November 9, 2018

Consolidated Financial Results (Japanese Accounting Standards)
For the Second 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 Six Months Ended September 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2018	375,507	4.7	18,066	2.3	20,002	6.6	11,732	7.5
Six months ended September 30, 2017	358,691	14.3	17,656	2.2	18,764	9.3	10,917	5.7

(Note) Comprehensive income: Six months ended September 30, 2018: 15,187 million yen (12.1 %)
Six months ended September 30, 2017: 13,544 million yen (33.1 %)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Six months ended September 30, 2018	60.02	59.91
Six months ended September 30, 2017	55.95	55.86

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	715,313	304,350	40.3
As of March 31, 2018	693,101	294,644	40.1

(Reference) Shareholder's equity: 288,307 million yen as of September 30, 2018, 277,954 million 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	—	19.00			
The fiscal year ending March 31, 2019 (Forecasts)			—	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
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
The fiscal year	820,000	8.8	48,500	14.4	50,000	11.9	28,000	11.2	143.21

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

Notes

(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 September 30, 2018: 198,705,057 shares
As of March 31, 2018: 198,705,057 shares

b. Number of shares of treasury shares
As of September 30, 2018: 3,153,299 shares
As of March 31, 2018: 3,320,506 shares

c. Average number of shares during the term
First six months of the fiscal year ending March 31, 2019: 195,484,611 shares
First six months of the fiscal year ending March 31, 2018: 195,123,360 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 consolidated fiscal year was on a gradual recovery trend thanks mainly to recovery in personal consumption due to improvements in the employment and income environment and recovery in corporate earnings. However, on the other hand, future economic conditions remain uncertain primarily due to the impact of a series of natural disasters, rise in crude oil prices and concerns over intensifying 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, recovery in operations of our customers' plants to which our gas is supplied on site for their blast furnaces and as a result of our base strategy focused on the deployment of our high-efficient liquid oxygen and nitrogen generator, "VSU" plants which steadily responded to regional gas demand. Our chemical business, which is making a shift to a business structure centering on the field of functional chemicals, exhibited strong performance as a result of measures to improve the profitability of its main products which produced successful results with the recovery in market conditions driven by high crude oil prices. Further, each of our aerosol business and O-rings business that constitute our other business segment also performed steadily through their sales activities and production management that accurately anticipate demand trends, contributing to growth in results of our corporate group.

Although our agriculture and food products business and energy business saw a decline in profits compared to the same period in the previous year due to the loss of sales opportunities caused by the Hokkaido Eastern Iburi Earthquake and typhoons and increases in labor and other costs, the impacts of the decline were offset by growth in net sales in our medical and logistics businesses and their efforts to streamline business operations and revise prices.

As a result, for the current second quarter consolidated cumulative period, the group's sales were ¥375,507 million (104.7% that of the corresponding period of the previous year), operating income was ¥18,066 million (102.3%), ordinary income was ¥20,002 million (106.6%) and a quarterly net income attributable to shareholders of the parent was ¥11,732 million (107.5%).

2) Consolidated results by segment for this period

(Million yen)

	Net sales		Ordinary income	
	FY 2018.2Q	YoY Growth	FY 2018.2Q	YoY Growth
Industrial Gas Business	81,186	105.8%	7,181	111.6%
Chemical Business	36,381	107.5%	1,774	218.4%
Medical Business	80,567	104.4%	3,257	101.0%
Energy Business	20,694	109.0%	755	75.6%
Agriculture and Food Products Business	70,144	100.8%	3,007	97.6%
Logistics Business	23,468	105.3%	1,386	122.9%
Other Businesses	63,065	104.9%	4,217	117.4%
(Adjustment)	—	—	-1,578	—
Total	375,507	104.7%	20,002	106.6%

(Note) The adjustments to ordinary income are due to costs incurred at the company's headquarters division and R&D division, and profit/loss from financial operations, which were not allocated to any reporting segment.

<Industrial Gas Business>

Our on-site gas supply service to blast furnaces performed satisfactorily in tandem with buoyant crude steel production, coupled with recovery from previous fiscal year facility problems at our customers' plants. Our gas supply service via tanker lorries and cylinders undertaken by our eight regional business companies improved steadily thanks to continued strong gas demand from a broad range of domestic manufacturing sectors, including automobile, chemical and construction-related industries combined with the effect of the advancement in our production base strategy focused on the deployment of our high-efficient liquid oxygen and nitrogen generator, "VSU" plants. Sales of our carbon dioxide gas in which the supply and demand tightened in the summer expanded thank to production capacity increase, which was carried out until the previous fiscal year. Further, our on-site gas supply service to electronics applications, along with sales of our specialty chemicals, performed strongly because of the continued high levels of production at our customers' plants.

While sales of industrial gases remained steady as a whole, revenues were affected by an increase in industrial gas manufacturing costs as a result of the rise in electricity prices.

In our equipment and construction-related business, sales of our non-gaseous products such as welding robots, our gas applications and sales of our cryogenic equipment improved steadily.

As a result of the above, sales of this segment were ¥81,186 million (105.8% that of the corresponding period of the previous year) and ordinary income was ¥7,181 million (111.6%).

<Chemical Business>

Our coal chemical business improved to exhibit strong performance due to the rise in unit price of purified coke oven gas caused by changes in market conditions and also because of increases in both sales price and sales volume of crude benzene, which is one of the basic chemical product.

Our fine chemicals business performed steadily, thanks to continued strong sales of our highly-functional circuit products used for industrial robots, and also due to increase in demand for our fine chemical products, particularly in areas of electronic materials, as well as progress made in price revisions for these products, although 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 due to improvements in earnings as a result of efforts to lower manufacturing costs through reduction in fixed costs and streamlining of procurement, and also because of recovery in market conditions in its major products.

As a result of the above, sales of this segment were ¥36,381 million (107.5% that of the corresponding period of the previous year) and ordinary income was ¥1,774 million (218.4%).

<Medical Business>

In the advanced medical treatment sector, despite difficult market situation from decrease of large-scale project in hospital facilities construction, the revenue of our overall facility construction operation performed steadily due to growth in the fire extinguishing equipment business of Air Water Safety Service Inc. in addition to the cost rationalization through the restructuring of our group companies. Our medical treatment services performed satisfactorily due to the acquisition of new client hospitals and streamlining of material procurement in our SPD (supply, processing and distribution management for hospitals) services and as a result of the progress made in ensuring proper contract prices in our sterilization services. Sales of our medical equipment improved steadily due to an increase in demand for our high-pressure oxygen treatment devices resulting from the revision of medical service fees. On the other hand, sales of our medical gas faced difficult conditions due to the impact of a decrease in volume of gas used at our client hospitals.

Our everyday life medical treatment sector, which provides products and services closely connected to people's lives, fell into difficult straits primarily due to the impact of allowance for doubtful accounts recorded in the sanitary materials business of Kawamoto Corporation, in addition to our home medical care services. On the other hand, our dental product businesses, performed steadily due to expansion in sales of our dentistry-related products, and our hypodermic-needle business recovered from the decline in orders seen in the first quarter.

As a result of the above, sales of this segment were ¥80,567 million (104.4% that of the corresponding period of the previous year) and ordinary income was ¥3,257 million (101.0%).

<Energy Business>

Sales volume of LP gas increased due to the rise in unit sales prices in tandem with contract prices used as a benchmark for import prices, aggressive measures targeting household customers to increase sales volume and number of customers especially in Hokkaido and efforts to expand industrial users primarily in Honshu area through cooperation with regional business companies. Sales of kerosene was affected by a decline in sales volume as consumers became increasingly saving-oriented in response to the rise in sales prices in early spring.

Also, the consumption of LP gas decreased from the impact of the Hokkaido Eastern Iburi Earthquake, and sales of gas equipment declined as events such as exhibitions and sales were cancelled. Further, profits fell below those of the same period last year due to upfront promotional costs for power retail operations launched in October, in addition to an increase in delivery costs.

As a result of the above, sales of this segment were ¥20,694 million (109.0% that of the corresponding period of the previous year) and ordinary income was ¥755 million (75.6%).

<Agriculture and Food Products Business>

In our farm products business, sales of our fruit and vegetable retail sector increased as new stores opened and sales of our agricultural machines and tools, in which the company holds a large market share in Hokkaido, continued to perform steadily. Our wholesale/distributive processing sector largely remained at the same level, partly due to strong sales of our processed products such as grated daikon radish, although the business suffered from low market prices of such product like potatoes from the previous fiscal year and poor harvests of other vegetables caused by insufficient sunlight.

Our food solutions business performed strongly in terms of profit, thanks to an increase in sales of frozen vegetables such as broccoli and further improvement of production efficiency in our processed food sector, in spite of the impact of sluggish sales in our sweets sector and the difficult market conditions that has continued in our ham and sausage sector due to the effects of the Hokkaido Eastern Iburi Earthquake.

Our beverage business saw growth in contract manufacturing, particularly in the manufacturing of beverages in PET bottles. However, the profit of the business fell below that of the same period in the previous year due to increases in labor costs and energy costs in our manufacturing plants and the rise in depreciation expenses due to capital spending.

As a result of the above, sales of this segment were ¥70,144 million (100.8% that of the corresponding period of the previous year) and ordinary income was ¥3,007 million (97.6%).

<Logistics Business>

In our transport business, volume of shipments of steel frames and lumber in the chassis transport between Hokkaido and Honshu increased along with general cargo transport as a result of our efforts to increase new orders. Also, our specialized logistics sector such as medical and environmental logistics improved steadily. The results of our 3PL (third party logistics) business centering on food logistics significantly exceeded that of the previous year thanks to an increase in volume of shipments in our delivery services for major convenience store chains. Although the business faced difficulties in terms of costs due to the rise in labor costs and diesel fuel prices, these negative impacts were kept to the minimum through efforts to set and agree on adequate price for the contracted shipping service especially in 3PL business.

Our vehicle custom installation business, which carries out design of truck bodies and installation of accessories, performed steadily thanks to increase in sales of specialty vehicles and maintenance services.

As a result of the above, sales of this segment were ¥23,468 million (105.3% that of the corresponding period of the previous year) and ordinary income was ¥1,386 million (122.9%).

<Other Businesses>

Among our seawater businesses, our salt manufacturing business performed steadily in terms of profit due to the progress in price revisions of salt for industrial use, in spite of a reactionary decline in results of Nihon Kaisui Co., Ltd. due to the absence of the profits from large-scale projects for water treatment systems, which existed in the previous fiscal year, and the impacts of West Japan Flood on our environmental business. Also, Tateho Chemical Industries Co., Ltd. continued to face difficulties as prices of raw materials for fused magnesia, which is used for heaters, have been rising since previous fiscal year due to environmental regulations in China, although the shifting of the rise in raw materials prices to sales prices is progressing.

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 and progress made to shift the rise of raw materials prices to sales prices.

Our aerosol business, which supplies aerosol products on an OEM basis, performed strongly thanks to an increase in orders for contract manufacturing of personal use product such as cosmetics backed by demands from Chinese tourists.

Our O-rings business which manufactures and sells sealing parts for machines, our Bellpearl business which manufactures and sells highly-functional phenolic resin, and our metal surface treatment service using "NV Nitriding Process" also performed strongly respectively.

As a result of the above, sales of this segment were ¥63,065 million (104.9% that of the corresponding period of the previous year) and ordinary income was ¥4,217 million (117.4%).

(2) Explanation of financial position for the current period

Total assets at the end of the consolidated fiscal year under review stood at ¥715,313 million, an increase of ¥22,212 million compared to the end of the previous consolidated fiscal year primarily due to increases in tangible fixed assets and investment securities. Liabilities stood at ¥410,963 million, an increase of ¥12,506 million compared to the end of the previous consolidated fiscal year mainly due to increases in corporate bond. Net assets stood at ¥304,350 million, an increase of ¥9,705 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 ¥1,474.33, and the equity ratio grew from 40.1 % at the end of the previous consolidated fiscal year to 40.3%.

(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.

(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 19 yen per share as initially forecasted. 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 for the fiscal year including the second 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)

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

Following this change, depreciation expense for the six months ended September 30, 2018 decreased by ¥561 million, 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.