May 12, 2017

FY2016 Consolidated Financial Results (Japanese Accounting Standards)

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 FY2016 (The year ended March 31, 2017)

(1) Consolidated operating results

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2016	670,536	1.5	41,341	4.6	41,251	17.6	22,337	10.9
FY2015	660,622	0.0	39,524	9.4	35,075	-8.1	20,139	-2.7

(Note) Comprehensive income: 29,622 millions of yen (82.8%) for FY2016, 16,201 millions of yen (-45.5%) for FY2015

	Net income per share	Fully diluted net income per share	Net income to equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
FY2016	114.53	114.30	9.1	6.8	6.2
FY2015	102.73	102.49	8.7	6.2	6.0

(Reference) Equity in earnings of non-consolidated subsidiaries and affiliates:
-1,292 millions of yen for FY2016, -5,439 millions of yen for FY2015

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2016	629,115	280,750	40.7	1,312.55
FY2015	575,832	256,179	40.8	1,196.92

(Reference) Shareholder's equity: 255,983millions of yen for FY2016, 234,725 millions of yen for FY2015

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2016	58,873	-44,357	-8,553	30,412
FY2015	43,512	-40,647	-8,115	23,595

2. Dividends

	Dividend per share					Total amount	Dividend payout ratio	Net dividend rate
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2015	—	14.00	—	14.00	28.00	5,491	27.3	2.4
FY2016	—	14.00	—	20.00	34.00	6,670	29.7	2.7
FY2017 (Forecasts)	—	17.00	—	17.00	34.00		27.6	

3. Forecast of consolidated operating results for FY2017 (The year ending March 31, 2018)

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
FY2017 (1st half)	357,000	13.7	17,600	1.9	17,400	1.3	9,800	-5.1	50.25
FY2017 (Full year)	760,000	13.3	44,000	6.4	44,000	6.7	24,000	7.4	123.06

Other

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries with changes in the scope of consolidation): None

(2) 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

(3) Number of shares outstanding (ordinary shares)

a. Total number of shares outstanding (including treasury shares)

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

As of March 31, 2016: 198,705,057 shares

b. Number of shares of treasury shares

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

As of March 31, 2016: 2,596,449 shares

c. Average number of shares during the term

Year ended March 31, 2017: 195,028,863 shares

Year ended March 31, 2016: 196,047,668 shares

(Reference) Non-consolidated financial results

1. Results of non-consolidated operations for FY2016 (The year ended March 31, 2017)

(1) Non-consolidated operating results

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2016	159,480	-11.0	4,453	14.1	16,110	17.9	19,479	103.9
FY2015	179,218	-20.0	3,901	19.4	13,664	3.0	9,553	-4.0

	Net income per share	Fully diluted net income per share
	Yen	Yen
FY2016	99.88	99.67
FY2015	48.73	48.62

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2016	351,367	163,373	46.4	835.74
FY2015	292,800	147,354	50.2	749.24

(Reference) Shareholder’s equity: 162,992millions of yen for FY2016, 146,931 millions of yen for FY2015

* This report is exempt from audit 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-(4) Outlook for the next fiscal year”.

４. **Summary of operating results**

(1) Summary of operating results for the current period

1) Operating results for the current period

The business environment surrounding our corporate group overall showed gradual signs of recovery, as export-oriented domestic manufacturing industries including electronic component and automobile began to pick up in tandem with the steady recovery in the U.S. and global economies and also because the yen depreciated in the latter half of the period. On the other hand, despite improvement in corporate earnings, the overall business lacked strong momentum, with manufacturers remaining cautious about investment in new production facilities and consumer spending also having failed to improve.

Under these circumstances, our corporate group serially executed the implementation measures set out in the Mid-term Management Plan “NEXT-2020 Ver.3,” the basic concept of which is “Challenges for structural reform and sustainable growth.” Our industrial gas business, which saw continued generally strong demand for gases in a broad sector of manufacturing industries, and our agriculture and food product business, which achieved growth and expansion through aggressive M&A’s, both performed satisfactorily. Our medical business and energy business saw results exceeding previous year’s levels due to the progress made in structural reform to strengthen profitability. On the other hand, despite some signs of improvement, our chemical business fell short of a full-scale recovery, and business conditions continued to be difficult, particularly in our tar distillation business.

We will strive to strengthen and expand our business base, with the aim of improving our corporate value.

As a result, for the consolidated cumulative current period, sales were ¥670,536 million (101.5% that of the corresponding period of the previous year), operating income was ¥41,341million (104.6%), ordinary income was ¥41,251 million (117.6%) and net income was ¥22,337 million (110.9%).

2) Consolidated results by segment for this period

（Millions of yen）

	Net sales		Ordinary income / loss	
	FY2016	% compared with the corresponding period of the previous year	FY2016	% compared with the corresponding period of the previous year
Industrial Gas Business	199,452	102.4%	16,591	116.7%
Chemical Business	61,343	70.5%	-985	—
Medical Business	129,961	104.4%	9,230	106.5%
Energy Business	45,030	97.1%	3,851	107.1%
Agriculture and Food Products Business	118,404	129.3%	4,028	133.5%
Other Businesses	116,343	100.0%	8,468	93.2%
（Adjustment）	—	—	64	4.8%
Total	670,536	101.5%	41,251	117.6%

(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 industrial gas business improved to exhibit strong performance in response to generally firm demand, particularly from the steel manufacturing sector, in which demand primarily in Japan remained firm, from the automobile sector which saw a high level of production backed by buoyant U.S. demand, from the electronic component sector thanks to the growth in IoT-/smartphone-related final demand, as well as from the chemical sector which maintained high operating rate. Under these circumstances, progress was made in gas application proposals and creation of new gas demand. Also, two VSU liquefied oxygen and nitrogen co-production plants were installed in Kyushu enhancing the production bases there, and the establishment of a system to appropriately respond to regional industrial demand was thoroughly implemented through cooperation with partner companies. The manufacturing costs of industrial gases had been changing favorably due to the fall of fuel cost adjustment charges included in electricity rates, but they turned upward in the latter half of the fiscal year. Therefore, efforts are being made to rationalize logistics costs and optimize gas prices.

In our engineering business, orders received increased due to an increase in on-site plant construction projects. Our information electronics materials business performed strongly, led by electronic components for automobiles and semiconductors.

As a result of the above, sales of this segment were ¥199,452 million (102.4% that of the corresponding period of the previous year) and ordinary income was ¥16,591 million (116.7%).

<Chemical Business>

In our coal chemicals business, the volume of processing for our coke oven gas production decreased, and unit prices of products significantly declined due to the fluctuation of market conditions. Volume sales of crude benzene, our mainstay basic chemical, was secured, but prices decreased. Kawasaki Kasei Chemicals Ltd. saw satisfactory growth in sales of its mainstay quinone-based products, but sales of its general-purpose products decreased, affected by market conditions. Conditions facing our tar distillation business became difficult and remained so throughout the year, as demand for needle coke for electric furnace electrodes did not recover and the sluggish business environment of the previous fiscal persisted.

Our chemical business is currently emerging from its most difficult time, driven by exchange rates and an upturn in market conditions. However, we will aggressively pursue structural reform of our functional materials business and make efforts to improve income, in order to construct business that is robust against changes in business environment.

As a result of the above, sales of this segment were ¥61,343 million (70.5% that of the corresponding period of the previous year) and ordinary loss was ¥985 million (the previous period marked the ordinary loss of ¥4,867 million).

<Medical Business>

Our hospital facility construction business implemented strategic measures to win orders with focus on the fields of advanced medical treatment. In our medical treatment services, our contract sterilization services were promoted with the construction of satellite centers that meet regional demand and expand orders, particularly from outside hospitals. Use of our maintenance service centers located across the country was also promoted. Our home medical care services performed strongly, led by our home oxygen concentrator. Sales of our medical treatment devices improved to exhibit strong performance thanks to the increase in cases in which nitric oxide inhalation therapy is applied. Our medical gas business, which plays a crucial role in our regional strategies, was helped by measures to secure sales volume despite the current conditions in which expansion of the market is difficult.

In addition to the fields of advanced medical treatment we have focused on to date, including treatment in acute stage hospitals where we have focused efforts, our medical business will embark on “medical treatment in everyday life” to provide products and services with close connection to people’s lives, and to this end has converted Kawamoto Corporation into a consolidated subsidiary and took a stake in Ci Medical Co., Ltd. We are building a business that can accurately identify and respond to changing medical needs.

As a result of the above, sales of this segment were ¥129,961 million (104.4% that of the corresponding period of the previous year) and ordinary income was ¥9,230 million (106.5%).

<Energy Business>

Under the difficult business environment in which per-household energy consumption is decreasing, our LP gas business worked aggressively to acquire commercial rights and to strengthen sales in the retail sector. As a result, volume sales increased despite the decrease in net sales impacted by the fall in import prices. As a measure in the area of energy for industrial use, fuel shift was actively encouraged to acquire new customers, which largely contributed to the increase in volume. In our kerosene business, efforts were made to secure earnings through optimal purchase and storage for the peak demand season. Also, as an integrated energy service provider rooted in communities, this business division aggressively expanded sales by extending e-money perk offers to promote supplementary sales of kerosene to LP gas customers, which led to an increase in customers.

As a result of the above, sales of this segment were ¥45,030 million (97.1% that of the corresponding period of the previous year) and ordinary income was ¥3,851 million (107.1%).

<Agriculture and Food Products Business>

In our farm products business, the typhoons that hit main regions in Hokkaido during the harvest season caused unprecedented poor harvests and had a considerable impact on the procurement and quality of food ingredients. To deal with this difficult situation, efforts were made to make vegetable processing more efficient and to improve productivity. In our fruit and vegetable distribution business, measures to improve profitability was implemented for each store, and the value chain was expanded by increasing the Group’s product lineup.

Although our existing commercial-use products struggled with price competition, our food solutions business expanded, thanks to the inclusion of Daisen Ham Co., Ltd., which has significant brand strength in local regions, in our group’s ham/delicatessen business, and the inclusion of Plecia Holdings Co., Ltd., which pursues proposal-based product development, in our group’s confectionery business.

Our beverage business grew, due to the satisfactory performance in sales of vegetable and fruit beverages, in addition to the strong beverage sales in summer. Our agriculture and farm product business pursued the business growth of each existing company and creation of synergies while expanding our range of business with a sense of urgency.

As a result of the above, sales of this segment were ¥118,404 million (129.3% that of the corresponding period of the previous year) and ordinary income was ¥4,028 million (133.5%).

<Other Businesses>

Among our seawater businesses, sales volume of both the national brand and the private brands of the salt manufacturing business improved to exhibit strong performance. Our wood-based biomass electricity generation business performed satisfactorily and contributed to the business results. Our magnesia business continued to face difficult business conditions due to the decline in demand for magnesia used in electromagnetic steel plates in China. In our logistics business, our food logistics sector was entrusted with shipments to new areas and our general logistics sector also saw an increase in the volume of shipments. This business performed strongly as a result of the improvement in distribution efficiency and productivity, and also due to the promotion of efficiency of the entire business, although driver shortages throughout the country had impact. Our aerosol business performed satisfactorily thanks to an increase in sales of products for use on the human body, such as cosmetics, and for household use, such as pesticides.

As a result of the above, sales of this segment were ¥116,343 million (100.0% that of the corresponding period of the previous year) and ordinary income was ¥8,468 million (93.2%).

(2) Summary of financial position for the current period

Total assets at the end of the consolidated fiscal year stood at ¥629,115 million, an increase of ¥53,283 million compared to the end of the previous consolidated fiscal year, due primarily to increases in tangible fixed assets and investment securities. Liabilities stood at ¥348,365 million, an increase of ¥28,712 million compared to the end of the previous consolidated fiscal year, due primarily to increases in borrowing. Net assets stood at ¥280,750 million, an increase of ¥24,570 million compared to the end of the previous consolidated fiscal year, due primarily to accumulation of net income and an increase in non-controlling interests.

Net assets per share grew to ¥1,312.55, up from ¥1,196.92 in the previous consolidated fiscal year, and the equity ratio changed to 40.7% from 40.8% in the previous consolidated fiscal year.

(3) Summary of cash flow for the current period

Cash flow from operating activities was an inflow of ¥58,873 million after deducting payments including corporate taxes from net income before taxes and other adjustments for the term and allowances for depreciation, which was an increase of ¥15,361 million compared to that in the previous consolidated fiscal year.

Cash flow from investing activities was an outflow of ¥44,357 million, an increase in expenditures of ¥3,709 million compared to the previous consolidated fiscal year, due to an increase in expenditure for the acquisition of investment securities, despite income associated with business transfer. As a result, free cash flow increased by ¥11,651 million from the previous consolidated fiscal year to ¥14,516 million.

Cash flow from financial activities was an outflow of ¥8,553 million, which was an increase of ¥437 million from the previous consolidated fiscal year due mainly to an acquisition of treasury shares.

As a result of the foregoing, deposits of cash and cash equivalents at the end of the consolidated fiscal year stood at ¥30,412 million, an increase of ¥6,816 million compared to the end of the previous consolidated fiscal year.

(4) Outlook for the next fiscal year

In the outlook for the future, recovery is expected, primarily in export industries, driven by the U.S., where the economy is in a gradual recovery, and by China, where there are signs of improvement backed by public-works investments. The Japanese economy is expected to remain firm, as construction and production in the materials sectors will grow steadily in preparation for the Tokyo Olympic Games, and also because of improvement expected in employment and income conditions. However, the promotion of protectionist economic measures in the U.S. and Europe and political instability in the Middle East and East Asia may possibly cause the steady growth of the world economy to stop. Also, the business environment remains uncertain, due to deepening labor shortages in various industries, pressure to raise electricity prices that tend to fluctuate upward, and rapid changes in exchange rates.

In such a business environment, our company implemented management system reforms, dated April 1, 2017, including the new appointment of president and CEO who is Chief Operating Officer (COO), with the aim of advancing the “rejuvenation of the system” in stages, while maintaining the “continuity of management,” based on the expansion of our group’s operations and our future growth strategies. The reforms established a “President’s Office” as a department that undertakes all the president’s and COO’s operations, and created the management system that is necessary for our group’s continuing growth and development in the future, including the establishment of regional representative officer posts and establishment of a new logistics company.

Our existing businesses will achieve strong growth within the country by building a strong and stable earnings base through the formulation of strategies that meet the actual demands of each region and through discovery of new markets. Our company’s unique M&A’s made with an eye to group synergies will undertake the creation of new businesses and accelerate growth with a sense of urgency. Overseas business will be promoted by establishing business bases, primarily in South East Asia, in order to meet the needs of overseas expansions by domestic corporate customers, and by implementing our unique approach that exploits our technology and business models cultivated over many years in our industrial gas business.

Based on the management strategies called “All-Weather Management System” and “Order Rodentia Style of Business” and in the second year of our mid-term business plan “NEXT-2020 Ver.3,” we will take the measures needed to achieve the NEXT-2020 goals while maintaining a stable growth path.

Based on the foregoing, for the current full year, we forecast sales of ¥760,000 million (113.3% that of the previous fiscal year), operating income of ¥44,000 million (106.4%), ordinary income of ¥44,000 million (106.7%) and net income of ¥24,000 million (107.4%) for the fiscal year ending March 31, 2018.

(5) Basic policy for allocation of profit and dividends for FY2016 and FY2017

While our company works on reinforcing the management base to continuously improve our corporate value, we also place a high priority on returning profits to our shareholders as one of the most important tasks for our businesses. For this reason, we make it a policy to maintain a stable dividend in line with business results aiming at a dividend payout ratio of 30% of our net profit for this fiscal year attributable to shareholders of the parent company, taking care to have the retained earnings necessary for strategic investments for mid- and long-term growth.

For fiscal year 2016, the year-end dividend is ¥20 per share, in order to achieve the target payout ratio set in this basic policy. Together with the interim dividend of ¥14 per share, the resulting dividend for the whole current year is ¥34 per share.

For fiscal year 2017, we plan to pay a dividend of ¥34 per year, which is the sum of interim and year-end dividends of ¥17 per share each.

5. Management guidelines

(1) Basic management policy

The Air Water Group adopts the following management policy: "We dedicate ourselves and our resources backed by the entrepreneurial spirit and pride in creation and development of business linking air, water, earth and humans."

This basic policy will guide the growth and advancement of AWI (Air Water Inc.) and the Air Water Group as a revitalized organization entering a new stage of development as a leader in the industrial gas sector.

(2) Mid-range management strategy and targets of our company

Our company has established a three-year mid-term management plan "NEXT-2020Ver.3" which is the third step for the "Vision for a 1 trillion yen Company by FY2020" that was set in 2010, and which covers the period from fiscal year 2016 to fiscal year 2018. In order to achieve stable and permanent growth, we set "Establishing a business structure for becoming a 1 trillion yen company" and "Building a foundation for post 2020" as management tasks, and have steadily executed them in accordance with basic concept of "Take on new challenges for structural reform and sustainable growth."

The first priority measure is "Pursuit of ultimate solution services and realization of innovation." We aim to resolve social problems through the ambitious development of products and services that meet the needs of customers and through business innovations generated by bringing together our groups operating a diverse range of businesses. The second measure is the "Strengthening of corporate structure by implementing business structural reform." We will promote a thorough efficiency improvement of all departments, while advancing strategic investments to strengthen their business foundations. Also, we will continue to promote the strengthening of efforts for compliance. The third measure is "Taking up the challenges to solve issues for post 2020." To realize further growth even after becoming a 1 trillion-yen company, we will focus our efforts on the promotion of M&A's and technology development.

In addition to medical business and agriculture and food product business that are positioned as our growth fields, and industrial gas business and energy business positioned as our core businesses, a variety of business groups, each with their own distinctive products, pursue synergies with each other and further promote our "All-weather Management System" with the aim of creating a stable business structure that will make itself robust against significant changes in business environment. At the same time, we shall advance our "Order Rodentia Style of Business", resolutely taking on the challenges to move into new fields and create new businesses in our attempt to achieve sustainable growth. We will also pursue the strengthening and expansion of our business base through strategic investments in facilities and M&A's, to increase our corporate value.

6. Basic rationale for selection of accounting standards

Our corporate group has been considering in details the adoption of IFRS (International Financial Reporting Standards) with the aims of improving international financial statement comparability in capital markets, improving the quality of group management and strengthening governance. We will appropriately evaluate the timing of the adoption, taking into account the domestic and international situations and the moves of companies in the same industry, while improving the system environment for early adoption.