November 10, 2016

Consolidated Financial Results (Japanese Accounting Standards)
For the Second Quarter of the March 31, 2017 Fiscal Year

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

1. Results for the Six Months Ended September 30, 2016

(1) Operating Results

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2016	313,926	-2.8	17,276	5.1	17,174	0.7	10,326	-18.5
Six months ended September 30, 2015	323,130	0.9	16,433	6.8	17,058	2.8	12,675	24.8

Note: Comprehensive income: Six months ended September 30, 2016: 10,179 millions of yen (-1.8 %)
Six months ended September 30, 2015: 10,369 millions of yen (-21.8 %)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Six months ended September 30, 2016	52.93	52.82
Six months ended September 30, 2015	64.68	64.53

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of September 30, 2016	565,665	261,791	42.5
As of March 31, 2016	575,832	256,179	40.8

Reference: Equity as of September 30, 2016: 240,312 millions of yen, as of March 31, 2016: 234,725 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, 2016	—	14.00	—	14.00	28.00
The fiscal year ending March 31, 2017	—	14.00			
The fiscal year ending March 31, 2017 (Forecasts)			—	14.00	28.00

Note: Changes in forecast of dividends for the fiscal year ending March 31, 2017 from the latest disclosure: No

3. Forecast of consolidated operating results for the fiscal year ending March 31, 2017

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
The fiscal year ending March 31, 2017	700,000	6.0	42,500	7.5	42,000	19.7	23,000	14.2	117.97

Note: Changes in forecast of consolidated operating results for the fiscal year ending March 31, 2017 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): No

(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:	Yes
b. Changes in accounting policies other than (a):	None
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, 2016:	198,705,057 shares
As of March 31, 2016:	198,705,057 shares
b. Number of shares of treasury shares	
As of September 30, 2016:	3,865,068 shares
As of March 31, 2016:	2,596,449 shares
c. Average number of shares during the term	
First Six months of the fiscal year ending March 31, 2017:	195,099,808 shares
First Six months of the fiscal year ending March 31, 2016:	195,992,263 shares

* Indication of quarterly review procedure implementation status

This financial highlight is exempt from quarterly review procedure based on the Financial Instruments and Exchange Act. The quarterly review procedure for quarterly consolidated financial statements based on the Financial Instruments and Exchange Act has been completed at the time of disclosure of this report.

* 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 Earnings

(1) Explanation of operating results

1) Operating results for the current period

With regards to the business environment surrounding our corporate group, it remained difficult to predict whether the domestic economy moves toward full recovery, given the high appreciation of the yen placing a burden on the export-oriented manufacturing industry, the impact of a series of abnormal whether and natural disasters on production activities, as well as the lack of momentum in capital spending which is one of the driving force of economy.

Under these circumstances, although production levels vary among customers and businesses, the on-site gas supply business for blast furnaces in our industrial gas business exceeded the previous year's levels. Also, the aggressive sales activities of our regional business companies have led to a step-by-step acquisition of new customers, which resulted in a strong performance of our industrial gas business. Our agriculture and food product business, which is committed to expand its business through M&As and the strengthening of existing businesses, and our energy business, which is driving its consistent policy of increasing customers and sales volume, both have achieved steady progress in their own growth strategies. Our salt manufacturing business and logistics business performed strongly as a whole through their balanced strategies of improving existing businesses and strengthening new businesses.

On the other hand, our hospital facility construction operation and medical treatment services in our medical business failed to achieve the expected results. Our chemical business continues to experience unstable business conditions due to the impact of deteriorated market conditions caused by the fall in crude oil prices and continued appreciation of the yen.

As a result, for this year's second quarter consolidated cumulative period, sales were ¥313,926 million (97.2% that of the corresponding period of the previous year), operating income was ¥17,276million (105.1%), ordinary income was ¥17,174 million (100.7%) and profit attributable to owners of parent was ¥10,326 million (81.5%).

2) Consolidated results by segment for this period

(Millions of yen)

	Net Sales		Ordinary income / loss	
	Six months ended September 30, 2016	% compared with the corresponding period of the previous year	Six months ended September 30, 2016	% compared with the corresponding period of the previous year
Industrial Gas Business	97,557	102.7%	7,041	120.1%
Chemical Business	31,414	65.2%	-619	—
Medical Business	53,796	93.8%	2,880	91.8%
Energy Business	17,087	86.5%	979	110.1%
Agriculture and Food Products Business	56,709	123.9%	2,498	130.4%
Other Businesses	57,362	100.5%	3,992	93.2%
(adjustment)	—	—	402	107.9%
Total	313,926	97.2%	17,174	100.7%

(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>

In our industrial gas business, while some industries showed a strong recovery, such as the automobiles industry which increased its operation capacity to recover from the impact of the Kumamoto Earthquake and the electronic component industry which was supported by healthy demand for smartphones in China, others did not, such as the shipbuilding industry which sees no signs of recovery in the amount of orders received, the construction equipment industry which continues to be affected by the strong yen and weak resources prices and the construction sector which is suffering from labor shortages, and therefore it remained still difficult to determine whether the overall production activities of domestic manufacturers will move toward full and widespread recovery. Under these circumstances, although domestic demand lacked strength, signs of a moderate pick-up started to emerge in steel manufacturers, which are our largest customers.

Also, our nine regional business companies across the country aggressively developed proposal activities in order to contribute to our customers' production activities, which resulted in the acquisition of new customers and creation of new gas demand. Our VSU No. 13, which started its operation in July this year, is one of our company's strategies to respond to regional demand with a stable supply. These efforts led to satisfactory performance of the overall industrial gas supply.
Although electricity prices that have significant impact on industrial gas manufacturing costs have been improved by lowering fuel cost adjustment prices, there are also issues of regional differences; therefore, we will make continued efforts to achieve appropriate industrial gas prices.
As a result of the above, sales of this segment were ¥97,557 million (102.7% that of the corresponding period of the previous year) and ordinary income was ¥7,041 million (120.1%).

<Chemical Business>

Our coal chemicals business was strongly affected by the appreciation of the yen and fall in crude oil prices, resulting in a decline in sales prices, mainly of crude benzene, which is our mainstay basic chemical product. Our fine chemicals business steadily promoted structural reform, but failed to lead to significant improvement due to the impact of the decline in sales of agricultural chemical raw materials in China. Kawasaki Kasei Chemical Ltd. saw a decline in sales of general-purpose chemicals and quinone-based products. Our tar distillation business continued to face difficult conditions resulting from global weakening in demand, particularly for needle coke, and rise in coking coal prices, and for these reasons, our chemical business as a whole fell into difficult straits.
As a result of the above, sales of this segment were ¥31,414 million (65.2% that of the corresponding period of the previous year) and ordinary loss was ¥619 million (the previous period marked the ordinary income of ¥592 million).

<Medical Business>

In our hospital facility construction business, although the number of completed projects for the current period has leveled off, strategic measures to win orders were implemented with focus placed on the field of advanced medical treatment, which contributed to a steady increase in orders received for the construction of large-scale hospitals and major regional hospitals. Our medical oxygen business attained the same level of sales volume as in the previous year. Although there were fluctuations in the number of contract hospitals in our SPD services, our medical treatment services strived to strengthen and expand business, including the promotion of new business development through a package proposal that offers both SPD and contract sterilization services. In our home medical care services, rentals of our home oxygen concentrator improved to exhibit strong performance. Sales of our medical treatment devices grew thanks to the increase in cases to which nitric oxide inhalation therapy is applicable. Our medical business accelerates the strengthening of existing businesses and creation of new businesses through aggressive M&As and business reforms.
Misawa Medical Industry Co., Ltd., a specialized injection needle manufacturer, has been newly included in our consolidated business results starting with the first quarter of the consolidated accounting period.
As a result of the above, sales of this segment were ¥53,796 million (93.8% that of the corresponding period of the previous year) and ordinary income was ¥2,880 million (91.8%).

<Energy Business>

Despite some remaining impact of the gradual fall in import prices on the LP gas inventory valuation and sales prices, efforts were made to gain new customers of LP gas for industrial use by aggressively promoting fuel conversion from heavy oil. Sales of LP gas for household use achieved increases in both customers and sales volume as a result of a new service to offer e-money to customers and the expanded use of our company's VIVIDO system which leads to energy savings. In these ways, our mainstay LP gas business saw a steady growth in sales volume and increase in the number of direct customers. Through our consistent efforts to develop and provide new services, increase new direct customers and expand sales volume, our energy business has built up a stable business base.
As a result of the above, sales of this segment were ¥17,087 million (86.5% that of the corresponding period of the previous year) and ordinary income was ¥979 million (110.1%).

<Agriculture and Food Products Business>

Our farm products business, which takes up cultivation, procurement, distribution, processing and retail of vegetables, continued to experience difficulty in procuring vegetables such as corns, pumpkins and carrots that were severely damaged by typhoons in Hokkaido during the harvest period, and the resulting procurement volume eventually dropped by 20 to 30 % from normal levels; however, efforts were made to strengthen and expand business by placing focus on the improvement of production efficiency in vegetable processing and expansion of the sales of new products. Our fruit and vegetable distribution business performed strongly as a whole, by increasing product lineups offered by the Group and promoting improvement measures developed for each retail store. Starting with the second quarter of the consolidated accounting period, Air Water Tokachi Foods Co., Ltd., the largest food processing company in the Tokachi region, with its strength in vegetable processing, has been newly included in our consolidated business results

Our food processing businesses including ham/delicatessen and frozen food business fell into difficult straits due to the decrease in sales of our mainstay livestock products. Starting with the second quarter of the consolidated accounting period, Daisen Ham Co., Ltd., which has its manufacturing base in western Japan and has significant brand presence, has been newly included in our consolidated business results. This consolidation, combined with the commercial cooking ingredient brand "Saveur," the retail brand "Shunsetsu" in the Hokkaido region and the retail brand "Sagami Ham" in the Kanto region, has completed a framework for developing business nationwide more effectively.

Our beverage business performed satisfactorily, due to the growth in sales of vegetable beverages, where the business has its strength, in addition to the strong sales volume during the high-demand season of summer.

As a result of the above, sales of this segment were ¥56,709 million (123.9% that of the corresponding period of the previous year) and ordinary income was ¥2,498 million (130.4%).

<Other Businesses>

In our seawater business among other businesses, our salt manufacturing business for both national and private brands grew to good levels by focusing its efforts on sales. Our wood-based biomass electricity generation system built at the Ako Plant operated satisfactorily and contributed to the business results. Our magnesia business saw a decline in sales of magnesia for high-grade electromagnetic steel plates for overseas, due to inventory adjustments by customers.

Our logistics business has built up a robust business system through business expansion including the new acquisition of food logistics in the Tohoku district and through the concurrent streamlining of both delivery and warehouse operations of the entire business.

Our aerosol business performed satisfactorily due to an increase in sales of body products such as contract manufacturing of cosmetics and household products such as pesticides.

Although sales of this segment fell from the previous year due to the sale of a lease business, other businesses performed strongly as a whole.

As a result of the above, sales of this segment were ¥57,362 million (100.5% that of the corresponding period of the previous year) and ordinary income was ¥3,992 million (93.2%).

(2) Explanation of financial state

Total assets at the end of the current second quarter consolidated accounting period stood at ¥565,665 million, a decrease of ¥10,166 million compared to the end of the previous consolidated fiscal year, due primarily to decreases in notes and accounts receivable. Liabilities stood at ¥303,874 million, a decrease of ¥15,778 million compared to the end of the previous consolidated fiscal year, due primarily to decreases in notes and accounts payable. Net assets stood at ¥261,791 million, an increase of ¥5,611 million compared to the end of the previous consolidated fiscal year, due primarily to accumulation of quarterly net income attributable to owners of parent.

Net assets per share grew to ¥1,233.38, up from ¥1,196.92 in the previous consolidated fiscal year, and the equity ratio changed to 42.5% from 40.8% in the previous consolidated fiscal year.

Cash flow from operating activities for the current second quarter consolidated cumulative period was an inflow of ¥31,405 million, an increase of ¥8,620 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 ¥15,782 million, which was a decrease of ¥912 million in outflow compared to the previous second quarter consolidated cumulative period, due to income associated with business transfer, despite an increase in expenditure for the acquisition of tangible fixed assets.

Cash flow from financial activities for the current second quarter consolidated cumulative period was an outflow of ¥10,861 million, which was an increase of ¥6,999 million compared to that in the previous second quarter consolidated cumulative period, due primarily to the repayment of borrowings.

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 ¥28,893 million, a decrease of ¥2,225 million compared to the end of the previous second quarter consolidated cumulative period.

(3) Explanation of future prediction information such as consolidated results predictions Business sentiment across the overall domestic manufacturing industry continues to be weak, reflecting increasing concerns about uncertainties in overseas economies, including slowdown in emerging countries in addition to the headwind of strong yen. Such a sentiment is also evident in companies' cautious approach to capital investment, which is far from self-sustained recovery in capital investment.

Under these circumstances, our industrial gas business will promote the strengthening of business base concurrently with the expansion of gas supply, with regional business companies playing a key role to closely respond to, and deal with investment timing of domestic customers with promote systematic infrastructure development including VSU. Our medical business and agriculture and food product business will accelerate the expansion of business areas through active investment and the strengthening of businesses through mutual cooperation between subsidiaries and act as a driving force for the growth of the entire company. Further, our business groups that develop their own distinctive businesses such as salt manufacturing business, logistics business and aerosol business, will actively promote the creation of new businesses and acquisition of new customers to achieve their respective growth goals. In this way, our company will continue striving to achieve our management goals by firmly maintaining our growth path, with all of our businesses, including industrial gas business, covering the slump of our chemical business which is in difficult conditions.

Besides, the advent of the new administration in the U.S. is expected to have a considerable impact on the Japanese economy, and our company will agilely respond to changes.

Accordingly, the business forecasts for the full fiscal year are unchanged from the business forecasts announced at the beginning of this period.

(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 14 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 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 and minority interests for the fiscal year including the second quarter under review, and next by multiplying the quarterly net income before income taxes and minority interests by such estimated effective tax rate.

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

(Change in depreciation method)

Some of consolidated subsidiaries applied the 'Practical solution on a change in depreciation method due to Tax Reform 2016' (ASBJ PITF No.32, June 17, 2016) and changed their depreciation method for structures and equipment attached to buildings from declining-balance method to straight-line method.

This application has little effect on the quarterly consolidated financial statements.

The effect of this change on segment information was immaterial and the record of this effect was omitted.

(4) Additional information

(Application of implementation guidance on recoverability of deferred tax assets)

The 'Implementation guidance on recoverability of deferred tax assets' (ASBJ Guidance No.26, March 28, 2016) was applied from the first quarter of FY2016.