May 14, 2019

FY2018 Consolidated Financial Results (Japanese Accounting Standards)

AIR WATER INC.
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Chuo-ku, Osaka, Japan

(Note: All amounts are rounded down to the nearest million yen.)

1. Results for FY2018 (The year ended March 31, 2019)

(1) Consolidated operating results

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2018	801,493	6.4	43,580	2.8	46,977	5.1	26,468	5.1
FY2017	753,559	12.4	42,398	2.6	44,691	8.3	25,173	12.7

(Note) Comprehensive income: 23,070 million yen (-16.7%) for FY2018, 27,711 million yen (-6.5%) for FY2017

	Net income per share	Fully diluted net income per share	Net income to equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
FY2018	135.34	135.09	9.3	6.4	5.4
FY2017	128.95	128.72	9.4	6.8	5.6

(Reference) Equity in earnings of non-consolidated subsidiaries and affiliates:
1,307 million yen for FY2018, 676 million yen for FY2017

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2018	783,047	308,698	37.2	1,487.58
FY2017	693,101	294,644	40.1	1,422.60

(Reference) Shareholder's equity: 291,211 million yen for FY2018, 277,954 million yen for FY2017

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY2018	56,690	-88,804	40,905	31,470
FY2017	47,764	-61,637	4,489	22,433

2. Dividends

	Dividend per share					Total amount	Dividend payout ratio	Net dividend rate
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2017	—	17.00	—	21.00	38.00	7,458	29.5	2.8
FY2018	—	19.00	—	21.00	40.00	7,852	29.6	2.7
FY2019 (Forecasts)	—	20.00	—	20.00	40.00		26.1	

3. Forecast of consolidated operating results for FY2019 (The year ending March 31, 2020)

(% of change from previous year)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2019 (1st half)	390,000	-	21,000	-	20,600	-	14,100	-	72.03
FY2019 (Full year)	830,000	-	48,000	-	47,000	-	30,000	-	153.25

Note: AIR WATER INC. (hereinafter "the Company") will voluntarily adopt International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending March 31, 2020. Accordingly, the consolidated business forecasts have been calculated based on IFRS. As a result, the difference between these forecasts and the actual results for the fiscal year ended March 31, 2019 based on Japanese GAAP have not been disclosed.

Notes

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries with changes in the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates and restatement

a. Changes in accounting policies arising from revisions of accounting standard: None
b. Changes in accounting policies other than (a): None
c. Changes in accounting estimates: Yes
d. Restatement: None

(3) Number of shares outstanding (ordinary shares)

a. Total number of shares outstanding (including treasury shares)
As of March 31, 2019: 198,705,057 shares
As of March 31, 2018: 198,705,057 shares

b. Number of shares of treasury shares
As of March 31, 2019: 2,943,138 shares
As of March 31, 2018: 3,320,506 shares

c. Average number of shares during the term
Year ended March 31, 2019: 195,578,978 shares
Year ended March 31, 2018: 195,217,525 shares

(Reference) Non-consolidated financial results

1. Results of non-consolidated operations for FY2018 (The year ended March 31, 2019)

(1) Non-consolidated operating results

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2018	177,383	5.7	1,136	-47.9	15,786	2.2	12,928	9.0
FY2017	167,782	5.2	2,181	-51.0	15,452	-4.1	11,855	-39.1

	Net income per share	Fully diluted net income per share
	Yen	Yen
FY2018	66.10	65.98
FY2017	60.73	60.62

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2018	424,936	170,764	40.1	870.14
FY2017	376,691	168,400	44.6	859.95

(Reference) Shareholder's equity: 170,341 million yen for FY2018, 168,021 million yen for FY2017

* This report is exempt from audit procedure based on the Financial Instruments and Exchange Act.

* Explanations and other special notes concerning the appropriate use of business performance forecasts

The forward-looking statements such as result forecasts included in this document are based on the information available to the Company at the time of the announcement and on certain assumptions considered reasonable. Actual results may differ materially from the forecast depending on a range of factors. For matters relating to the forecasts, please, refer to "4-(4) Outlook for the next fiscal year".

４. **Summary of operating results**

(1) Explanation of operating results

1) Operating results for the current period

The Japanese economy in the consolidated fiscal year ended March 31, 2019 was on a gradual recovery trend as a whole, backed by improvements in corporate earnings and the employment and income environments. On the other hand, business conditions continued to remain uncertain due to the apprehension about the international situation such as the trade conflict between the U.S. and China and the Brexit negotiations and the effects of earthquakes, heavy rains and typhoons that struck many parts of Japan.

In such a business environment, each business segment of our corporate group steadily promoted various implementation measures set out in our three-year mid-term business plan “NEXT-2020 Ver. 3,” which concluded its implementation period this consolidated fiscal year, by placing the wheels of “structural reform of existing businesses” and “growth strategies through M&A” on the standard of our growth strategies.

As the structural reform of existing businesses, our industrial gas business actively promoted investment to augment and update production facilities and worked to develop its business foundations aimed at increasing market share and strengthening profitability by reinforcing the alliance with regional partners. Efforts were also made for structural reform to increase earnings power including the reorganization of group companies and for the strengthening of the organizational function of engineering to promote the development of a system by which new businesses and products are created through the improvement and advancement of technologies. Our chemical business changed its business structure to one centering on functional chemicals through the transfer of its coal-chemical business, which further solidified our “All Weather Management System.”

As our growth strategy through M&A, along with M&As that were implemented to further expand our domestic regional businesses, foundations for overseas engineering business were built in North America and Asia as a preparatory action towards future business expansion to overseas. Also, business areas in the fields of electronics and advanced medical treatment equipment were strengthened.

In addition, the construction of woody biomass power plants, which are currently underway at three sites in Japan toward the launch of power generation business, progressed steadily.

With regards to the business results for this consolidated fiscal year, revenue increased in all segments, as a result of efforts in taking measures to increase sales including the acquisition of new customers, and also due to the rise in market condition of chemical business, in addition to the active promotion of M&As. With regards to profits, although our medical business saw a decrease due to the impact of market conditions of facility construction, strong performance was seen in our chemical business due to progress in structural reform and improvement in earnings, as well as in our industrial gas business and logistics business, each of which grew satisfactorily thanks to the strong gas demand that continued across a broad range of domestic manufacturing industries and because of an increase in volume of shipments and progress made in optimizing prices in the logistics sector. Growth in profit was maintained firmly in our energy business and agriculture and food product business despite the negative impact of the external business environment, and robust performance was also seen in our aerosol business and information electronics materials business that constitute our other business.

As a result, for the consolidated fiscal year ended March 31, 2019, the group’s net sales were ¥801,493 million (106.4% that of the previous year), operating income was ¥43,580 million (102.8%), ordinary income was ¥46,977 million (105.1%) and net income attributable to shareholders of the parent was ¥26,468 million (105.1%).

2) Consolidated results by segment for this period

(Million yen)

	Net Sales		Ordinary income	
	FY 2018	**YoY Growth**	**FY 2018**	**YoY Growth**
Industrial Gas Business	176,375	110.8%	17,132	105.9%
Chemical Business	75,651	111.3%	3,706	199.8%
Medical Business	176,653	103.4%	9,859	95.6%
Energy Business	52,741	102.5%	4,009	101.8%
Agriculture and Food Products Business	136,568	102.1%	4,905	101.1%
Logistics Business	47,947	106.7%	2,649	140.3%
Other Businesses	135,556	108.2%	8,413	102.4%
(Adjustment)	-	-	-3,698	-
Total	801,493	106.4%	46,977	105.1%

(Note) The adjustments to ordinary income are due to costs incurred at the company's headquarters division and R&D division, and profit/loss from financial operations, which were not allocated to any reporting segment.

<Industrial Gas Business>

Our on-site gas supply service to blast furnaces performed satisfactorily as a result of efforts throughout the year to stabilize and streamline the operation. Our on-site gas supply service for electronics applications to a large extent maintained high levels of operation and performed steadily, despite the decrease in volume of sales to some of our customers due to inventory adjustment in the fourth quarter. Our gas supply services via tanker lorries and cylinders grew to satisfactory levels as a whole, by steadily satisfying strong demand from domestic manufacturing industries including automobile, chemical and construction-related sectors through stronger cooperation with our leading regional partners based on the deployment "VSU," a highly efficient and compact liquefied oxygen and nitrogen co-production plant. Sales of our carbon dioxide gas grew steadily due to an increase in sales volume as a result of the production capacity expansion implemented in the previous fiscal year.

Although sales of industrial gas grew steadily as described above, profits were affected by the rise in electricity prices and increase in logistics costs.

In our equipment and construction-related business, the production of gas generators and construction of gas distribution plants increased. The effects of the new consolidation of Japan Pionics Co., Ltd. and our overseas subsidiary through M&A implemented in the previous fiscal year also contributed to the results.

As a result, for the consolidated fiscal year ending March 31, 2019, net sales of this segment were ¥176,375million (110.8% that of the previous year) and ordinary income was ¥17,132million (105.9%).

<Chemical Business>

Our coal chemical business grew satisfactorily due to the rise in unit price of purified coke oven gas and increase in sales volume of crude benzene, which is one of our chemical products.

Our fine chemicals business saw a significant improvement in earnings due to the reconsideration of unprofitable products and also because of the expansion of sales of products for electronics materials and the effects of price revisions, although the business was affected by fluctuations in operation of the plants in China caused by the tightening of the country's environmental regulations.

Kawasaki Kasei Chemicals, a company of our corporate group, saw an increase in net sales, because of the rise in sales prices of its organic acid products such as phthalic anhydrides in tandem with the rise raw materials prices, although the sales of naphthoquinone, one of the company's mainstay products, decreased due to the effect of fluctuations in the operation of its customers' plants caused by the tightening of environmental regulations in China. Profits also grew well as a result of efforts to cut manufacturing costs through reduction in fixed costs and streamlining of procurement. As a result, for the consolidated fiscal year ending March 31, 2019, net sales of this segment were ¥75,651million (111.3% that of the previous year) and ordinary income was ¥3,706million (199.8%).

<Medical Business>

Sales of our medical gas in the advanced medical treatment sector was affected by the decline in volume of use, and our facility construction business faced difficult conditions partially due to the completion of new projects for hospitals. On the other hand, our medical service performed satisfactorily due to the acquisition of new customers and streamlining of material procurement in our SPD (supply, processing and distribution management for hospitals) service and progress made in price optimization in our sterilization business. Our medical treatment devices sector performed strongly, due to expansion in sales of our high-pressure oxygen treatment devices backed by the medical service fee revision and an increase in number of cases in which a nitric oxide inhalation therapy is applied.

In the field of medical treatment in everyday life, our home medical care business and hygiene product business faced difficult conditions. Our dental product business performed strongly, but was affected by the increase in shipping and other costs in mail-order sales for dentists. Our hypodermic-needle business saw recovery in orders but sales were sluggish due to delay in the launch of renewed manufacturing systems.

The hospital facility construction business in Singapore, which we acquired through M&A in the previous fiscal year performed steadily.

As a result, for the consolidated fiscal year ending March 31, 2019, net sales of this segment were ¥176,653million (103.4% that of the previous year) and ordinary income was ¥9,859million (95.6%).

<Energy Business>

Sales of our LP gas for consumer use grew strongly in both the number of customers and sales volume as a result of the implementation of measures to increase customers such as point awarding service and entry to power retail business, along with the promotion of the expansion of direct sales customers through the acquisition of trade rights. On the other hand, equipment sales slowed down due to the cancellation of events such as exhibition and sale opportunities caused by the earthquake, and also due to the impact of the increase in shipping and security-related costs. Sales of our LP gas for industrial use grew steadily due to a significant increase in sales volume as a result of the promotion of fuel conversion from heavy oil to LP gas through the cooperation with regional business companies across Japan.

Although sales volume of kerosene significantly decreased due to the decline in demand caused by warm winter, the negative impacts were kept to a minimum by devising procurement measures and streamlining delivery.

Sales of our LNG tank lorries that makes use of our cryogenic technology cultivated in the field of industrial gas grew satisfactorily.

As a result, for the consolidated fiscal year ending March 31, 2019, net sales of this segment were ¥52,741million (102.5% that of the previous year) and ordinary income was ¥4,009million (101.8%).

<Agriculture and Food Products Business>

Our farm product business saw an increase in sales as a result of the promotion of new store openings in the fruit and vegetable retail sector, but was affected by the temporary increase in costs due to the new store openings and the extreme volatility in vegetable prices. Our wholesale and distributive processing sector performed steadily due to efforts made to secure the procurement volume despite the impacts of the harvest of raw material vegetables. Sales and maintenance service of our agricultural equipment continued to remain strong.

In our food solution business, in addition to the sluggish sales in the sweets sector, our ham and sausage sector was also affected by the continued severe market environment. On the other hand, profits remained strong due to an expansion in sales of frozen vegetables such as broccoli and the progress in the streamlining of the production, as well as due to the new consolidation of a cooked frozen food manufacturer which we acquired through M&A.

Our beverage business performed strongly due to an expansion in contract manufacturing including vegetable beverages and tea beverages and also due to the progress made in the structural reform in our water delivery service sector despite of the increased labor costs and depreciation expenses due to capital spending.

As a result, for the consolidated fiscal year ending March 31, 2019, net sales of this segment were ¥136,568million (102.1% that of the previous year) and ordinary income was ¥4,905million (101.1%).

<Logistics Business>

Our transportation business performed satisfactorily due to an increase in volume of shipments through the acquisition of new consigners and as a result of the efforts to build a stable trunk transport, including the optimization of the balance between arrivals and departures of the chassis transport between Hokkaido and Honshu

Our 3PL (third party logistics) business, which centers on food logistics, performed satisfactorily due to the launch of new low-temperature contract shipment in our delivery services for major convenience store chains. Although business conditions continued to remain difficult in terms of costs due to the rise in labor costs and diesel fuel prices, the negative impacts of these factors were kept to a minimum due to the progress in the optimization of contract shipping service prices.

Our vehicle custom installation business, which carries out design of truck bodies and installation of accessories, remained strong due to an increase in sales of specialty vehicles and improvement in profitability resulting from the facility investment made in the previous fiscal year.

As a result, for the consolidated fiscal year ending March 31, 2019, net sales of this segment were ¥47,947million (106.7% that of the previous year) and, due partly to changes made this fiscal year in the useful life of some company-owned vehicles which better reflects their actual operational status, ordinary income was ¥2,649million (140.3%).

<Other Business>

Among our seawater business, the salt manufacturing business of Nihonkaisui Co., Ltd. performed steadily in terms of profit due to the effect of the increase in price of salt for industrial use, in spite of the absence of the profits from large-scale projects for water treatment systems which existed in the previous fiscal year and the delay in construction in our water treatment system business due to West Japan Flood. Tateho Chemical Industries Co., Ltd. continued to face difficulties as prices of raw materials for fused magnesia used for heaters rose in the first half of the fiscal year and the demand for magnesia for electrical steel decreased temporarily, although the sales of general magnesia products including those for firebricks grew.

Our aerosol business, which supplies aerosol products on an OEM basis, performed strongly thanks to an increase in orders for contract manufacturing of personal use product such as cosmetics backed by demands from Chinese market.

Our information and electronics materials business, which procures and sells electric and electronic materials, grew steadily due to an increase in sales for automobile applications. Our metal surface treatment service using our original "NV Nitriding Process" performed satisfactorily especially in processing automobile parts and industrial machines. Engineering companies in the U.S. and Singapore which we acquired through M&A were newly added to our consolidation.

As a result, for the consolidated fiscal year ending March 31, 2019, net sales of this segment were ¥135,556million (108.2% that of the previous year) and ordinary income was ¥8,413million (102.4%).

(2) Summary of financial position for the current period

Total assets at the end of the consolidated fiscal year under review stood at ¥783,047 million, an increase of ¥89,945 million compared to the end of the previous consolidated fiscal year due primarily to increases in tangible fixed assets. Liabilities stood at ¥474,348 million, an increase of ¥75,892 million compared to the end of the previous consolidated fiscal year due mainly to an increase in borrowings. Net assets stood at ¥308,698 million, an increase of ¥14,053 million compared to the end of the previous consolidated fiscal year, mainly due to an increase in accumulation of quarterly net income attributable to shareholders of the parent.

Net assets per share grew from ¥1,422.60 at the end of the previous consolidated fiscal year to ¥1,487.58, and the equity ratio changed from 40.1 % at the end of the previous consolidated fiscal year to 37.2 %.

(3) Summary of cash flow for the current period

Cash flows from operating activities was an inflow of ¥56,690 million after deducting payments including corporate taxes from net income before taxes and other adjustments for the term and allowances for depreciation, which was an increase of ¥8,925 million compared to that in the previous consolidated fiscal year.

Cash flows from investing activities was an outflow of ¥88,804 million, an increase in expenditures of ¥27,167 million compared to the previous consolidated fiscal year, due primarily to an increase in expenditures resulting from the acquisition of tangible fixed assets. As a result, free cash flow decreased ¥18,242 million from the previous consolidated fiscal year to an outflow of ¥32,114 million.

Cash flows from financial activities was an inflow of ¥40,905 million, which was an increase of ¥36,416 million compared to that in the previous consolidated fiscal year, due mainly to proceeds from borrowings.

As a result of the foregoing, cash and cash equivalents at the end of the consolidated fiscal year stood at ¥31,470 million, an increase of ¥9,037 million compared to the end of the previous consolidated fiscal year.

(4) Outlook for the next fiscal year

With regards to the outlook for the future, although a moderate recovery trend is expected to continue in the domestic economy due to improvements in the employment and income conditions and economic effects associated with the Tokyo Olympic and Paralympic Games, future prospects still remain unpredictable due to political and economic uncertainties overseas and concerns over impacts of the hike in consumption tax scheduled in October this year and the aggravation of labor shortages.

In such a business environment, we will respond to a variety of needs of our customers and promote efforts to further strengthen the earnings power of each business such as the reorganization of group companies, improvement of productivity in each plant and revision of the product development system by exhibiting the comprehensive power, which is the group's greatest strength. Also, in order to establish a stable earnings base and expand business areas in future growth fields, we will continue making investment in M&As and facilities and concentrate our efforts on strengthening our regional and overseas businesses.

We will also pursue practices of the ESG management which aims sustainable growth with society by contributing to the resolution of social challenges including global environmental conservation through business activities.

With respect to the next fiscal year forecast, we forecast revenue of ¥830,000 million, operating profit of ¥48,000million, profit before tax of 47,000million and profit attributable to owners of parent of ¥30,000million for the fiscal year ending March 31, 2020.

Because we decided to voluntarily apply the International Financial Reporting Standards (IFRS) starting from the account settlement of the fiscal year 2019, our consolidated financial results are calculated based on IFRS.

(5) Basic policy regarding the profit distribution and payment of dividends for FY2018 and FY2019

While our company works on reinforcing the management base to continuously improve our corporate value, we also place a high priority on returning profits to our shareholders as one of the most important tasks for businesses. For this reason, we make it a policy to maintain a stable dividend in line with business results aiming at a dividend payout ratio of 30% of our net income for this fiscal year attributable to shareholders of the parent while taking into consideration sufficient retained earnings necessary for strategic investments for mid- and long-term growth.

For fiscal year 2018, a year-end dividend is ¥21 per share to achieve the target payout ratio set in this basic policy. As a result, a dividend for the current year is ¥40 per year, including the interim dividend of ¥19 per share.

For fiscal year 2019, we plan to pay a dividend of ¥40 per year, which is the sum of interim and year-end dividends of ¥20 per share each.

5. Management guidelines

(1) Basic management policy

The Air Water Group adopts the following management policy: “We dedicate ourselves and our resources backed by the entrepreneurial spirit and pride in creation and development of business linking air, water, earth and humans.”

The starting point of the Air Water Group’s business is found in our name: “Air” and “Water.” It is our corporate group’s mission to make use of resources from this invaluable earth to create businesses and contribute to society and people’s lives. In a business environment that continues to change at a dizzying pace, we will continue to leverage the Group’s collective capacities and work to provide highly diverse products and services that benefit society’s development while fulfilling our responsibilities to all stakeholders.

(2) Medium-to long-term management strategies

The greatest strength of our corporate group is that we are a versatile conglomerate realized by two management models, namely the “All Weather Management System” which constantly aims for stable earnings while pursuing an optimal balance of business portfolio between the industrial business and daily life business, and the “Order Rodentia Style of Business” which achieves sustainable corporate growth by seamlessly creating groups of middle-sized companies that have dynamism to flexibly cultivate new fields and new businesses.

Under this conglomerate-style management, we place M&A strategies and regional business strategies as the main pillars of our growth strategies

Our corporate group has achieved a dramatic business scale expansion and business diversification by implementing growth strategies, with M&A at the core of the strategies. While maximizing knowhow for M&A and for the demonstration of the resulting synergies that have been cultivated to date, we will strive to expand our businesses in growth fields where synergies with existing businesses are expected, by actively promoting M&As.

Also, effective utilization of regional business bases and markets that have been developed by our industrial gas business, which is our nascent business, is essential for the growth of our group. Our regional group companies deployed in eight regions nationwide from Hokkaido to Kyushu will play a central role in developing business strategies that meet the market needs of each region and cultivate markets by utilizing a diversity of technologies, products and knowledge of services possessed by our group, and thereby establish a strong earnings base in the country and create businesses and synergies that are specific to each region.

Based on these growth strategies, our corporate group implemented our Mid-term Management Plan “NEXT-2020 Ver. 3” which covers the three-year implementation period from fiscal year 2016 through 2018, as the third step of our long-term growth vision of “Vision for a 1 Trillion yen Company 2020,” which started in fiscal year 2010.

As the final step of the long-term grow vision, the new Mid-term Management Plan “NEXT-2020 Final” which covers the three-year implementation period of 2019 to 2021 has started.

The content of the new Mid-Term Management Plan “NEXT-2020 Final” is scheduled to be published on our website on May 16 this year.

6. Basic rationale for selection of accounting standards

Our corporate group will voluntarily adopt International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending March 31, 2020. This change in accounting standard is aimed of improving international financial statement comparability in capital markets and improving the quality of group management.