November 10, 2017

Consolidated Financial Results (Japanese Accounting Standards)
For the Second Quarter of the March 31, 2018 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 Six Months Ended September 30, 2017

(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	%
Six months ended September 30, 2017	358,691	14.3	17,656	2.2	18,764	9.3	10,917	5.7
Six months ended September 30, 2016	313,926	-2.8	17,276	5.1	17,174	0.7	10,326	-18.5

(Note) Comprehensive income: Six months ended September 30, 2017:13,544 millions of yen (33.1 %)
Six months ended September 30, 2016: 10,179 millions of yen (-1.8 %)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Six months ended September 30, 2017	55.95	55.86
Six months ended September 30, 2016	52.93	52.82

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of September 30, 2017	651,515	289,213	41.0
As of March 31, 2017	629,115	280,750	40.7

Reference: Equity as of September 30, 2017: 267,435 millions of yen, as of March 31, 2017: 255,983 millions of yen

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, 2017	—	14.00	—	20.00	34.00
The fiscal year ending March 31, 2018	—	17.00			
The fiscal year ending March 31, 2018 (Forecasts)			—	17.00	34.00

Note: Changes in forecast of dividends for the fiscal year ending March 31, 2018 from the latest disclosure: No

4.3. Forecast of consolidated operating results for the fiscal year ending March 31, 2018

(% 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 fiscal year	760,000	13.3	44,000	6.4	44,000	6.7	24,000	7.4	122.98

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): Yes
c. Changes in accounting estimates: None
d. Restatement: None

(4) Number of shares outstanding (ordinary shares)

a. Total number of shares outstanding (including treasury shares)
As of September 30, 2017: 198,705,057 shares
As of March 31, 2017: 198,705,057 shares

b. Number of shares of treasury shares
As of September 30, 2017: 3,517,512 shares
As of March 31, 2017: 3,677,306 shares

c. Average number of shares during the term
First Six months of the fiscal year ending March 31, 2018: 195,123,360 shares
First Six months of the fiscal year ending March 31, 2017: 195,099,808 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 Second Quarter Settlement of Accounts**

(1) Explanation of Operating Results

1) Operating results for the current period

The Japanese economy in the cumulative second quarter of the current fiscal year was on a gradual recovery trend, with further improvements in corporate earnings and employment situation and steady performance in capital investment and consumer spending, thanks partly to the effects of the government's economic measures.

With regard to overseas economies, although uncertainties about the future such as increasing geopolitical risks still exist in some countries and regions, the U.S. and European economies performed strongly, and economies in China and other emerging countries in Asia also continued to recover moderately.

With regard to the results of our corporate group under these circumstances, our industrial gas business saw strong performance in regional gas businesses which center on gas supply via lorries and cylinders, backed by steady gas demand from domestic manufacturing industries, although there were impacts of facility problems at our customers' plants on our on-site gas supply to blast furnaces.

Our chemical business, which had been suffering from sluggish performance, particularly in the tar distillation business, achieved a return to profitability, due to improvements in market conditions of our products and progress made in the structural reform of our functional chemicals sector. In addition to satisfactory performance of our agriculture and food business, particularly in the beverage field, our medical business, which promoted the development of new markets, as well as our seawater business, aerosol business and information and electronics materials business, which comprise our "other business" segment each improved to exhibit strong performance, leading to an expansion of business performance of our corporate group.

As a result, for the consolidated cumulative current period, sales were ¥358,691 million (114.3% that of the corresponding period of the previous year), operating income was ¥17,656 million (102.2%), ordinary income was ¥18,764 million (109.3%) and net income attributable to shareholders of the parent was ¥10,917 million (105.7%).

2) Consolidated results by segment for this period

Due to changes in the structure of our group's organization, our "Logistics Business," which was previously included in our "Other Business," is now separately presented as a reporting segment, effective the first quarter consolidated cumulative accounting period.

Also, the business results management segments were changed, so that Air Water Materials Inc. and other eight companies, which were previously classified under "Industrial Gas Business," have been re-classified into "Other Business."

Financial profit and loss including funding costs, which were previously presented in each segment, have collectively been recorded as "Adjustments."

The segment information for the previous year's second quarter consolidated cumulative period has been revised in accordance with the above new reporting segment classification and calculation method.

(Millions of yen)

	Net sales		Ordinary income	
	Six months ended September 30, 2017	% compared with the corresponding period of the previous year	Six months ended September 30, 2017	% compared with the corresponding period of the previous year
Industrial Gas Business	76,706	97.5%	6,432	93.2%
Chemical Business	33,837	107.7%	812	—
Medical Business	77,171	143.5%	3,225	111.6%
Energy Business	18,987	111.1%	999	100.5%
Agriculture and Food Products Business	69,566	122.7%	3,079	121.3%
Logistics Business	22,276	106.6%	1,127	96.6%
Other Businesses	60,145	108.7%	3,593	102.8%
(Adjustment)	—	—	-507	147.7%
Total	358,691	114.3%	18,764	109.3%

(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 regional gas business centering on gas supply services via lorries and cylinders performed strongly as a whole, on the back of steady gas demand that continued across a broad range of domestic manufacturing industries, including the automobile, chemical, shipbuilding and construction-related sectors. Sales of our gas application products, such as our dry ice snow precision cleaning system, also grew.

Our on-site gas supply business for electronics applications performed steadily, as a result of the continued high levels of production at our customers' plants due to the global growth of the semiconductor market.

On the other hand, our on-site gas supply business for blast furnaces, which are our largest source of demand, faced difficult conditions, because the impact of operational fluctuations caused by facility problems at our customers' plants has continued even after the second quarter. Further, the rise in electricity prices pushed up the production costs of industrial gases.

Net sales in the engineering-related sector decreased due in part to a significant year-on-year decline in the number of large-scale projects.

As a result of the above, sales of this segment were ¥76,706 million (97.5% that of the corresponding period of the previous year) and ordinary income was ¥6,432 million (93.2%).

<Chemical Business>

In our coal chemical business, the volume of our coke oven gas processing fell below the level of the same period of the previous year, but gas prices rose due to changes in market conditions. Our carbon materials business improved to exhibit satisfactory performance, thanks to an increase in demand for our main product, thermally expandable graphite (TEG), used for sealing materials for automobile engines. Our tar distillation business operated by our equity-method affiliated company, C-Chem Co., Ltd., saw further improvement in business environment, due to recovery in product market conditions, thanks to tightened supply-demand conditions for needle coke used for electric furnace electrodes.

Our fine chemicals business improved to exhibit satisfactory performance, due to further improvements in earnings as a result of the closedown of underperforming facilities and also because of expansion in sales of highly-functional circuit products used for industrial robots. Kawasaki Kasei Chemicals, a company of our corporate group, exhibited strong performance as a whole, due to a significant expansion in sales of our quinone-based products used for pharmaceutical and agrochemical applications and photosensitizer applications, and also because of recovery in sales of, and in export market conditions for phthalic anhydrides used mainly for plasticizers.

As a result of the above, sales of this segment were ¥33,837 million (107.7% that of the corresponding period of the previous year) and ordinary income was ¥812 million (the previous period marked the ordinary loss of ¥466 million).

<Medical Business>

Our medical gas business exhibited strong performance, due to an increase in sales volume as a result of the acquisition of new client hospitals. Our hospital facility construction including the design and construction of operating rooms also grew to good levels. In our medical treatment services, SPD (supply, processing and distribution management for hospitals) improved to exhibit satisfactory performance, due to orders received for large-scale projects and as a result of efforts to improve earnings. Our sterilization services promoted the establishment of sterilization satellite hubs that meet regional demand to expand contract services with focus placed on sterilization services outside hospitals. Our hypodermic-needle business exhibited satisfactory performance, due to the expansion of its sales channels to overseas and effects produced by efforts to improve productivity. In the field of “medical treatment in everyday life” to provide products and services with close connection to people’s lives, our home medical care services performed strongly, and our dental product business and hygiene product business, each grew steadily, as well.

As a result of the above, due partly to effects of the new consolidation through M&A implemented during the previous fiscal year, sales of this segment were ¥77,171 million (143.5% that of the corresponding period of the previous year) and ordinary income was ¥3,225 million (111.6%).

<Energy Business>

Net sales of LP gas and kerosene grew, because sales unit prices rose in tandem with import prices, and also because sales volume increased steadily as a result of our efforts to take aggressive measures to increase customers and sales volume. However, due to the sharp rise in import prices of LP gas in and after August, income remained at the same level as in the previous year.

As main measures to increase sales volume and customers, we strengthened our sales network particularly in urban areas for our household customers, focusing on a service to award e-money “WAON” points. For customers who use our products for industrial purposes, we enthusiastically promoted proposals for customers in the field of industrial gases, including the start of new transactions and switching of fuels from heavy oil to LP gas or LNG in cooperation with our regional business companies across Japan. In LNG-related products, orders were received steadily for our LNG lorries that utilize our cryogenic technology cultivated in the field of industrial gas.

As a result of the above, sales of this segment were ¥18,987 million (111.1% that of the corresponding period of the previous year) and ordinary income was ¥999 million (100.5%).

<Agriculture and Food Products Business>

In our farm products business, our fruit and vegetable wholesale/retail business was affected by low market prices due to good crop yields from the beginning of spring, but sales largely remained flat, thanks in part to an increase in sales of grated daikon radish and processed potato products.

Our food product solutions business exhibited satisfactory performance, thanks to steady performance of our ham and sausage business as a result of expanded sales of our uncured ham, and also thanks to the progress made in expanding sales of our frozen vegetables including broccoli and in improving the productivity of vegetable processing in the field of processed food.

Our beverage business performed satisfactorily, due to growth in sales of vegetable drinks led by the rise of health consciousness coupled with the good weather, which continued from the beginning of spring.

As a result of the above, due partly to effects of the new consolidation through M&A implemented during the previous fiscal year, sales of this segment were ¥69,566 million (122.7% that of the corresponding period of the previous year) and ordinary income was ¥3,079 million (121.3%).

<Logistics Business>

Our 3PL (Third Party Logistics) business centering on food logistics improved to exhibit satisfactory performance, thanks to growth in volume of shipments to large retail chains as a result of the start of contract shipping in new areas, and also as result of our efforts to enhance warehouse work productivity, which offset the impact of increase in costs including labor costs.

Our vehicle custom installation business, which carries out design of truck bodies and installation of accessories on them, grew satisfactorily, due to increased profitability as a result of our continued efforts to make effective investments for the construction of additional factories and for machine and equipment in order to respond to buoyant demand. On the other hand, our transport business consisting of general cargo shipping and chassis (trailer) shipping using the ferry between Hokkaido and Honshu was affected by a shortage of drivers and increase in costs resulting from the rise in diesel fuel prices and investment for vehicle replacement, despite growth in volume of shipments in the general cargo shipping.

As a result of the above, sales of this segment were ¥22,276 million (106.6% that of the corresponding period of the previous year) and ordinary income was ¥1,127 million (96.6%).

<Other Businesses>

Among our seawater businesses, although our salt manufacturing business was affected by a decline in sales volume and increase in manufacturing costs, our environmental businesses including our READ adsorbent business grew satisfactorily. Our magnesia business saw an increase in sales volume of magnesia for electromagnetic steel plates used for power transformers of electrical infrastructure, but was affected by the decline in sales prices.

Our aerosol business exhibited strong performance as a result of an increase in sales of household goods such as pesticides and personal products for use on human body such as cosmetics, although the business was affected by the rise in manufacturing costs.

Our information electronics materials business, in which sales of our electric and electronic materials for electronics- and automobile-related applications expanded, performed strongly, and our rubber molded products business including our O-ring business performed satisfactorily as well.

As a result of the above, sales of this segment were ¥60,145 million (108.7% that of the corresponding period of the previous year) and ordinary income was ¥3,593 million (102.8%).

(2) Explanation of financial position

Total assets at the end of the current second quarter consolidated accounting period stood at ¥651,515 million, an increase of ¥22,399 million compared to the end of the previous consolidated fiscal year, due primarily to increases in notes and accounts receivable, and tangible fixed assets. Liabilities stood at ¥362,301 million, an increase of ¥13,936 million compared to the end of the previous consolidated fiscal year, due primarily to increases in notes and accounts payable. Net assets stood at ¥289,213 million, an increase of ¥8,462 million compared to the end of the previous consolidated fiscal year, due primarily to accumulation of quarterly ~~Net~~net income attributable to shareholders of the parent.

Net assets per share grew to ¥1,370.15, up from ¥1,312.55 in the previous consolidated fiscal year, and the equity ratio changed to 41.0% from 40.7% in the previous consolidated fiscal year.

Cash flow from operating activities for the current second quarter consolidated cumulative period was an inflow of ¥21,029 million, a decrease of ¥10,375 million compared to that in the previous second quarter consolidated cumulative period, as a result of deducting payments including corporate taxes from net profit before taxes, depreciation costs, etc.

Cash flow from investing activities for the current second quarter consolidated cumulative period was an outflow of ¥23,191 million, which was an increase of ¥7,408 million in outflow compared to the previous second quarter consolidated cumulative period, due primarily to a decrease in income associated with business transfer.

Cash flow from financial activities for the current second quarter consolidated cumulative period was an inflow of ¥278 million, which was an outflow of ¥10,861 million in the previous second quarter consolidated cumulative period, due primarily to proceeds from borrowings, despite the payment of dividends.

As a result of the above, deposits of cash and cash equivalents at the end of the current second quarter consolidated cumulative period stood at ¥28,885 million, a decrease of ¥8 million compared to the end of the previous second quarter consolidated cumulative period.

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

The business forecasts for the full fiscal year are unchanged from the business forecasts announced on May 12, 2017.

(4) Basic policy regarding the distribution of earnings and dividends for this period

Our company works to strengthen its management base to achieve continued improvement of corporate value, and at the same time we consider return of profits to its shareholders to be one of the most important management issues. For this reason, with respect to the dividend of surplus, we have the basic policy of paying stable dividends appropriate to business results long into the future, aiming for 30% of consolidated net income for a reporting period, while taking into consideration the adequacy of retained earnings necessary for strategic investment and others for the medium- to long-term growth.

The interim dividend has been set at 17 yen per share as was initially forecast. The year-end dividend will be announced upon determination based on the full-year business results.

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

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

(Change in classification of expenses)

Starting from the first quarter consolidated accounting period, our company and some of our consolidated subsidiaries, which previously recorded their gas filling expenses, etc. under selling expenses and general and administrative expenses, have changed this accounting treatment and now record these expenses under cost of sales. The purpose of this change is to clarify the corresponding relationship between net sales and cost of sales following the start of operation of the new accounting system, and thereby ensure better consistency with our corporate group's performance evaluation.

The prior year financial statements for the consolidated cumulative second quarter have been adjusted retrospectively to apply this change in accounting policy.

As a result, compared with the amount prior to retrospective application, cost of sales for the previous year's consolidated cumulative second quarter increased ¥1,683 million, and gross profit and selling, general and administrative expenses decreased by the same amount; however, this change had no effect on operating income, ordinary income, quarterly net income before income taxes and per share information.