



To Our Shareholders

By further strengthening our position as a technology-driven company, Air Water Inc. is pioneering new fields and enhancing our profitability.

Hiroshi Aoki

Chairman and Chief Executive Officer
Air Water Inc.



New Research & Development Institute
(on the banks of the Azusa River in Matsumoto City, Nagano Prefecture)

Air Water Inc. (AWI) launched our medium-term business plan "Target 3600" in fiscal year 2004. The plan met with remarkable success this fiscal year, year ended March 31, 2007, its final year, far outstripping its original targets. I would like to express my heartfelt thanks to our employees for their efforts and to our shareholders for their support that made this achievement possible.

The Economic and Business Environment in the Fiscal Year and the AWI Financial Condition

This fiscal year saw high level of activities for the steelmaking, electronics, chemicals, and glass industries that form AWI's major customers, as well as for a wide range of other industries such as automobiles, shipbuilding, and construction machinery industries. In this environment, AWI's industrial business and chemical business - our core sectors - showed very favorable results. In addition to increased demand, success was also due to appropriate investment in plant and equipment and strengthening of production systems.

In industrial business, following the construction of a VSU (compact liquid nitrogen/oxygen co-production plant) at Kumamoto Plant in February 2006, we constructed a third VSU at Mikuni Ekisan Co., Ltd. of Fukui Prefecture in April 2006, and began operating a fourth VSU at Tokai Ekisan Co., Ltd. of Aichi Prefecture in March 2007. Besides markedly increasing gas production capacity, we can now respond more rapidly to regional demand.

In fields such as electronics, chemicals and glass, we have increased the number of unique small-scale on-site plants and help customers operate at higher capacities. To meet growing demand for hydrogen, we developed a hydrogen generating system based on the reforming of natural gas and are offering that system to major steel company. In chemical business, Our advanced proprietary technologies have enabled us to

keep pace with the evolution of electronics materials and functional materials. In industrial and energy business and other segments, in spite of lower profit margins due to rising crude oil prices, we were able to compensate through cost reductions and smooth pricing corrections. To streamline our housing products business, the majority of our shares in subsidiaries in that field were transferred to Matsushita Electric Works Bath & Life Co., Ltd. in October 2006.

Results for the Fiscal Year and for Medium-term Business Plan, and the Dividend Paid for the Term

Results for this fiscal year included consolidated net sales of 405,651 million yen (an increase of 7.5% from the previous fiscal year), operating income of 23,097 million yen (an increase of 13.1%), ordinary income of 25,458 million yen (an increase of 16.4%), net income of 11,877 million yen (an increase of 23.1%), and net income per share of 72.59 yen (an increase of 10.66 yen). At the completion of our medium-term business plan "Target 3600," we far exceeded the plan's target of 360 billion yen in consolidated net sales, with a growth rate of 50.8% in sales from fiscal year 2003. We have thus succeeded in increasing both sales and profits 1.5 fold over the 3 years of "Target 3600." The dividend paid for the term was 20 yen per share, representing an increase of 3 yen over the previous year. The dividend has now been increased for 3 consecutive years.

AWI's Medium- to Long-term Goals as a Technology-driven Company

One of the achievements of "Target 3600" was the expansion of chemical business. AWI's coal chemicals and Bell-pearl businesses have been able to undertake business development through aggressive M&A and to expand through institutional reorganization. Tateho Chemical Industries Co.,

Ltd. as well has become a wholly owned subsidiary. As a result this has become one of core business areas, second only to industrial business.

AWI's medium- to long-term goals are to strengthen our position as a technology-driven company and to establish own unique business model through diversified business development. The chemical business is central to those goals. AWI possesses many unique technologies for meeting advanced needs in such fast-growing areas as electronics materials, functional materials, and pharmaceuticals. While expanding and refining those technologies, we also made great progress in reorganizing and strengthening our position in these areas.

The basis for a technology-driven company is technological development, and it is important that we continue to offer new and more advanced products. Serving as a research and development headquarters, AWI's new Research & Development Institute was completed and began operations in July 2007 in Matsumoto City, Nagano Prefecture. Combining research and development in AWI's two core business areas of gases and chemicals, the new Research & Development Institute will network with 7 nationwide regional research facilities that focus on application research. It will also strengthen our collaboration with government, academic and industry institutions for developing a wide range of technologies. This new facility is thus expected to play a leading role in AWI's medium-term business development. The new Research & Development Institute's location in Matsumoto City means it enjoys clean air and pure water that is the very roots of AWI. Besides being one of Japan's leading regions of culture and learning, Nagano Prefecture is also well known for its high concentration of companies in high-tech industries such as electronics, optics, and preci-

sion instruments. This is the ideal location to launch the technologies of tomorrow.

AWI's New Medium-term Business Plan "Renovation 330"

In April 2007 we launched the new medium-term business plan, "Renovation 330." Continuing until the end of fiscal year 2009, this plan is aimed at expanding AWI's business by concentrating corporate resources in high-growth areas, while also enhancing profitability through strategic reorganization of our businesses. The goal is to accelerate qualitative improvements and make AWI an even more profitable company, with an ordinary income target of 33 billion yen by the end of the 3-year plan. In fiscal year 2009, AWI will celebrate its 10th anniversary under the present corporate name. This first decade represents our first step forward into the first half of the 21st century, as we actively tackle the challenges that the future will bring.

Regarding corporate governance and regulatory compliance, AWI remains committed to a spirit of corporate social responsibility. We continue to work to make company fully worthy of the respect of society and the trust of our shareholders, customers and employees, as we establish AWI as the commanding presence in the industrial gas industry.

We sincerely look forward to the continued support of our shareholders and stakeholders.

Hiroshi Aoki
Chairman and Chief Executive Officer
Air Water Inc.