H(B)	(A) - (B)
Cash flows from operating activities	106	42	+64
Cash flows from investing activities	(133)	(168)	+34
Free cash flows	(27)	(125)	+98
Cash flows from financing activities	152	180	(28)
Effect of exchange rate changes, etc.※	(2)	(3)	+0
Net increase (decrease) in cash and cash equivalents	122	51	+71
Cash and cash equivalents at beginning of period	251	195	+56
Cash and cash equivalents at end of period	374	246	+127

* "Effect of exchange rate changes, etc." are the sum of "Effect of exchange rate changes", "Increase (decrease) in cash and cash equivalents due to changes in scope of consolidation" and "Increase in cash and cash equivalents resulting from merger with nonconsolidated subsidiaries".

Next, I will explain cash flows.

Operating cash flow was JPY10.6 billion, mainly net income. Investing cash flow was JPY13.3 billion, mainly due to capital expenditures for LPG and hydrogen-refueling stations, resulting in a negative free cash flow of JPY2.7 billion.

Financing Cash flow amounted to JPY15.2 billion, mainly due to an increase in borrowings. As a result, cash and cash equivalents increased by JPY12.2 billion.

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FY2020 Forecasts

FY2020 Forecasts

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(Unit: 100 Million Yen)

	FY20 Forecasts (A)	FY19 Results (B)	(C) (A) - (B)	(C) / (B)
Net Sales	6,775	6,867	(92)	(1.4%)
Energy	3,013	3,135	(122)	(3.9%)
Industrial Gases &Machinery	1,897	1,905	(8)	(0.4%)
Materials	1,492	1,495	(3)	(0.2%)
Agri-bio & Foods	318	273	+44	+16.4%
Others	55	58	(3)	(6.2%)
Operating Profit	247	287	(40)	(14.0%)
Energy	140	139	+0	+0.1%
Industrial Gases &Machinery	84	119	(35)	(29.9%)
Materials	42	45	(3)	(6.8%)
Agri-bio & Foods	12	11	+0	+1.4%
Others, Adjustments	(31)	(29)	(1)	—
Ordinary Profit	276	322	(46)	(14.5%)
Profit attributable to owners of parent	173	209	(36)	(17.6%)

Assumption of financial performance
1st Half Ave. exchange rate 110 Yen/USD, Ave. CP USD 300/ton
2nd Half Ave. exchange rate 110 Yen/USD, Ave. CP USD 450/ton

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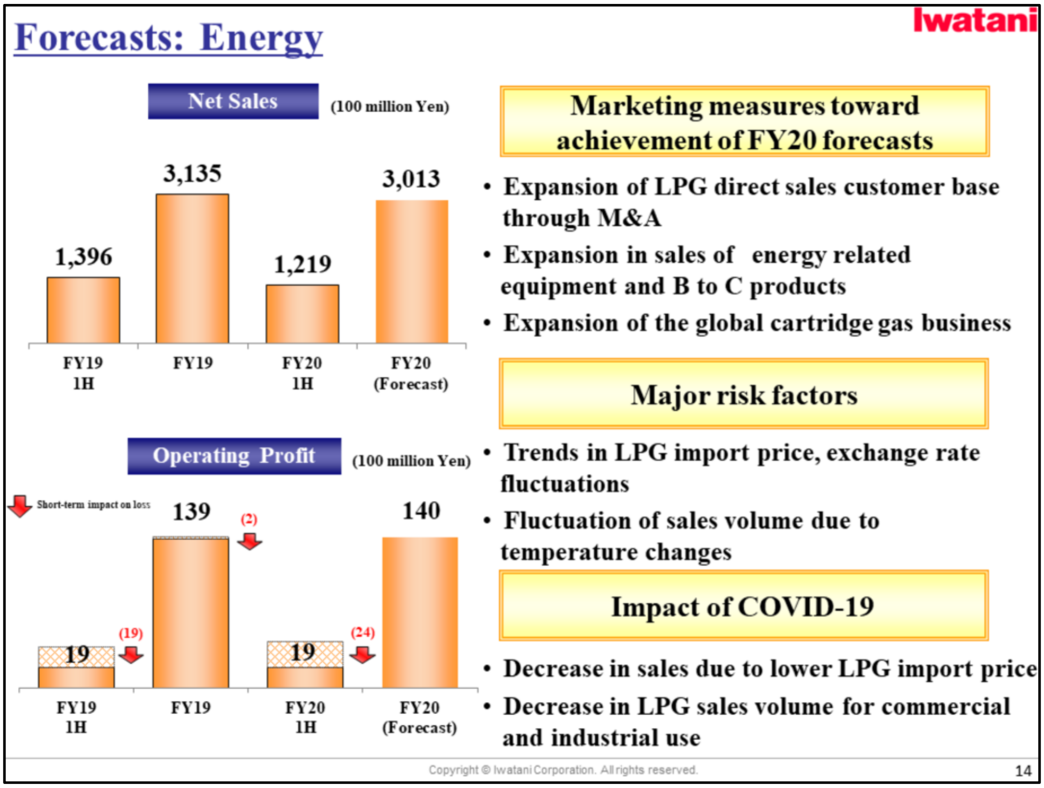
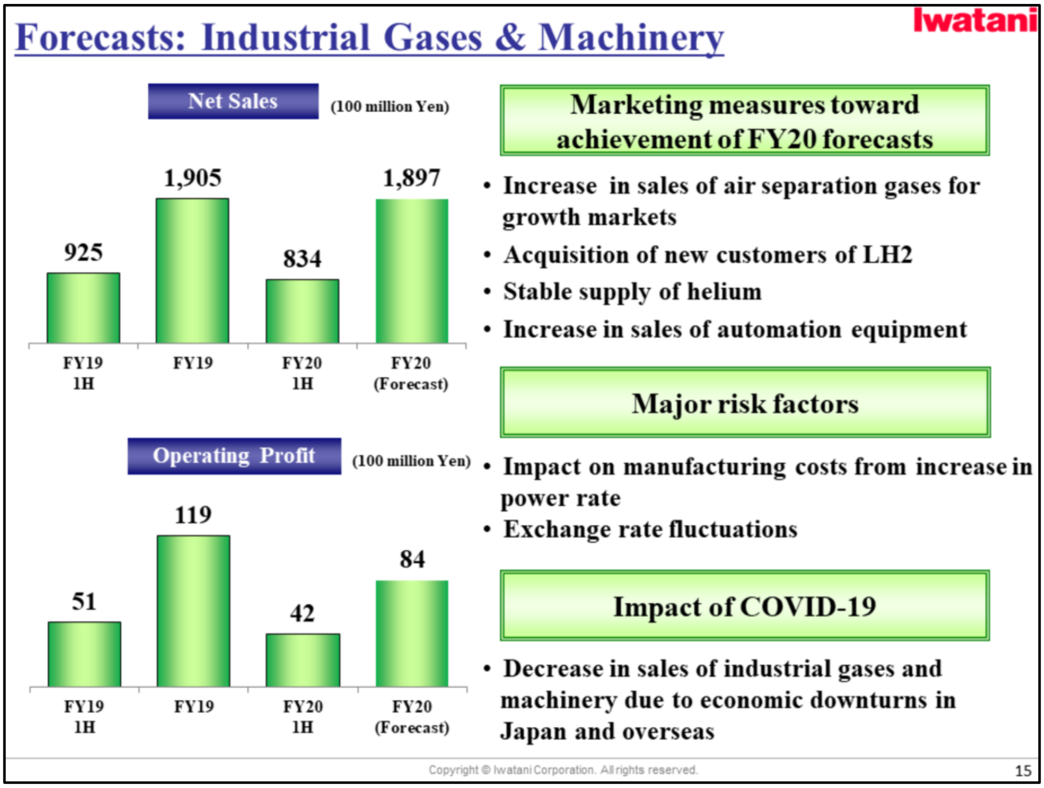
The forecasts for the fiscal year ended March 31, 2021 are JPY677.5 billion for net sales, JPY24.7 billion for operating profit, and JPY27.6 billion for ordinary profit. Profit attributable to owners of parent of JPY17.3 billion is unchanged from the forecast announced at the beginning of the fiscal year.
We have formulated this forecast based on the assumption that the impact of the COVID-19 will result in a decrease in sales due to the drop in LPG import prices, and a decrease in sales in Industrial Gases & Machinery and Materials segments, mainly in the first half of the fiscal year, and that in the second half, sales will recover to the same level as the previous fiscal year.
In the first half of the fiscal year under review, ordinary income decreased by JPY100 million YoY, and ordinary income, except for impact of LPG import price fluctuation, increased by JPY300 million YoY, limiting the impact of the COVID-19.
On the other hand, we have not revised the performance forecasts announced at the beginning of the fiscal year due to the fact that the convergence of the COVID-19 is still unpredictable, and the recovery of negative impact of LPG import price fluctuation that occurred in the first half of the fiscal year, is uncertain. We will promptly disclose any revisions to our earnings forecasts.



First of all, in the Energy segment, we expect sales to decline 3.9% to JPY301.3 billion, and operating profit to remain almost unchanged at JPY14 billion. To expand the number of LPG direct sales customers, we increased the number of dedicated personnel to promote M&A intensively in Tokyo and Osaka. We will strengthen our M&A structure and strive to increase the number of LPG direct sales customers and the sales volume of LPG.

In addition, in order to strengthen sales of Fuji No Yusui (water delivery business) and other consumer products, we established a new organizational unit within the Cartridge Gas Division that specializes in BtoC products. We will work to expand our BtoC business by leveraging the sales network and know-how cultivated in the Cartridge Gas Business.

In the Cartridge Gas Business, in addition to steadily capturing demand for staying at home, we will strengthen our sales structure in China and Southeast Asia with the aim of further expanding sales overseas.

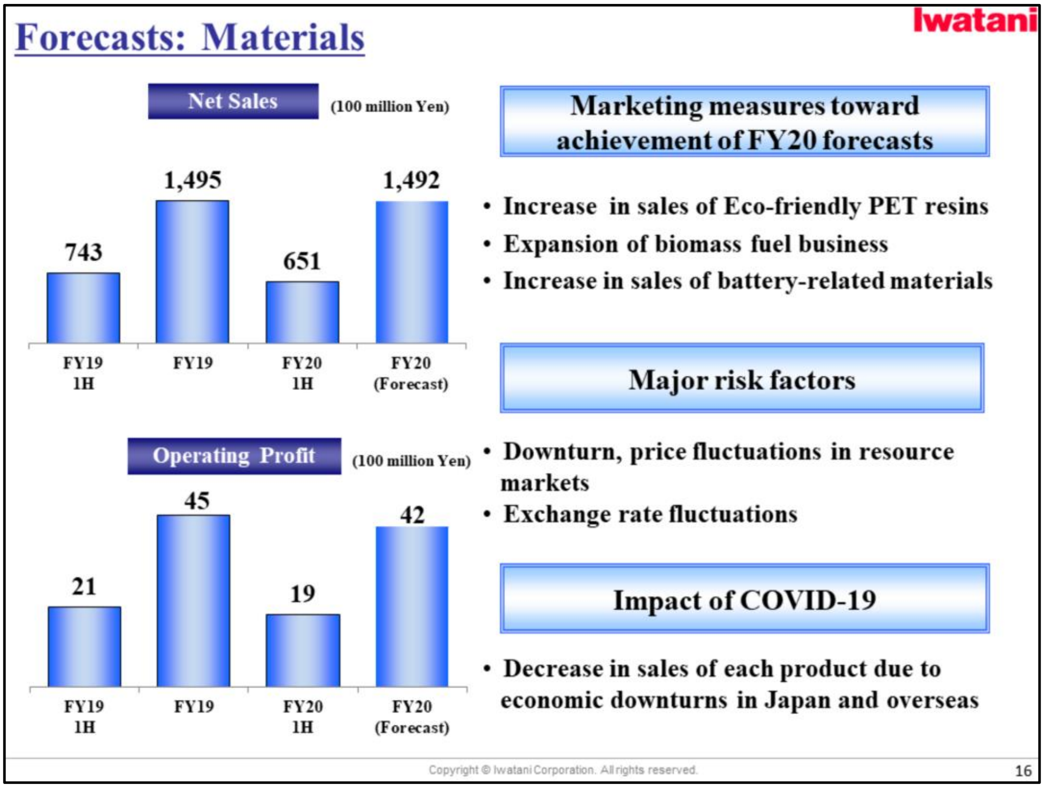


Next, for the Industrial Gases & Machinery segment, where the forecast of net sales is to remain almost unchanged at JPY189.7 billion, and the forecast of operating profit is at JPY8.4 billion, a decrease of 29.9%.

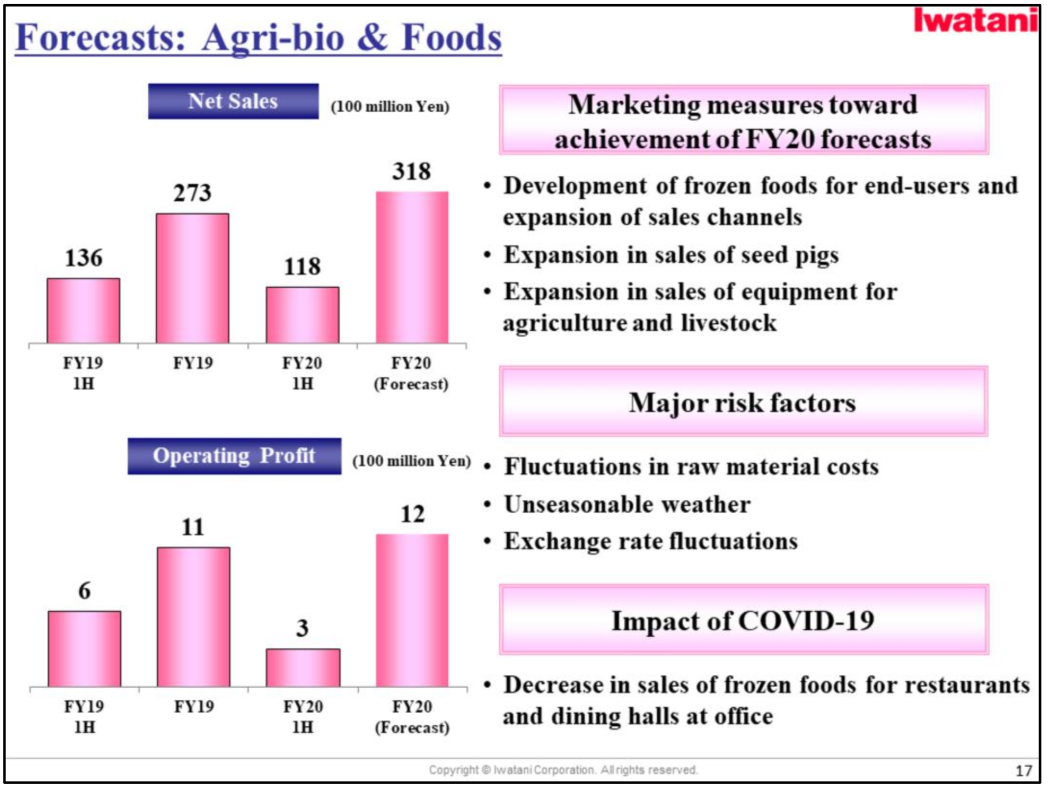
With regard to air separation gas, we will strive to increase sales, mainly in the next-generation communications-related field, which is expected to grow even amid the COVID-19 crisis.

In liquefied hydrogen, we will continue to acquire new users.

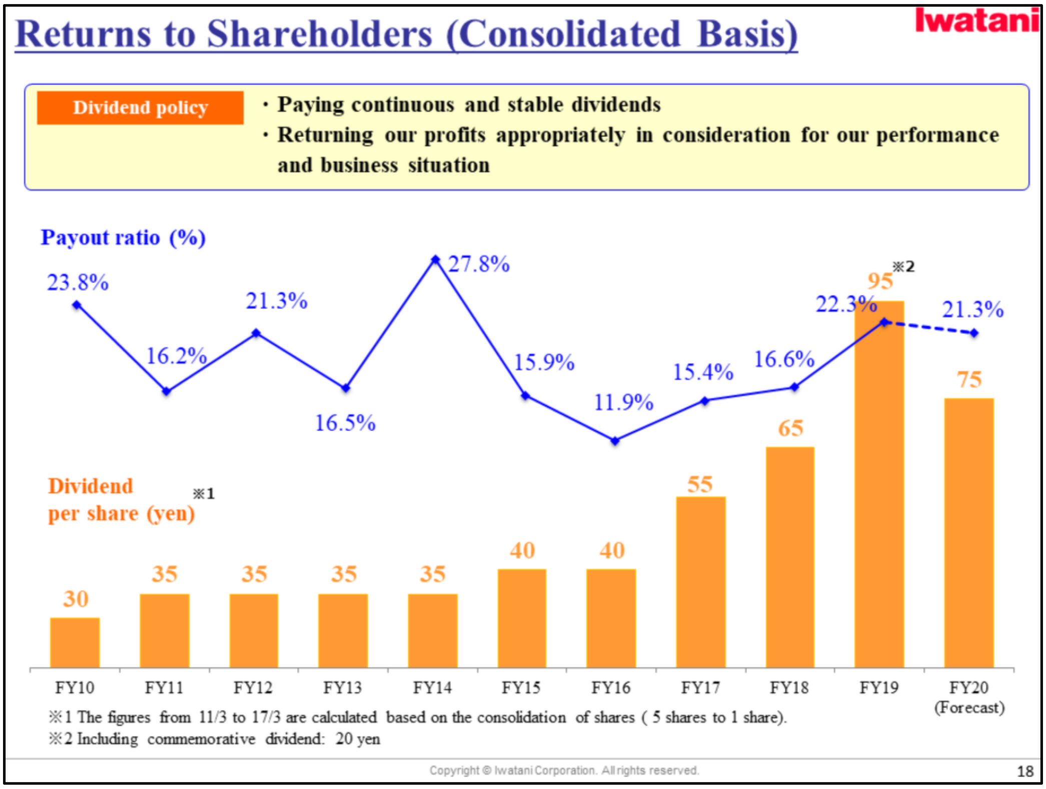
Despite a challenging situation in the Machinery Business, we will promote sales expansion mainly in fields where demand is expected to expand, such as capital investment for automation and labor-saving.



In the Materials segment, net sales are expected to be almost unchanged at JPY149.2 billion, and operating profit is expected to be JPY4.2 billion, a decrease of 6%.
We will continue to focus on sales of environmental products such as Eco-friendly PET resins and PKS, a biomass fuel in anticipation of market expansion in the environmental field due to the growing awareness of SDGs. At the same time, we will strive to develop new products.
We will continue to work to expand sales in anticipation of increased demand for battery-related materials for next-generation vehicles.

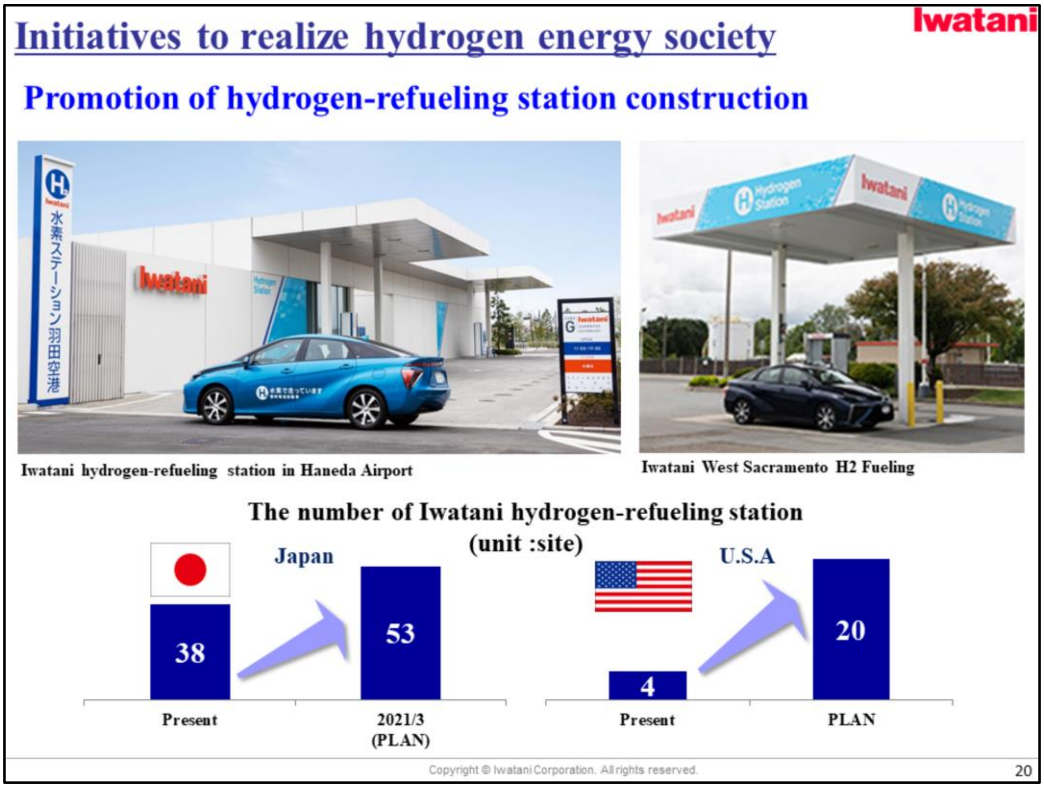


In the Agri-bio and Foods segment, net sales are expected to be JPY31.8 billion, an increase of 16.4%, and operating profit is expected to be JPY1.2 billion, which is almost unchanged.
In addition to expanding sales of frozen foods for commercial use, we will also develop frozen foods for end-users and develop new sales channels, such as food supermarkets.
In addition, we will enter the agricultural production business, develop and sell labor-saving and automation equipment, and strengthen sales of livestock equipment and seed pigs to major hog farmers.



Next, I would like to explain shareholder returns.
As announced at the beginning of the fiscal year, we plan to pay a dividend of JPY75 per share for FY2020, which keeps an increase of JPY10 excluding the commemorative dividend of JPY20 per share for the previous year.
Going forward, we will continue to appropriately return profits to shareholders while carefully considering business performance and the business situation.

Business topics



Next, I will explain the business topics.
First, let me explain our efforts to realize a hydrogen energy society.
In the EU, a hydrogen strategy was adopted, and a policy was formulated to establish a production system for 10 million tons of hydrogen in 2030. Prime Minister Suga announced his policy of reducing greenhouse gas emissions to zero by 2050 in his policy speech, and the use of hydrogen and other measures to tackle with global warming has become a global trend.
We are in the process of construction of hydrogen-refueling stations in Japan and the United States, and plan to install 53 locations in Japan within this fiscal year. In the US, we plan to build seven hydrogen-refueling stations in Southern California, in addition to our four existing locations, and plan to expand them to 20 early on.

Initiatives to realize hydrogen energy society

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Promotion of hydrogen utilization through each association and study group

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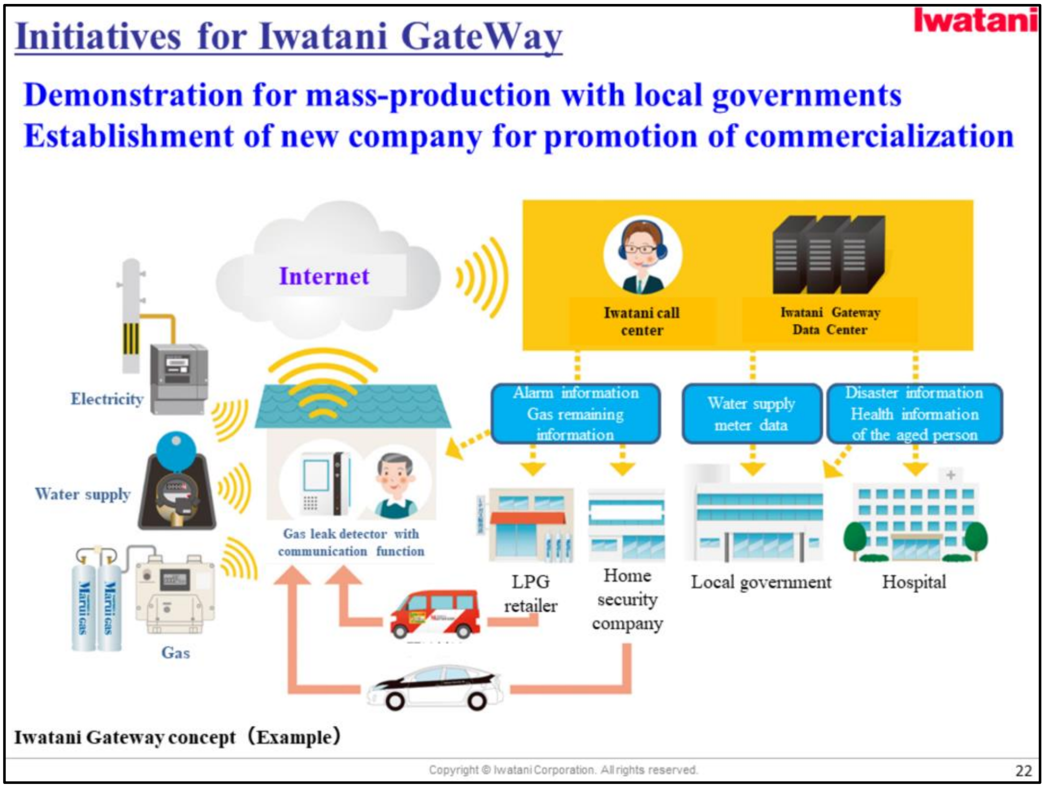
In addition, we will proceed with demonstration tests to procure CO2-free liquid hydrogen from Australia. We will also establish “Kobe/Kansai Area Hydrogen Utilization Council”, and work with participating companies to develop hydrogen utilization in the Kobe and Kansai areas, as well as to establish a hydrogen supply chain.
Furthermore, we are currently preparing for the establishment of “Japan Hydrogen Association”, a new organization to promote global partnership in the hydrogen field and the formation of a hydrogen supply chain.
In the future, we will solicit companies, local governments, and organizations that support our initiatives, and work together with everyone to realize a hydrogen energy society.



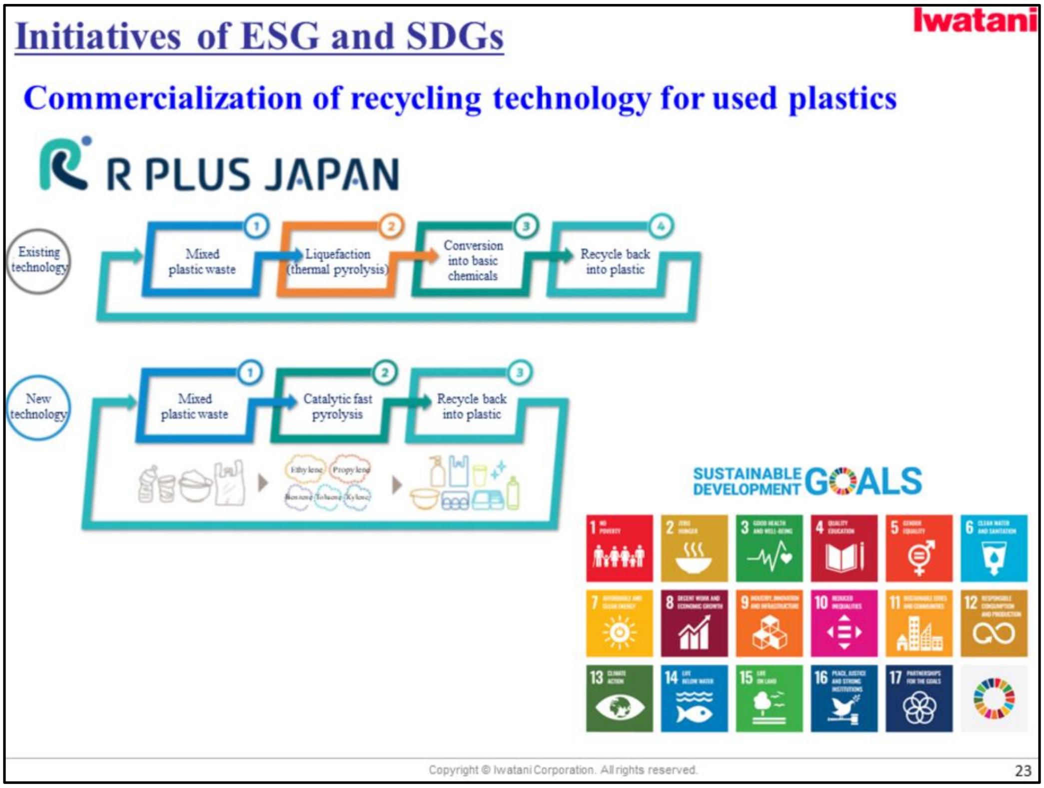
Next, I will explain the Iwatani GateWay concept.

We are working to create new customer services and businesses by developing new technologies that function as gateways linking various “things” to the internet by adding communication functions to various types of alerts, such as gas leak alerts installed in households.

Currently, in Kyotango City in Kyoto and Oda City in Shimane Prefecture, we are conducting confirmation of the final stage in cooperation with local governments.

We are preparing for mass production from April onwards.

In addition, with the aim of accelerating the commercialization of Iwatani GateWay, we established a new company in collaboration with related companies, mainly ourselves, to develop new services and examine the analysis and utilization of data, which will lead to the creation of new value.



Finally, I would like to explain our initiatives related to ESG and SDGs.
We have jointly established R Plus Japan, Ltd., a new company engaged in the recycling for used plastics, with 12 companies, including Suntory MONOZUKURI Expert Ltd.
We plan to manufacture PET resins, using raw materials produced through recycling with partner companies and sell them to major beverage manufacturers.
We will accelerate efforts to resolve environmental issues, such as marine pollution, by promoting the establishment of an efficient plastic recycling business with low environmental impact and expanding sales of Eco-friendly PET resins.
I have explained an overview of the interim results for the period ending March 2021, and the topics of our business.

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