

February 9, 2018

**Consolidated Financial Results (Japanese Accounting Standards)**  
**For the Third 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 Nine Months Ended December 31, 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	%
Nine months ended December 31, 2017	553,737	13.2	29,693	3.8	31,407	9.4	18,763	2.3
Nine months ended December 31, 2016	489,328	-0.4	28,599	7.4	28,718	5.5	18,341	-1.2

(Note) Comprehensive income: Nine months ended December 31, 2017: 25,049 millions of yen (9.3 %)

Nine months ended December 31, 2016: 22,920 millions of yen (28.5 %)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Nine months ended December 31, 2017	96.14	95.97
Nine months ended December 31, 2016	94.04	93.85

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of December 31, 2017	683,938	297,652	40.2
As of March 31, 2017	629,115	280,750	40.7

Reference: Equity as of December 31, 2017: 275,244 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

### 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	122.95

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 December 31 2017: 198,705,057 shares

As of March 31, 2017: 198,705,057 shares

b. Number of shares of treasury shares

As of December 31, 2017: 3,390,227 shares

As of March 31, 2017: 3,677,306 shares

c. Average number of shares during the term

First Nine months of the fiscal year ending March 31, 2018: 195,167,058 shares

First Nine months of the fiscal year ending March 31, 2017: 195,036,480 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 Third Quarter Settlement of Accounts**

##### (1) Explanation of Operating Results

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

The Japanese economy in the cumulative third quarter of the current fiscal year was on a gradual recovery trend, with further improvements in the employment and income environment and steady performance in corporate capital investment.

With regard to overseas economies, although concern due to 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 showed continued moderate recovery.

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 service using tanker lorries and cylinders, backed by continued steady gas demand from a broad range of domestic manufacturing sectors, although there were impacts of fluctuations in operations on our on-site gas supply service to blast furnaces caused by facility problems at our customers' plants.

In addition to satisfactory performance in our medical business which was positioned as a future growth area and have been expanded through aggressive M&A's and in our agriculture and food product business, each of the businesses that constitute our other business segment also grew steadily, thus demonstrating the strength of our group's management strategies of "All Weather Management System" and "Order Rodentia Style of Business."

Our chemical business, which had been suffering from sluggish performance, particularly in the tar distillation business until the previous fiscal year, achieved further improvement in results due to a recovery in market conditions of our products and progress made in the structural reform of the functional chemicals sector.

As a result, for this period, sales were ¥553,737 million (113.2% that of the corresponding period of the previous year), operating income was ¥29,693 million (103.8%), ordinary income was 31,407million (109.4%) and a quarterly net income attributable to owners of parent was 18,763 million (102.3%).

###### (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 third 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	
	Nine months ended December 31, 2017	% compared with the same period of the previous year	Nine months ended December 31, 2017	% compared with the same period of the previous year
Industrial Gas Business	117,847	97.5%	11,551	98.2%
Chemical Business	50,744	111.7%	1,109	-
Medical Business	120,319	135.7%	5,321	115.8%
Energy Business	33,951	114.3%	2,157	104.1%
Agriculture and Food Products Business	103,959	115.2%	4,676	115.2%
Logistics Business	34,001	106.4%	1,647	90.5%
Other Businesses	92,913	112.6%	6,084	112.9%
(Adjustment)	-	-	▲1,140	-
Total	553,737	113.2%	31,407	109.4%

(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>

In our industrial gas business, our regional gas business centering on gas supply services via tanker lorries and cylinders performed strongly as a whole due to continued steady gas demand across a broad spectrum of domestic manufacturing industries, including steel, chemical, automobile and construction-related sectors, and also because of the successful result of our "VSU" strategy to cultivate domestic gas businesses by strengthening the alliances of our eight regional companies across Japan with leading regional partners focusing mainly on the enhancement of gas production hubs using "VSU," a highly efficient and compact liquefied oxygen and nitrogen co-production plant.

Sales of our gas application equipment, the dry ice snow precision cleaning system, grew backed by favorable performance in electronics-related industries, and our on-site gas supply services for electronics applications also performed steadily.

On the other hand, our on-site gas supply service to blast furnaces, which are our largest source of demand, has faced difficult conditions due to the impact of fluctuations in the operations of our customers' plants caused by facility problems which has continued even until the third quarter. Also, industrial gas production costs increased due to the rise in electricity prices.

As a result of the above, sales of this segment were ¥117,847 million (97.5% that of the corresponding period of the previous year) and ordinary income was ¥11,551 million (98.2%).

#### <Chemical Business>

In our coal chemical business, the volume of coke oven gas processing was below the level of the same period in the previous year, but net sales increased due to the rise in refined gas prices caused by fluctuations in market conditions. Although sales volume of crude benzene, which is our mainstay basic chemical product, decreased due mainly to the impact of production reduction, sales of our thermally expandable graphite (TEG), which are carbon materials and fine chemicals, performed satisfactorily, offsetting the negative impacts on profits.

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 growth in sales of highly-functional circuit products used for industrial robots and also because of further improvements in earnings as a result of the closedown of underperforming facilities. Kawasaki Kasei Chemicals, a company of our corporate group, exhibited satisfactory performance as a whole, due to a significant expansion in sales of naphthoquinone and its derivatives which have been commercially produced in the world only by this company for applications in agrochemical raw materials and

photosensitizers, 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 ¥50,744 million (111.7% that of the corresponding period of the previous year) and ordinary income was ¥1,109 million (an ordinary loss of ¥332 million for the corresponding period of the previous year).

#### <Medical Business>

Sales of our medical gas grew steadily, with an increase in sales volume achieved through the acquisition of new client hospitals. In our facility construction, construction of hospital facilities including operating rooms performed strongly, and our disaster-prevention equipment business such as sales of gas fire extinguishers also performed satisfactorily. In our medical treatment services, our SPD (supply, processing and distribution management for hospitals) service improved to exhibit strong performance due to new orders received for large-scale projects and as a result of our efforts to rationalize the procurement of goods and to streamline goods control procedures. Our sterilization services promoted the establishment of sterilization satellite hubs across the country that respond to regional demand. Our hypodermic-needle business grew steadily, due to the expansion of its sales channels to overseas and as a result of our efforts to actively promote investment in facilities aimed at improving 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, and due partly to effects of the new consolidation through M&A, sales of this segment were ¥120,319 million (135.7% that of the corresponding period of the previous year) and ordinary income was ¥5,321 million (115.8%).

#### <Energy Business>

In addition to the rise in sales unit prices in tandem with import prices, the steady demand for LP gas and kerosene continued due to the temperature drop in and after December which is a peak demand season. Under these circumstances, new customers were won over through aggressive measures to increase sales volume and customers, such as a service to award e-money “WAON” points and the strengthening of sales promotional activities through the “Hello Gas Big Autumn Appreciation” event which celebrated its 30th anniversary.

Efforts to purchase commercial rights aimed at improving direct sales ratios also progressed. Sales volume of our products for industrial use increased as a result of our enthusiastic promotion of proposals to switch fuels to LP gas or LNG for customers in the field of industrial gases in cooperation with our regional business companies across Japan. Also, in addition to an expansion in sales of our energy-related equipment, orders received for our LNG tanker lorries that utilize our cryogenic technology cultivated in the field of industrial gas progressed as scheduled.

As a result of the above, sales of this segment were ¥33,951 million (114.3% that of the corresponding period of the previous year) and ordinary income was ¥2,157 million (104.1%).

#### <Agriculture and Food Products Business>

In our farm products business, the fruit and vegetable retail field, mainly sales of leaf vegetables, was affected by shortages of shipments and surge in prices due to unseasonable weather, but the impact was offset by improvement in efficiency and productivity including investment in facilities in the farm products processing field. Sales of our agricultural machines and tools, in which our company holds a large market share in Hokkaido, exhibited health growth, contributing to expansion in earnings of our farm products business.

In our food product solutions business, sales of our frozen vegetables including broccoli in the field of processed food grew steadily. In the field of ham and sausages, sales of our mainstay uncured ham performed steadily due to the acquisition of new customers, and efforts were made to reduce costs including the optimization of logistics and delivery for each of our group companies and centralization of the procurement and purchase of raw materials.

Our beverage business performed satisfactorily, due to growth in sales of vegetable drinks led by higher health consciousness and also because of growth in sales of hot tea and coffee beverages.

As a result of the above, and due partly to effects of the new consolidation through M&A, sales of this segment were ¥103,959 million (115.2% that of the corresponding period of the previous year) and ordinary income was ¥4,676 million (115.2%).

#### <Logistics Business>

Our 3PL (Third Party Logistics) business centering on food logistics improved to exhibit strong performance due to growth in volume of shipments to large retail chains as a result of an expansion in contract shipping in new areas, and also as a result of our efforts to enhance warehouse work productivity. Transportation of raw material blood plasma produced by Japanese Red Cross Society using our group's constant refrigerated transport technology also grew steadily. Our vehicle custom installation business, which carries out design of truck bodies and installation of accessories, grew satisfactorily overall, due to enhanced profitability as a result of effective investments that were continued for factory expansion and machinery and equipment and also due to continued strong orders.

On the other hand, our transport business consisting of general cargo shipping and chassis (trailer) shipping using the ferry between Hokkaido and Honshu faced difficult conditions due to the impact of the rise in diesel fuel prices and increase in labor costs, despite efforts made to acquire new consigners and to optimize the balance between the number of deliveries and receptions of chassis.

As a result of the above, sales of this segment were ¥34,001million (106.4% that of the corresponding period of the previous year) and ordinary income was ¥1,647 million (90.5%).

#### <Other Businesses>

Among our seawater businesses, although our salt manufacturing business was affected by a decline in sales volume and the rise in logistics costs, our environmental businesses and water treatment equipment business including our READ adsorbent business grew satisfactorily. Our magnesia business saw an increase in sales of magnesia for electromagnetic steel plates used for power transformers of electrical infrastructure, but was affected by the steep rise in prices of raw materials for fused magnesia used for heaters and therefore remained at the same level as in the previous year.

Our aerosol business, which provides OEM supply of aerosol products, exhibited strong performance due to growth in orders for personal products for use on human body such as cosmetics and for household goods such as pesticides, although the business was affected by the rise in manufacturing costs including costs for raw materials.

Our information and electronics materials business, which purchases and sells basic chemical agents and electric and electronic materials, performed strongly due to an expansion in sales of electric and electronic materials for semiconductors, automobiles and industrial machines. Our rubber molded products business such as sales of O-rings performed satisfactorily due to an expansion in sales of our high-functionality products used for sealing materials for semiconductor and liquid crystal manufacturing equipment.

As a result of the above, sales of this segment were ¥92,913 million (112.6% that of the corresponding period of the previous year) and ordinary income was ¥6,084 million (112.9%).

(2) Explanation of financial position

Total assets at the end of the current third quarter consolidated accounting period stood at ¥683,938 million, an increase of ¥54,822 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 ¥386,285 million, an increase of ¥37,920 million compared to the end of the previous consolidated fiscal year, due primarily to increases in notes and accounts payable. Net assets stood at ¥297,652 million, an increase of ¥16,902 million compared to the end of the previous consolidated fiscal year, due primarily to accumulation of quarterly net income attributable to shareholders of the parent.

Net assets per share grew to ¥1,409.24 up from ¥1,312.55 in the previous consolidated fiscal year, and the equity ratio changed to 40.2% from 40.7% in the previous consolidated fiscal year.

(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.

## **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 third 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 ¥2,609 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.

(Significant subsequent event)

The company resolved at the meeting of its Board of Directors held on February 7, 2018 that *it will acquire the common stock of* Kawasaki Kasei Chemicals Ltd. (hereafter "the Target") by means of a tender offer in accordance with the Financial Instruments and Exchange Act for the purpose of making the Target its wholly-owned subsidiary. For more details, please refer to the press release titled "Notification with respect to Commencement of Tender Offer for shares of Kawasaki Kasei Chemicals Ltd. (Securities code: 4117)" issued on the same date.