

November 10, 2015

Consolidated Financial Results (Japanese Accounting Standards)  
For the Second Quarter of the March 31, 2016 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, 2015**

(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, 2015	323,130	0.9	16,433	6.8	17,058	2.8	12,675	24.8
Six months ended September 30, 2014	320,369	5.5	15,385	3.9	16,587	4.8	10,158	13.1

Note: Comprehensive income: Six months ended September 30, 2015: 10,369 millions of yen (-21.8%)  
Six months ended September 30, 2014: 13,268 millions of yen (-5.1 %)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Six months ended September 30, 2015	64.68	64.53
Six months ended September 30, 2014	51.90	51.79

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of September 30, 2015	565,019	255,311	41.3
As of March 31, 2015	547,642	240,154	41.3

Reference: Equity as of September 30, 2015: 233,422 millions of yen, as of March 31, 2015: 226,374 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, 2015	—	13.00	—	15.00	28.00
The fiscal year ending March 31, 2016	—	14.00			
The fiscal year ending March 31, 2016 (Forecasts)			—	14.00	28.00

Note: Changes in forecast of dividends for the fiscal year ending March 31, 2016 from the latest disclosure: No

**3. Forecast of consolidated operating results for the fiscal year ending March 31, 2016**

(% 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, 2016	700,000	6.0	40,000	10.7	42,000	10.1	23,000	11.1	117.32

Note: Changes in forecast of consolidated operating results for the fiscal year ending March 31, 2016 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): Yes

Newly included: 1 company (Company name) Kawasaki Kasei Chemicals Ltd.

(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, 2015:	198,705,057 shares
As of March 31, 2015:	198,705,057 shares

b. Number of shares of treasury shares

As of September 30, 2015:	2,604,390 shares
As of March 31, 2015:	2,845,090 shares

c. Average number of shares during the term

First Six months of the fiscal year ending March 31, 2016:	195,992,263 shares
First Six months of the fiscal year ending March 31, 2015:	195,721,501 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 “3-(3) Explanation of future prediction information such as forecast of consolidated operating results”

### 3. Qualitative Information relating to Second Quarter Earnings

#### (1) Explanation of operating results

##### 1) Operating results for the current period

In the business environment surrounding our corporate group, exports lost steam due to the impact of the stagnation in export markets in Asia caused by the slowdown in emerging economies including China, the weakness of which also had an adverse effect on the production of domestic manufacturers. Also, the pace of domestic economic recovery was extremely slow, with signs of stagnation emerging in domestic investments in capital which had been the origin of the positive cycle in the domestic economy.

In our industrial gas business under these circumstances, the amount of industrial gas we supplied was more stagnant than expected, because of a marked delay in recovery in the automobile industry, which has a significant influence on the whole industry, as well as in the steel, construction, and construction equipment industries. Our medical business, which is striving for rapid growth, steadily enhanced its business strength with focus placed on fields of advanced medical treatment. Our energy business has established a business structure resistant to environmental changes through an all-out effort to increase sales and customers, including the acquisition of new clients. In our agriculture and food product business, progress was made in building our own value chain. Our business groups that carry out our “Order Rodentia Style of Business,” including our seawater business and logistics businesses, also maintained their growth trajectory.

On the other hand, our chemical business fell into difficult straits due to continued deterioration in market conditions resulting from the fall in crude oil prices.

As a result, for this year’s second quarter consolidated cumulative period, sales were ¥323,130 million (100.9% that of the corresponding period of the previous year), operating income was ¥16,433 million (106.8%), ordinary income was ¥17,058 million (102.8%) and profit attributable to owners of parent was ¥12,675 million (124.8%).

##### 2) Consolidated results by segment for this period

(Millions of yen)

	Net Sales		Ordinary income	
	Six months ended September 30, 2015	% compared with the corresponding period of the previous year	Six months ended September 30, 2015	% compared with the corresponding period of the previous year
Industrial Gas Business	94,983	97.8%	5,862	108.2%
Chemical Business	48,201	94.0%	592	53.6%
Medical Business	57,380	104.7%	3,139	109.3%
Energy Business	19,754	91.4%	890	101.0%
Agriculture and Food Products Business	45,760	118.1%	1,915	120.1%
Other Businesses	57,049	100.4%	4,284	114.5%
(adjustment)	—	—	372	—
Total	323,130	100.9%	17,058	102.8%

(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>

Industrial gas related production in the chemical, semiconductor, electronic component, and shipbuilding industries etc. continued to be strong. However, the continued impact of production cutbacks in blast furnaces, which are our principal customers, coupled with delay in improvement in the automobile and construction industries increased the gap in operating rate among industries, and adversely affected the recovery in the supply of gas. On the other hand, capital investment in manufacturing industries gradually recovered despite some fluctuations caused by a sense of stagnation in domestic demand, resulting in an increase in the construction of gas supply facilities, which will generate new demand in the future.

In order to cope with the rise in gas production costs resulting from the rise in electricity prices which continued in Hokkaido and Kansai despite a temporary pause for fuel cost adjustments, our rationalization efforts continued, including replacement of existing plants with high-efficiency plants, together with the efforts to achieve appropriate gas related service fees through revisions in gas prices.

As a result of the above, sales of this segment were ¥94,983 million (97.8% that of the corresponding period of the previous year) and ordinary income was ¥5,862 million (108.2%).

#### <Chemical Business>

Among our chemical businesses, our coal chemical business faced extremely difficult conditions, including the decline in the sales price of crude benzene, which is our mainstay basic chemical product, resulting from the fall in crude oil prices and the sluggish market for tar distillation, reflecting a global decline in demand. Starting with the first quarter consolidated accounting period, Kawasaki Kasei Chemicals Ltd. was included in our consolidated business results.

As a result of the above, sales of this segment were ¥48,201 million (94.0% that of the corresponding period of the previous year) and ordinary income was ¥592 million (53.6%).

#### <Medical Business>

Among our medical businesses, sales of medical oxygen steadily increased in quantity, due to our focusing on the acquisition of new client hospitals. Our hospital facility construction business carried out its strategy to focus on fields of advanced medical treatment with high value-added proposals. Among our medical treatment services, our contract sterilization service strove to acquire new contracts and developed plans to streamline operations, thus making progress in improving its earnings. Our home medical care services achieved a steady growth in the number of rentals partly due to the launch of our new home medical oxygen concentrator. In our medical equipment business, sales of our new-born and infant ventilators and sales of our high-pressure oxygen treatment devices improved to exhibit strong performance.

As a result of the above, sales of this segment were ¥57,380 million (104.7% that of the corresponding period of the previous year) and ordinary income was ¥3,139 million (109.3%).

#### <Energy Business>

In our energy business, despite some remaining impact of the continued fall in crude oil prices on the LP gas inventory valuation, plans were made to expand business, gaining new major customers and increasing sales by aggressively promoting fuel conversion to LP gas for industrial use, which improved its competitiveness against other energy sources as a result of the fall in its price. Sales of kerosene improved to exhibit strong performance due to expansion in customers through promotions to strengthen sales of kerosene to LP gas customers as a supplementary service for them and through innovative measures for efficient purchase and procurement of kerosene, as well as a trend toward increase in consumption caused by the impact of the temperature in summer. In these ways, our energy business has been restructured into a new type of business that can offer technologies and services unique to Air Water through its efforts to expand customers in target regions and encourage customers to transform into multiple energy source-using businesses, thus making us resistant to changes in the business environment.

As a result of the above, sales of this segment were ¥19,754 million (91.4% that of the corresponding period of the previous year) and ordinary income was ¥890 million (101.0%).

#### <Agriculture and Food Products Business>

In our ham/delicatessen and frozen food business, sales volume grew to satisfactory levels as a whole, beyond the increase in costs including raw material costs, thanks primarily to our business in raw ham, our mainstay livestock product, whose sales to large retailers grew, and frozen broccoli, our mainstay frozen food product, which was newly selected by restaurant chains.

Our beverage business performed satisfactorily until June, but was strongly affected by the weather in and after summer, which is the peak demand period, resulting in a sharp decline in sales.

Our farm products and processing business performed strongly in its fruit and vegetable distribution, thanks to favorable market conditions for fresh products along with the high crop yield in Hokkaido where our main suppliers are. In our processed food business, progress was made in both expanding sales to new customers and increasing the efficiency of our processing production.

Kyusyuya Corporation, a fruit and vegetable retailer operating shops in department stores and station buildings nationwide, has been included in our consolidated business results starting with the current second quarter consolidated accounting period.

As a result of the above, sales of this segment were ¥45,760 million (118.1% that of the corresponding period of the previous year) and ordinary income was ¥1,915 million (120.1%).

#### <Other Businesses>

Among other businesses, our seawater business improved to exhibit strong performance, due to our raising of cost

efficiency in our salt manufacturing business and an increase in sales of potassium chloride for fertilizers, as well as the successful diversification of businesses, including the biomass power generation at our Ako plant that started commercial operation from this fiscal year and that has given the plant a strategic advantage. Along with the strong performance of our magnesia business for high-grade electromagnetic steel plates, our production and sales of magnesia for heaters grew satisfactorily.

Our logistics business performed strongly, due to an increase in volume of general logistics used for agriculture-related shipments and streamlined delivery and warehouse operations for food products, as well as reduction in diesel fuel costs.

As a result of the above, sales of this segment were ¥57,049 million (100.4% that of the corresponding period of the previous year) and ordinary income was ¥4,284 million (114.5%).

## (2) Explanation of financial position

Total assets at the end of the current second quarter consolidated accounting period stood at ¥565,019 million, an increase of ¥17,376 million compared to the end of the previous consolidated fiscal year, due primarily to an increase in tangible fixed assets. Liabilities stood at ¥309,708 million, an increase of ¥2,219 million compared to the end of the previous consolidated fiscal year, due primarily to an increase of interest-bearing debt, although there was a decrease in notes and accounts payable. Net assets stood at ¥255,311 million, an increase of ¥15,156 million compared to the end of the previous consolidated fiscal year, due primarily to accumulation of the profit attributable to owners of parent and an increase in non-controlling interests.

Net assets per share grew to ¥1,190.32, up from ¥1,155.80 at the end of the previous consolidated accounting fiscal year, and equity ratio was 41.3 %, same as what it was at the end of the previous consolidated accounting fiscal year, due to an increase in the balance of total assets.

Cash flow from operating activities for the current second quarter consolidated cumulative period was an inflow of ¥22,784 million after deducting payments including corporate taxes from net income before taxes and other adjustments for the term and allowances for depreciation, which was a decrease of ¥262 million compared to that in the previous second quarter consolidated cumulative period.

Cash flow from investing activities for the current second quarter consolidated cumulative period was an outflow of ¥16,694 million, an increase of ¥2,340 million compared to the previous second quarter consolidated cumulative period, due mainly to an increase in expenditure resulting from the acquisition of tangible fixed assets.

Cash flow from financial activities for the current second quarter consolidated cumulative period was an outflow of ¥3,862 million, a decrease of ¥3,118 million compared to the previous second quarter consolidated cumulative period, mainly due to income arising from borrowing, 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 period stood at ¥31,119 million, an increase of ¥8,721 million compared to the end of the previous second quarter consolidated period.

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

In the current business environment, despite the recovery in the performance of domestic manufacturers resulting from the depreciation of the yen and low crude oil prices, the rate of operation itself has been stagnant due to weak demand at home and abroad caused in part by the rise of concerns about slowdown in the Chinese economy, as well as a sense of stagnation in exports and prolonged inventory adjustments. This in turn has begun to influence decisions on capital investments for the future. With such a slow recovery in demand, coupled with the increase in import costs due to the weaker yen and the deterioration of market conditions resulting from low crude oil prices, the business environment surrounding our corporate group can be said to be difficult.

Under these circumstances, supply of our industrial gas fell below the forecast level, with recovery in supply being especially weak in and after August. On the other hand, in addition to new orders received for on-site supply of gas for semiconductors, which will lead to future growth in gas demand, steady progress was made in strengthening our business base, e.g. by rationalization through the replacement of large-scale plants. Also, our medical, agriculture, and food product related businesses will accomplish their roles as drivers of our corporate growth by narrowly targeting growth fields, which accelerates construction of unique business models. Further, our independent business groups, such as our seawater business and logistics business, have steadfastly maintained their growth trajectory by thoroughly exploiting the advantages of their distinctive products and services. In this way, our company will continue to take the measures needed to achieve our business goals, ensuring business stability even in difficult business environments through our “All Weather Management System” and promoting continued growth through our “Order Rodentia Style of Business.”

Accordingly, our business predictions for the full fiscal year remain unchanged.

#### **4. 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)

In the first quarter consolidated accounting period, Kawasaki Kasei Chemicals Ltd. (hereinafter “Kawasaki”) became consolidated subsidiary through acquisition of their stocks with takeover bid.

Kawasaki is deemed to be our specified subsidiary because the amount of their capital meets 10% or more of that of ours.

(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

(Application of Accounting Standard for Business Combinations)

ASBJ Statement No. 21, revised Accounting Standard for Business Combinations, (released on September 13, 2013, hereinafter the “Accounting Standard for Business Combinations”), ASBJ Statement No. 22, revised Accounting Standard for Consolidated Financial Statements (released on September 13, 2013, hereinafter the “Consolidated Accounting Standard”), ASBJ Statement No. 7, revised Accounting Standard for Business Divestitures (released on September 13, 2013, hereinafter the “Accounting Standard for Business Divestitures”) and others have been applied effective from the first quarter of the fiscal year ending March 31, 2016. As a result, any change in a parent’s ownership interests in its subsidiary when the Company retains control over the subsidiary is accounted for as Capital surplus, and acquisition related costs are expensed in the year in which the costs are incurred. For any business combinations on or after the beginning of the first quarter, subsequent measurement of the provisional amount recognized based on the purchase price allocation due to the completion of accounting for the business combination, are reflected in the quarterly consolidated financial statements for the period to which the date of that business combination occurs. In addition, the presentation method of Net income was amended as well as “Minority interests” to “Non-controlling interests.” To reflect these changes in presentation, reclassifications have been made to the consolidated financial statements for the prior second quarter and the prior fiscal year.

In the consolidated statements of cash flows for the current second quarter, cash flows from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are recognized under “cash flows from financing activities,” whereas cash flows concerning the costs related to the purchase of ownership interests in subsidiaries that result in a change in the scope of consolidation or the expenses incurred in relation to changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are recognized under “cash flows from operating activities.”

The aforementioned accounting standards are adopted as of the beginning of the first quarter of the fiscal year ending March 31, 2016 and thereafter, according to the transitional treatment provided for in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Consolidated Accounting Standard and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures.

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