August 10, 2018

Consolidated Financial Results (Japanese Accounting Standards)
For the First Quarter of the March 31, 2019 Fiscal Year

AIR WATER INC.
Head Office: 12-8, Minami semba 2-chome,
Chuo-ku, Osaka, Japan

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

1. Results for the Three Months Ended June 30, 2018

(1) Consolidated operating results

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2018	185,783	4.4	8,303	3.6	9,394	10.4	5,699	18.2
Three months ended June 30, 2017	177,893	16.3	8,012	-7.6	8,508	0.7	4,821	-9.5

(Note) Comprehensive income: Three months ended June 30, 2018: 7,934 millions of yen (58.0 %)
Three months ended June 30, 2017: 5,023 millions of yen (24.6 %)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Three months ended June 30, 2018	29.17	29.12
Three months ended June 30, 2017	24.72	24.67

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2018	702,761	297,020	40.1
As of March 31, 2018	693,101	294,644	40.1

(Reference) Shareholder's equity: 281,559 millions of yen as of June 30, 2018, 277,954 millions of yen as of March 31, 2018

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
The fiscal year ending March 31, 2018	—	17.00	—	21.00	38.00
The fiscal year ending March 31, 2019	—				
The fiscal year ending March 31, 2019 (Forecasts)		19.00	—	19.00	38.00

(Note) Changes in forecast of dividends for the fiscal year ending March 31, 2019 from the latest disclosure: No

3. Forecast of consolidated operating results for the fiscal year ending March 31, 2019

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
The second quarter (cumulative)	380,000	5.9	18,500	4.8	19,300	2.9	11,000	0.8	56.28
The fiscal year	820,000	8.8	48,500	14.4	50,000	11.9	28,000	11.2	143.24

(Note) Changes in forecast of consolidated operating results for the fiscal year ending March 31, 2018 from the latest disclosure: No

Other

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

(2) Application of specific accounting procedures for preparing the quarterly consolidated financial statements: Yes

(3) 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

(4) Number of shares outstanding (ordinary shares)

a. Total number of shares outstanding (including treasury shares)
As of June 30, 2018: 198,705,057 shares
As of March 31, 2018: 198,705,057 shares
b. Number of shares of treasury shares
As of June 30, 2018: 3,215,057 shares
As of March 31, 2018: 3,320,506 shares
c. Average number of shares during the term
First Three months of the fiscal year ending March 31, 2019: 195,434,439 shares
First Three months of the fiscal year ending March 31, 2019: 195,068,997 shares

* This report is exempt from quarterly review 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 AIR WATER INC. (hereinafter "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-(3) Explanation of future prediction information such as forecast of consolidated operating results"

4. Qualitative Information relating to First Quarter Settlement of Accounts

(1) Explanation of Operating Results

1) Operating results for the current period

The Japanese economy in the cumulative first quarter of the current consolidated fiscal year was on a gradual recovery trend thanks mainly to strong corporate earnings, improvements in the employment and income environments. However, on the other hand, the sense of uncertainty about the future economic conditions grew due to such factors as labor shortages, rise in raw material prices and impacts of trade disputes overseas.

With regard to the results of our corporate group under these circumstances, our industrial gas business performed satisfactorily as a whole, due to continued steady gas demand from a broad range of domestic manufacturing sectors and also because of recovery in operations of our customers' plants to which our gas is supplied on-site for their blast furnaces. Our chemical business exhibited satisfactory performance due to further improvements in earnings from our organic acid products including phthalic anhydride in line with the recovery in product market conditions, and each of the businesses constituting our other business segment including aerosol, information and electronics materials, and O-ring businesses also performed steadily, contributing to growth in results of our corporate group. In our medical business, despite further improvements in earnings of our medical treatment service, such as SPD (supply, processing and distribution management for hospitals) and sterilization, the business remained at the same level as in the previous year due to the temporary impact of the revision of the sales system in our hypodermic-needle business. Our agriculture and food products business and energy business saw a decline in profits compared to the same period of the previous year due to increases in costs including labor cost.

As a result, for the current first quarter consolidated cumulative period, the group's sales were ¥185,783 million (104.4% that of the corresponding period of the previous year), operating income was ¥8,303 million (103.6%), ordinary income was ¥9,394 million (110.4%) and net income attributable to shareholders of the parent was ¥5,699 million (118.2%).

2) Consolidated results by segment for this period

(Millions of yen)

	Net sales		Ordinary income	
	Three months ended June 30, 2018	% compared with the corresponding period of the previous year	Three months ended June 30, 2018	% compared with the corresponding period of the previous year
Industrial Gas Business	40,719	110.7%	3,356	115.6%
Chemical Business	18,617	103.0%	680	416.3%
Medical Business	38,596	103.7%	920	96.1%
Energy Business	10,882	106.5%	514	71.3%
Agriculture and Food Products Business	34,756	101.1%	1,145	87.6%
Logistics Business	11,529	105.5%	643	127.4%
Other Businesses	30,681	101.2%	2,131	109.5%
(Adjustment)	—	—	2	98.7%
Total	185,783	104.4%	9,394	110.4%

(Note) The adjustments to ordinary income are profit or loss incurred at the Company's headquarters division and research and development division which were not allocated to each reporting segment, financial profit and loss and others.

<Industrial Gas Business>

Our on-site gas supply service for blast furnaces performed satisfactorily due to the recovery in operations of our customers' plants. Our on-site gas supply service for electronics applications also exhibited strong performance backed by the continued high operation rate of our customers' plants. Further, our regional gas businesses centering on gas supply services via tank lorries and cylinders also achieved favorable performance as a whole thanks to the continued steady gas demand from a broad spectrum of domestic manufacturing sectors, including chemical, shipbuilding, automobile and construction-related industries coupled with the effects of the progress made on our strategy focused on gas production stations including the establishment of new high-efficient liquid oxygen (O2) and nitrogen (N2) generator, “VSU” plants.

In our equipment and construction-related businesses, sales of our gas application equipment including Dry Ice Snow Precision Cleaning System and our low temperature equipment performed strongly, and the effects of the new consolidation of Japan Pionics Co., Ltd. by making it a subsidiary of our company in the previous fiscal year also contributed to the results.

As a result of the above, sales of this segment were ¥40,719 million (110.7% that of the corresponding period of the previous year) and ordinary income was ¥3,356 million (115.6%).

<Chemical Business>

Our coal chemical business performed satisfactorily due to the rise in unit price of purified coke oven gas caused by changes in market conditions and also because of the rise in sales price of crude benzene, which is our mainstay basic chemical product.

In our fine chemicals business, sales of our highly-functional circuit products used for industrial robots continued to remain strong; however, our production plants in China was affected by fluctuations in operation due to the country’s tightening of environmental regulations.

Our group company, Kawasaki Kasei Chemicals, Ltd. performed strongly as a whole, due to improvements in earnings from sales of its organic acid products including phthalic anhydride as a result of sales price revisions that were implemented in combination with a thorough reduction of manufacturing costs, and also due to the continued steady demand for naphthoquinone and its derivatives, which have been commercially produced only by this company in the world, particularly from the electronics materials sector.

As a result of the above, sales of this segment were ¥18,617 million (103.0% that of the corresponding period of the previous year) and ordinary income was ¥680 million (416.3%).

<Medical Business>

Our advanced medical treatment sector performed steadily by implementing cost rationalization and other measures through the restructuring of our group companies, which offset the impacts of difficult market environment for hospital facility construction including operating room construction caused by a decline in the number of large-scale projects. Our medical treatment services performed satisfactorily due to further improvements in earnings in our SPD (supply, processing and distribution management for hospitals) and sterilization services achieved through the rationalization of the operations of SPD centers and revision of contracted service charges, in addition to the streamlining of material procurement. Sales of our medical gas faced difficult conditions due to the impact of a decrease in volume of gas used at our client hospitals.

In the sector of medical treatment service for everyday life that provides products and services with close connection to people’s lives, our hygiene product business grew satisfactorily due to expansion in sales; however, our hypodermic-needle business fell into difficult straits due to a temporary decline in orders received in our hypodermic-needle business caused by the revision of the sales system for our dental needles for overseas. Our home medical care and dental product businesses remained at the same level as in the same period of the previous year.

As a result of the above, sales of this segment reached ¥38,596 million (103.7% that of the corresponding period of the previous year), thanks in part to the effects of new consolidation through M&A’s in sanitary materials and other sectors. Ordinary income was ¥920 million (96.1%), partly due to the impact of an increase in overhead costs associated with overseas business development and startup of new contracting projects.

<Energy Business>

Sales of our mainstay LP gas expanded due to an increase in sales volume as a result of our efforts to focus on aggressive measures to increase volume and customers, and also because of unit sales prices that rose in tandem with contract prices which are used as a benchmark for import prices.

Key initiatives we worked on to increase sales volume and customers included efforts to acquire new customers of LP gas for household use through aggressive sales promotion activities at various events focused on a service to offer points of electronic money “WAON” and active promotion of fuel switch from heavy oil to LP gas targeted primarily for customers in the field of LP gas for industrial use through cooperation with regional business companies across the country.

As a result of these efforts, sales volume of our LP gas, particularly that for industrial use grew steadily; however, the business conditions were difficult in terms of profit due to increases in costs for sales promotion and start-up of new projects, and also because of the impacts of a decline in sales volume of kerosene as consumers became increasingly saving-oriented in response to the rise in kerosene prices.

As a result of the above, sales of this segment were ¥10,882 million (106.5% that of the corresponding period of the previous year) and ordinary income was ¥514 million (71.3%).

<Agriculture and Food Products Business>

In our farm products business, sales of our fruit and vegetable retail sector grew as a result of advancing the opening of new stores, and sales and maintenance service of our agricultural machines and tools, in which the company holds a large market share in Hokkaido, continued to perform steadily; however, in terms of profit, the business was faced with difficult conditions due to low market prices of fruit and vegetables that have continued since the last fiscal year, which affected our fruit and vegetable wholesale/ distributive processing sector.

Our food solutions business performed strongly in terms of profit, with results of our ham and sausage sector remaining at the same level as in the same period of the previous year and our farm products processing sector achieving further improvement in stable raw materials procurement and productivity despite the impact of sluggish sales in our sweets sector.

Our beverage business saw growth in contract manufacturing, particularly in the manufacturing of coffee beverages, but was affected by the rise in labor and energy costs, and thus, the results fell below that of the same period in the previous year.

As a result of the above, partly due to the effect of the M&A implemented in the previous fiscal year, sales of this segment were ¥34,756 million (101.1% that of the corresponding period of the previous year) and ordinary income was ¥1,145 million (87.6%).

<Logistics Business>

Our transport business saw growth in volume of shipments in the chassis transport between Hokkaido and Honshu, particularly in the shipment of construction materials. Our 3PL (Third Party Logistics) business centering on food logistics saw an increase in volume of shipments in our contracted logistics services for major convenience store chains. With regard to costs, as business conditions continue to be tough with the rise in diesel oil prices and labor costs, this sector worked on the optimization of charges for the contracted shipping service focused on the 3PL business.

Our vehicle custom installation business, which carries out design of truck bodies and installation of accessories, performed steadily due to improved profitability as a result of the investment made in the previous fiscal year in plant facilities.

As a result of the above, sales of this segment were ¥11,529 million (105.5% that of the corresponding period 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 ¥643 million (127.4%).

<Other Businesses>

Among our seawater businesses, our salt manufacturing business saw an increase in plant energy costs and logistics costs, but their negative impacts were offset by price revisions of salts for industrial use, in which progress was made. However, the results fell below that of the same period in the previous year due to a reactionary decline resulting from the absence of the profits from large-scale projects which were recorded in the same period of the previous fiscal year. Our magnesia business faced difficult conditions due to the impact of the surge in prices of raw materials for fused magnesia used for heaters caused by environmental regulations in China.

Our aerosol business, which provides OEM supply of aerosol products, exhibited strong performance thanks to expansion of orders for contract manufacturing, particularly for the manufacturing of personal products for use on human body such as cosmetics.

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 O-ring business which manufactures and sells machine sealing parts, our Bellpearl business which manufactures and sells highly-functional phenolic resin, and our metal surface treatment service using “NV Nitriding Process” each performed strongly as well.

As a result of the above, sales of this segment were ¥30,681 million (101.2% that of the corresponding period of the previous year) and ordinary income was ¥2,131 million (109.5%).

(2) Explanation of financial position for the current period

Total assets at the end of the consolidated fiscal year under review stood at ¥702,761 million, an increase of ¥9,660 million compared to the end of the previous consolidated fiscal year due primarily to increases in tangible fixed assets. Liabilities stood at ¥405,741 million, an increase of ¥7,284 million compared to the end of the previous consolidated fiscal year due mainly to increases in borrowings. Net assets stood at ¥297,020 million, an increase of ¥2,375 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 ¥1,440.28, and the equity ratio was 40.1 %, same as what it was at the end of the previous consolidated accounting fiscal year.

(3) Explanation of future prediction information such as forecast of consolidated operating results

The business forecasts for the second quarter consolidated cumulative period and for the full fiscal year are unchanged from the business forecasts announced on May 11, 2018.

5. Matters Relating to Summary Information (Other)

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries with changes in the scope of consolidation)

None

(2) Application of specific accounting procedures for preparing the quarterly consolidated financial statements

Calculation of income taxes

Income taxes for the majority of consolidated subsidiaries are computed first by reasonably estimating the effective tax rate after applying tax effect accounting against income before income taxes for the fiscal year including the first quarter under review, and next by multiplying the quarterly income before income taxes by such estimated effective tax rate.

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

(Changes in accounting estimates)

The consolidated subsidiaries in logistics business replaced tangible fixed assets related to their logistics business and reviewed their actual utilization and expected period of use. As a result of this utilization study, at the beginning of the fiscal year ending March 31, 2019 the useful life of these physical assets was changed to the useful life based on expected utilization period.

Following this change, depreciation expense for the three months ended June 30, 2018 decreased by 282 millions of yen, while operating income, ordinary income and income before income taxes increased by the same amount compared to the results calculated by the method used before this change.

(4) Additional information

The “Partial Amendment to the Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) has been applied from the beginning of the fiscal year ending March 31, 2019. As a result, deferred tax assets are presented in the investments and other assets of balance sheet, and deferred tax liabilities are presented in the non-current liabilities.