August 10, 2017

Consolidated Financial Results (Japanese Accounting Standards)
For the First 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 Three Months Ended June 30, 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	%
Three months ended June 30, 2017	177,893	16.3	8,012	-7.6	8,508	0.7	4,821	-9.5
Three months ended June 30, 2016	152,923	-0.9	8,672	12.6	8,449	2.0	5,327	-30.2

(Note) Comprehensive income: Three months ended June 30, 2017: 5,023 millions of yen (24.6 %)
Three months ended June 30, 2016: 4,031 millions of yen (-55.3 %)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Three months ended June 30, 2017	24.72	24.67
Three months ended June 30, 2016	27.27	27.20

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2017	636,726	281,610	40.3
As of March 31, 2017	629,115	280,750	40.7

Reference: Equity as of June 30, 2017: 256,875 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	—				
The fiscal year ending March 31, 2018 (Forecasts)		17.00	—	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 second quarter (cumulative)	357,000	13.7	17,600	1.9	17,400	1.3	9,800	-5.1	50.25
The fiscal year	760,000	13.3	44,000	6.4	44,000	6.7	24,000	7.4	123.06

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 June 30, 2017: 198,705,057 shares
  - As of March 31, 2017: 198,705,057 shares
- b. Number of shares of treasury shares
  - As of June 30, 2017: 3,594,172 shares
  - As of March 31, 2017: 3,677,306 shares
- c. Average number of shares during the term
  - First Three months of the fiscal year ending March 31, 2018: 195,068,997 shares
  - First Three months of the fiscal year ending March 31, 2017: 195,371,798 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 First Quarter Settlement of Accounts

(1) Explanation of Operating Results

1) Operating results for the current period

With regard to the global economy in the cumulative first quarter of the current fiscal year (hereafter “this period”), economic growth remained firm in the U.S. and a gradual economic recovery continued in Europe and in emerging countries including China. On the back of this upturn in the global economy, the domestic economy was on a gradual recovery trend, thanks to a pickup in exports and corporate capital investments and improvements in employment and individual income conditions.

Under these circumstances, results of our corporate group for this period saw strong growth in sales volume of our industrial gas-related business, backed by steady gas demand from domestic manufacturing industries including the automobile-related sector, the effects of investments in renewal and enhancement of our gas production facilities, and also as a result of our aggressive efforts to stimulate new gas demand, such as gas application proposals presented mainly by our eight regional business companies in Japan. However, profits were affected by fluctuations in the production of crude gas materials due to periodic repairs at the suppliers of material sources of carbon dioxide gases. Our medical business, which along with our ongoing efforts in fields of advanced medical treatment promotes medical care in everyday life by providing products and services at places closer to consumers, saw a significant increase in revenues due to the effects of new consolidation through M&A. Our agriculture and food business, which promotes business expansion through aggressive M&As, and our energy business, which aims to evolve into a comprehensive energy company by taking opportunity of the deregulation of electricity and city gas businesses, both performed satisfactorily due to steady progress in their own strategies. Our chemical business, which had been suffering from sluggish performance, particularly in the tar distillation business, saw recovery that progressed at a pace faster than initially expected, due to improvements in market conditions of our products and progress made in the structural reform of our functional chemicals sector. Our seawater business, aerosol business, and information and electronics materials business, which comprise our “other business” segment, all performed strongly as a result of steady implementation of their own growth strategies, which greatly contributed to our corporate group’s results.

As a result, for the consolidated cumulative current period, sales were ¥177,893 million (116.3% that of the corresponding period of the previous year), operating income was ¥8,012 million (92.4%), ordinary income was ¥8,508 million (100.7%) and net income attributable to shareholders of the parent was ¥4,821 million (90.5%).

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 this 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 first quarter consolidated cumulative period has been revised in accordance with the above new reporting segment classification.

(Millions of yen)

	Net sales		Ordinary income	
	Three months ended June 30, 2017	% compared with the corresponding period of the previous year	Three months ended June 30, 2017	% compared with the corresponding period of the previous year
Industrial Gas Business	36,775	101.5%	2,903	80.4%
Chemical Business	18,073	109.1%	163	—
Medical Business	37,218	144.6%	957	86.8%
Energy Business	10,218	112.7%	720	107.4%
Agriculture and Food Products Business	34,380	128.2%	1,308	117.6%
Logistics Business	10,924	106.5%	505	84.2%
Other Businesses	30,302	107.3%	1,946	104.5%
(Adjustment)	—	—	2	2.6%
Total	177,893	116.3%	8,508	100.7%

(Note) The adjustments to ordinary income are profit or loss incurred at the Company's headquarters division and research and development division which were not allocated to each reporting segment, financial profit and loss and others.

<Industrial Gas Business>

In our industrial gas business, our regional gas business centering on gas supply services via lorries and cylinders performed strongly as a whole, on the back of steady gas demand that continued across a broad range of domestic manufacturing industries, including automobiles, steel, non-ferrous, semiconductors and construction-related sectors. Gas supply for electronics applications performed satisfactorily as a whole, including sales of special materials, thanks to continued high levels of production at our customers' plants which involved the enhancement of their production facilities.

On the other hand, there were impacts of fluctuations in the production of crude gas materials at the suppliers of material sources of carbon dioxide gases and the impacts of large-scale construction projects and facility problems at our customers' plants on our on-site gas supply to blast furnaces.

Our engineering related sector performed steadily, due to an increase in the number of gas application-related production projects, including projects for cryogenic equipment and the dry ice snow precision cleaning system.

As a result of the above, sales of this segment were ¥36,775 million (101.5% that of the corresponding period of the previous year) and ordinary income was ¥2,903 million (80.4%).

<Chemical Business>

In our coal chemical business, which is in the fields related to steel manufacturing, the volume of coke oven gas processing remained at the same level as in the previous year, but gas prices rose due to fluctuations in market conditions. Our carbon materials business improved to exhibit satisfactory performance, thanks to an increase in demand for our main product, thermally expandable graphite (TEG), used for sealing materials for automobile engines. Sales of crude benzene, which is our mainstay basic chemical, remained sluggish due to a decline in sales volume caused by facility problems at our customer's plant. On the other hand, the size of the deficit of our tar distillation business decreased, because the market conditions for needle coke used for electric furnace electrodes, which was the main cause of stagnant business performance, began to improve.

Our fine chemicals business, which is unaffected by steel manufacturing trends, improved to exhibit strong performance as a result of contribution of the growth in sales of our highly-functional circuit products led by expansion in demand for electric and electronic materials. Kawasaki Kasei Chemicals, a company of our corporate group, exhibited satisfactory performance as a whole, due to a significant increase in sales of quinone-based products, which are functional chemicals, and also due to recovery in sales of phthalic anhydrides which are general-purpose products.

As a result of the above, sales of this segment were ¥18,073 million (109.1% that of the corresponding period of the previous year) and ordinary income was ¥163 million (the previous period marked the ordinary loss of ¥611 million).

<Medical Business>

Our company operates eight medical businesses in total comprised of five businesses consisting of medical gases, medical facilities, medical treatment devices, medical treatment services and home medical care and three businesses consisting of hypodermic needles, dentistry-related products and sanitary materials.

Sales volume of medical gas increased due to the acquisition of new client hospitals. In our medical facilities business, our hospital facility construction including the construction of operating rooms performed strongly. In our medical treatment devices business, sales of our nitric oxide inhalation therapy equipment for new-born babies to treat hypoxemic respiratory failure, etc. involving pulmonary hypertension performed strongly. In our medical treatment services, SPD (supply, processing and distribution management for hospitals) improved to exhibit satisfactory performance through the acquisition of new client hospitals and improved efficiency in operation. Our sterilization services, which promote the establishment of sterilization satellite hubs across Japan, also performed steadily. Our home medical care services attained previous year's levels, led by rentals of our home oxygen concentrator, and sales of our hypodermic needles and dentistry-related products each performed strongly, thanks to increases in demand.

As a result of the above, sales of this segment reached ¥37,218 million (144.6% that of the corresponding period of the previous year), thanks in part to the effects of new consolidation through M&A's in sanitary materials and other sectors. Ordinary income was ¥957 million (86.8%), partly due to the impact of an increase in overhead costs associated with overseas business development and startup of new contracting projects.

<Energy Business>

Sales of LP gas and kerosene overall performed satisfactorily, as a result of our aggressive promotion of measures to increase sales volume and customers, such as the strengthening of our sales system by offering e-money "WAON" points to customers, and also due to an increase in sales thanks to the rise in import prices. Sales volume of fuels for industrial use increased as a result of our enthusiastic promotion of proposals for fuel conversion to LP gas and LNG to our customers. Also, orders for LNG transport equipment, which utilizes our cryogenic technology cultivated in the industrial gas fields, were received as scheduled.

Our company views the liberalization of electricity and city gas businesses through a series of deregulation as an opportunity for the reform of our business structure, and aims to evolve into a comprehensive energy service company of choice from consumers. As part of this effort, during this first quarter consolidated accounting period, our company has entered a business alliance with Hokkaido Electric Power Co., Inc. (HEPCO) to cooperate in the maintenance of LNG tank facilities in Ishikari City being constructed by HEPCO and in sales and transport of LNG, and has launched a reward points program in which reward points awarded to customers serves as a payment for both LP gas of our corporate group and electricity of HEPCO.

As a result of the above, sales of this segment were ¥10,218 million (112.7% that of the corresponding period of the previous year) and ordinary income was ¥720 million (107.4%).

<Agriculture and Food Products Business>

Although the impacts of damages caused by the typhoons that hit Hokkaido last year remained in the procurement of raw materials, our fruit and vegetable wholesale/distributive processing in our farm product business exhibited strong performance as a result of our efforts to improve efficiency in vegetable processing and increase profitability. Sales of our agricultural machines and tools, in which our company holds a large market share, also performed satisfactorily. On the other hand, our fruit and vegetable retail business, which operates specialized stores in department stores and station buildings nationwide, was affected by the shortages of incoming high-grade vegetables and fruit used as seasonal commercial products.

In our food product solutions business, our ham and delicatessen business performed strongly and sales of our frozen vegetables such as broccoli also remained steady, as a result of our concentrated efforts to acquire new clients and reduce manufacturing costs.Our beverage business performed satisfactorily as a whole, thanks to buoyant demand for vegetable drinks backed by the increase in health consciousness coupled with the warmer-than-usual temperature that continued from spring.

As a result of the above, partly due to the effect of the M&A implemented in the previous fiscal year, sales of this segment were ¥34,380 million (128.2% that of the corresponding period of the previous year) and ordinary income was ¥1,308 million (117.6%).

<Logistics Business>

Although the volume of shipments increased, our transport services were affected by an increase in costs, including investment costs for vehicle replacement, rise in diesel fuel prices, increase in expenses incurred by partner companies and costs for introducing a system that responds to changes in business environment to strengthen our management system. On the other hand, our 3PL (Third Party Logistics) business improved to exhibit strong performance due to growth in volume of shipments to distribution channels and as result of our efforts to enhance warehouse work productivity.Our vehicle custom installation business, which carries out design of truck bodies and installation of accessories, grew satisfactorily overall, due to increased profitability as a result of effective investments for factory equipment and thanks to continued strong orders.

As a result of the above, sales of this segment were ¥10,924 million (106.5% that of the corresponding period of the previous year) and ordinary income was ¥505 million (84.2%).

<Other Businesses>

Among our other businesses, although our salt manufacturing business was affected by an increase in manufacturing costs, our environmental business and power generation business at our Ako Plant grew satisfactorily, attaining the same levels of results as in the previous year. Although sales of fused magnesia for heaters grew thanks to an increase in overseas demand, our magnesia business remained at the same level as in the previous year, due to the impacts of a decline in sales prices of magnesia for high-grade electromagnetic steel plates.

Our aerosol business, which provides OEM supply of aerosol products, exhibited strong performance due to growth in sales of products for household use such as pesticides.

Our information-related electronics materials performed satisfactorily overall, due to the strong sales of our electronics materials thanks to an expansion in demand from automobile and semiconductor sectors, and also because there was no impacts of the slowdown in the Chinese economy which had a significant impact in the corresponding period of the previous fiscal year.

As a result of the above, sales of this segment were ¥30,302 million (107.3% that of the corresponding period of the previous year) and ordinary income was ¥1,946 million (104.5%).

(2) Explanation of financial position

Total assets at the end of the current first quarter consolidated accounting period stood at ¥636,726 million, an increase of ¥7,611 million compared to the end of the previous consolidated fiscal year, due primarily to increases in tangible fixed assets. Liabilities stood at ¥355,116 million, an increase of ¥6,751 million compared to the end of the previous consolidated fiscal year, due primarily to increases in borrowings. Net assets stood at ¥281,610 million, an increase of ¥859 million compared to the end of the previous consolidated fiscal year, due primarily to accumulation of quarterly net income attributable to owners of parent.

Net assets per share grew to ¥1,316.56, up from ¥1,312.55 in the previous consolidated fiscal year, and the equity ratio changed to 40.3% 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 second quarter consolidated cumulative period and 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 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 first quarter under review, and next by multiplying the quarterly net income before income taxes and minority interests by such estimated effective tax rate.

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

(Change in classification of expenses)

In our company and some of consolidated subsidiaries, certain expenses related to filling industrial gas have been changed in classification from selling, general and administrative expenses to cost of sales from the first quarter of the fiscal year ending March 31, 2018. This change is due to clarification of the correspondence between sales and cost of sales and more consistency with business performance evaluation in our corporate group, since starting to operate our new accounting system.

The change in accounting policy has been applied retrospectively to the consolidated financial statements for the previous fiscal year.

Compared with the accounting policy prior to retrospective application, cost of sales in the previous fiscal year increased ¥841 million, while operating income and also selling, general and administrative expenses declined the same amount. The effect on operating income, ordinary income, income before income taxes and information for per share of common stock was immaterial.