AIR WATER INC.

Printed on recycled paper
Printed in Japan

ESTABLISHING A DOMINANT PRESENCE

Annual Report 2006 Year Ended March 31, 2006

AIR WATER INC.

Management Philosophy

Concentrate member companies' knowledge and expertise on the creation and development of businesses that concern air, water, and the planet in general in the spirit of entrepreneurship that contributes to society.

Gas Production Plant No. 12 at the Wakayama Plant
(completed March 14, 2006)

Contents

Forward-looking Statements (Business Risk Factors, etc.)

The forward-looking statements in this Annual Report regarding estimates of business performance and predictions of future developments reflect Management's judgments based on currently available information, but also involve various risks and uncertainties. Actual business performance could easily be significantly different from the projections made herein due to changes in various factors. The primary potential risk factors are summarized below.

- Significant changes in demand in East Asia, an important market for our major customers
- Our ability to pass on to the customer increased costs resulting from higher LPG and kerosene contract prices and rising crude oil prices
- Increased transport expenses, including the costs of kerosene, fuel oil, ocean freight, and air freight
- Increased raw materials costs for our frozen food business
- Decreased sales or reduced profits for our medical gases and medical services resulting from revision of national insurance drug reimbursement prices
- Risks arising from a production problem, product defects, accidents, etc.
- Risks arising from the failure of merger and acquisition activities or other investments to perform as anticipated
- Risks arising from the failure to implement adequate measures such as business expansion and cost reductions in response to competition
- Increased cost of compliance a result of revised or newly implemented environmental laws and regulations
- Risks due to natural disasters
- Other potential risks

The financial statement information contained in this Annual Report is based on the accounting term for the year ended March 31, 2006, and for previous terms as indicated. All other content is based on information available at the time editing of the Annual Report was completed on August 31, 2006.

CONSOLIDATED FINANCIAL HIGHLIGHTS

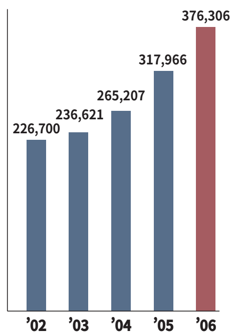
AIR WATER INC. and Consolidated Subsidiaries Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)	Increase (Decrease)
	2006	2005	2004	2003	2002	2006	2006/2005
Net Sales	¥376,306	¥317,966	¥265,207	¥236,621	¥226,700	$3,203,422	18.3%
Cost of Sales	284,517	235,303	187,594	166,169	157,742	2,422,040	20.9
Selling, General and Administrative Expenses	71,376	64,528	61,602	57,156	54,863	607,610	10.6
Operating Income	20,413	18,135	16,011	13,296	14,095	173,772	12.6
Net Income	9,648	7,803	5,606	4,553	5,326	82,132	23.6
Total Assets	306,366	273,464	239,873	232,629	222,360	2,608,036	12.0
Total Shareholders' Equity	90,894	76,784	69,721	64,991	62,783	773,764	18.4
Cash Flows from Operating Activities	23,511	21,876	26,330	18,030	24,113	200,145	7.5
Cash Flows from Investing Activities	(21,903)	(21,607)	(18,105)	(14,791)	(15,587)	(186,456)	(1.4)
Cash Flows from Financing Activities	656	(1,118)	(10,012)	(5,992)	(15,057)	5,584	–
Cash and Cash Equivalents at End of Year	12,876	10,357	10,284	11,895	14,366	109,611	24.3

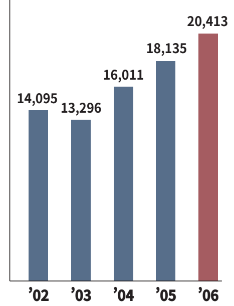
PER SHARE OF COMMON STOCK	Yen					U.S. dollars (Note 1)	
Net Income - Basic	¥61.93	¥50.73	¥36.52	¥29.62	¥35.11	$0.53	22.1%
Net Income - Diluted	54.17	48.05	33.62	27.24	28.87	0.46	12.7
Cash Dividends Applicable to The Year	17.00	14.00	10.00	10.00	10.00	0.14	21.4
Shareholders' Equity	559.94	506.52	459.85	428.60	413.94	4.77	10.5

Notes: 1. Translation into U.S. dollars has been made, solely for the reader's convenience, at the rate of ¥117.47= U.S. $1, prevailing on the Tokyo Foreign Exchange Market on March 31, 2006.
2. Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share," and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002).

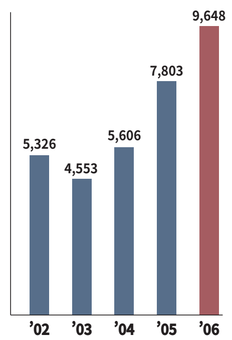
Net Sales
(Millions of yen)



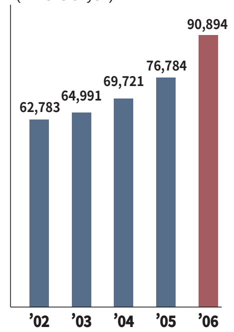
Operating Income
(Millions of yen)



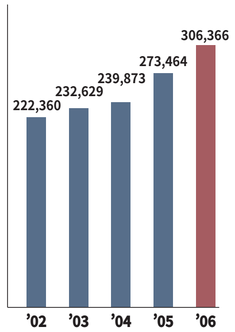
Net Income
(Millions of yen)



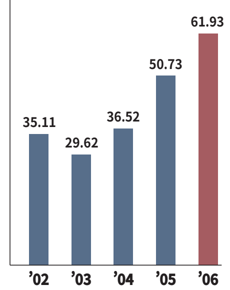
Total Shareholders' Equity
(Millions of yen)



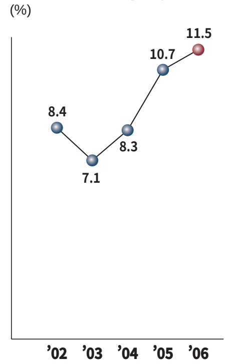
Total Assets
(Millions of yen)



Net Income-Basic
(yen)



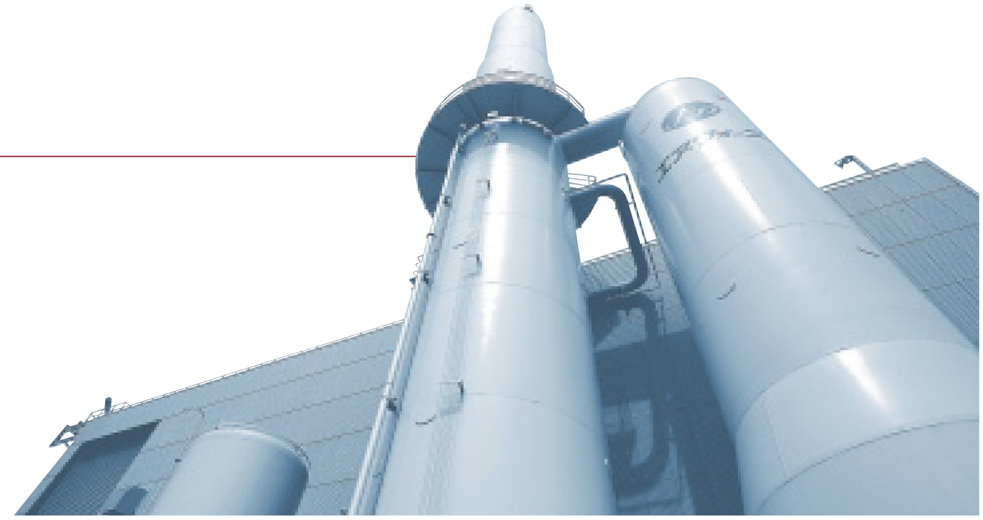
Return on Equity
(%)



To Our Shareholders

Establishing a Dominant Presence
Air Water Inc. has set high goals, aiming for further growth and business expansion.

Hiroshi Aoki
Chairman and Chief Executive Officer
Air Water Inc.



Air Water Inc. (AWI) launched its new medium-term business plan, Target 3600, in fiscal 2004. For fiscal 2006, the final year of Target 3600, the plan set a target of 360 billion yen for net sales, aiming to establish AWI as the dominant company in the industrial gas business. In the fiscal year ended March 31, 2006, the second year of this medium-term business plan, our all-out efforts led to remarkable success, with sales already exceeding the final target.

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

The Japanese economy during the fiscal year ended March 31, 2006, showed a sharp increase in industrial production, leading to significant improvement in corporate earnings and active investment in plant and equipment. Backed by this favorable economic environment, AWI moved aggressively forward toward achieving the goals of Target 3600.

In our industrial business, backed by increased production in steelmaking and other manufacturing industries, production and sales of industrial gases remained strong throughout the year and continued to move higher. Gas-related equipment and construction also showed strong performance, buoyed by increased corporate investment in plant and equipment. In addition, through the introduction of cryogenic air separation plants employing AWI's proprietary state-of-the-art technology, we were able to diversify our onsite business and move ahead on the construction of new regional production facilities, expanding our business and increasing distribution efficiency.

In our medical business, we have focused on expanding our business providing comprehensive medical services to medical institutions and bolstering our home medical services, achieving a synergy through a "complete hospital" business model and increasing new orders for medical gases.

In our energy and consumer products businesses, as consumption patterns have changed and competition has increased, we have worked to strengthen our base, focusing on the development of new products and new business, with overall favorable results.

In our chemical business, with the market getting a boost from tight supply and demand conditions and rising crude oil prices, sales of basic chemicals showed continued growth. We have also been able to strengthen our business base by focusing on the development and production of strategic fine chemical products such as electronics materials and pharmaceutical intermediates.

Record Business Performance Achieved

Results for this past fiscal year included consolidated net sales of 376,306 million yen (an increase of 18.3% from the previous fiscal year), ordinary income of 21,871 million yen (an increase of 21.3%), and net income of 9,648 million yen (an increase of 23.6%), all record highs. Net sales have already exceeded the final goal of 360 billion yen set in Target 3600 in only the second year of the 3-year plan.

In addition, net income per share also rose to 61.93 yen, with return on equity (ROE) improving to 11.5% and return on assets (ROA) improving to 7.5%.

Basic Strategy of Target 3600

While the favorable business results of the past fiscal year could be said to have been propelled by the performance of our industrial business, from a broader perspective we see it as the success of strategic development of the Target 3600 medium-term business plan. When Target 3600 was formulated in 2003, it was conceived as an aggressive plan calling for an increase of 100 billion yen in sales over 3 years from 260 billion yen to 360 billion yen, as well as an increase in ordinary profit from 15 billion yen to 23 billion yen. Three basic strategies were established to achieve the goals of this plan – to expand our business, to improve our operating profit margin, and to strengthen our financial condition. In addition, prior to the formulation of this medium-term business plan, I announced a new management philosophy – "Concentrate member companies' knowledge and expertise on the creation and development of businesses that concern air, water, and the planet in general in the spirit of entrepreneurship that contributes to society." This new management philosophy is not only the basic spirit behind the Target 3600 medium-term business plan, it also provides the "consciousness" needed to reinvigorate AWI as the leader in the field of industrial gases and a company at the forefront of innovation.

Business Expansion Efforts

Of the three basic strategies of Target 3600, "expanding our business" is the most fundamental and central. Measures to pursue this strategy include implementing an aggressive M&A strategy, further developing solution services, and using technology to pioneer new business fields and generate demand. These measures were the driving force for achieving our goal of increasing net sales by 100 billion yen over 3 years.

Implementing an Aggressive M&A Strategy

Our chemical business is a representative example of the results of our implementation of an aggressive M&A strategy. AWI has long been developing various partnership businesses through our close collaboration with steel and chemical companies, and those ties of mutual trust have led to a number of mergers and acquisitions and alliances in our chemical business. In just a few years, AWI's chemical business has grown to become our second core business, and it is expected to be one of the primary segments driving the company's future growth.

To further ensure this future growth, on September 29, 2005, AWI acquired Sun Chemical Co., Ltd. – previously a group company of Tanabe Seiyaku Co., Ltd. – as a subsidiary, strengthening and expanding our presence in the field of fine chemicals. We also acquired Tateho Chemical Industries Co., Ltd., as a wholly owned subsidiary on February 1, 2006, and absorbed and merged Air Water Chemical Inc. and Air Water Bellpearl Inc. on April 1, 2006. Through these mergers and acquisitions, beginning from fiscal 2006 we have integrated our chemical business operations, completing a major structural reorganization.

To develop our BTX business (production and sale of benzene, toluene, and xylene) in collaboration with

Nippon Steel Chemical Co., Ltd., on March 1, 2006, we established NA-Aromatics Co., Ltd., which began operations from April 1.

This structural reorganization is intended to pursue a synergistic effect through strengthening and integration of our inorganic chemicals business and organic chemicals business, creating a new field of “hybrid chemicals”.

In our industrial business, in order to establish a new production base in the Hokuriku region, on April 18, 2006, through an alliance with Uno Sanso Co., Ltd., a local Hokuriku producer of industrial gases, we completed construction of the Mikuni Plant of Mikuni Ekisan Co., Ltd. We also acquired as subsidiaries Takayasu Industry Co., Ltd., a local Osaka gas supplier, on December 13, 2005, and Matsuyama Oxygen, Co., Ltd., a gas producer in Ehime Prefecture, on February 20, 2006, expanding our business in various regional markets.

In our medical business, to establish a management structure enabling faster, more flexible decision-making in response to the changing business environment, on August 4, 2005, we acquired Kawasaki Safety Service Industries, Ltd. as a consolidated subsidiary, and changed its name to Air Water Safety Service Inc. on August 1, 2006. Air Water Safety Service possesses unique technologies and know-how in such areas as medical gas supply equipment and piping, and fire extinguishing equipment and breathing apparatus used by firefighters and for lifesaving applications. Reorganizing the company as a consolidated subsidiary has enabled more efficient shared utilization of management resources. In addition, the acquisition of Nishimura Kikai Co., Ltd. – a Kyoto company with experience in circulatory system and artificial dialysis related equipment – as a subsidiary on November 30, 2005 further expanded our range of business and sales network.

For the 9 companies acquired through M&A, net sales are expected to significantly exceed the planned increase of 28.8 billion yen over 3 years.

Further Developing Solution Services

To further develop our solution services, we have focused specifically on expanding services targeting steel and chemical companies and on our SPD (supply, processing, and distribution) business for the medical industry.

For steel companies, we have been actively providing outsourcing services for such companies as Sumitomo Metal Industries, Ltd., Kobe Steel, Ltd., and Nippon Steel Corporation, leading to further expansion of this business.

At Sumitomo Metal Industries, we already had an outsourcing contract for onsite gas supply for blast furnaces, and this past fiscal year we expanded that business to include purification of coke oven gas. At Kobe Steel we established Shinko Air Water Gas, Co., Ltd., as an industrial gas sales company, and at Nippon Steel Corporation we established the industrial gas sales company NSCC Air Water Inc. as a joint venture with Nippon Steel Chemical Co., Ltd. In this way we have been strengthening our ties with major customers.

In the area of solution services for chemical companies, we made Senboku Oxygen Co., Ltd., a consolidated subsidiary of AWI, established to provide onsite gas supply services to Mitsui Chemicals Inc.’s Osaka Plant.

In our SPD business, as medical institutions have focused on achieving greater management efficiency and reducing medical expenses, they have begun to outsource many non-medical related tasks. AWI saw this as an ideal opportunity and worked to expand our SPD business, achieving considerable success with net sales approaching 10 billion yen.

While we originally aimed to increase net sales by 41.3 billion yen over 3 years through development of our solution services, thanks to the success of our solution service business for the steel and chemical industries and expansion of our SPD business, performance is expected to significantly exceed our original target, providing a powerful driving force for growth similar to that generated by our M&A activities.

Using Technology to Pioneer New Business Fields and Generate Demand

Aiming to pioneer new business fields and to generate demand through technology, in March 2006 we completed and began operation of a large-scale, energy-efficient cryogenic air separation facility, at the Wakayama Plant with Shinko Air Water Cryoplant Co., Ltd.. We are also operating V3 oxygen-nitrogen gas generators as onsite plants at steel companies and glass manufacturers.

We also introduced the VSU compact combination liquid oxygen and nitrogen production plant, a revolutionary facility boasting the same performance as a large-scale plant in spite of its compact size. With the VSU, it is now possible to set up a compact liquid oxygen and nitrogen production plant for regions that previously had to be supplied by long-distance transport from large-scale facilities. This has enabled us to capture the market in areas where there are no large-scale plants and ensure stable supply. Shorter transport distances also mean lower transport costs and lower carbon dioxide emissions. To date we have VSU plants operating in Niigata Prefecture, Kumamoto Prefecture, and Fukui Prefecture, with plans for future plants in Shikoku and other regions.

We are also now operating the first of our newly developed hydrogen gas generators as an onsite plant for steelmaking. This system is the world's first practical application of the heat neutralization method for generating hydrogen by reforming natural gas. The system also features a compact size and high reaction efficiency.

In the field of semiconductors, AWI successfully developed a PFC recovery system that effectively reduces emissions of greenhouse gases. It has become a key product for our consolidated subsidiary Daido Air Products Electronics Inc. (DAP).

Efforts to Improve Our Operating Profit Margin

AWI's Target 3600 medium-term business plan calls for improving our annual operating profit margin to 7%. One means is by targeting a reduction in total costs of 8%, or 11 billion yen, over 3 years. To reach that target, special emphasis has been placed on reducing transport costs and purchasing costs, which account for a significant proportion of overall expenses. For gases, transport costs account for a much larger share of the price than other industrial products. For this reason, to reduce transport costs and ensure stable supply, AWI has made it a principle to establish integrated local production and sales supply systems for "producing locally, supplying locally". In light of rising crude oil prices and other factors, efforts to reduce costs are now more important than ever. We are therefore continuing to establish regional supply facilities while progressively introducing more fuel-efficient, environmentally friendly tank trucks.

The entire company, and our Logistics Division in particular, is examining costs and working to develop methods for achieving additional reductions, while expanding such measures as centralized and collective purchasing, overseas purchasing, and electronic transactions.

As a result of these efforts, cost reductions for the past fiscal year exceeded our target, contributing to a higher operating profit margin.

Dividends Paid for the Term

AWI considers returning profits to our shareholders to be one of our highest priorities, and we have established a basic policy of paying a consistent long-term dividend commensurate with our business performance. Another goal set by Target 3600 is a dividend ratio of 30% of consolidated net income, and we remain committed to returning profits to our shareholders. The annual dividend for the year was 17 yen per share, an increase of 3 yen over the previous year.

Outlook for the Coming Year and Strategies for the Future

AWI is now entering the final year of the Target 3600 medium-term business plan. Although we have already reached the final net sales target set in Target 3600, in the coming year we will continue to further strengthen our management base for the future, keeping in mind the next medium-term business plan that will commence from April 2007. In corporate activities, there is an "ideal time" for undertaking new challenges. For AWI, I believe that time is now. Led by our industrial business and our chemical business, in addition to reaching our goals through persistent efforts and a synergy of knowledge and technology, I believe we should aim to establish a dominant presence for AWI. AWI has already begun to work with an eye on the future. One example is reorganization of our chemical business to further strengthen our core businesses. We have successfully developed and begun commercial operation of a heat neutralization method hydrogen gas generator, a major focus of our R&D. Hydrogen is viewed as the ultimate ecological energy, and with the introduction of our newly developed hydrogen generator, AWI has started up a new division. As a technology driven company, AWI is also seeking to create new business through collaborations combining different fields of technology, and preparations are now underway for a new research and development center in Matsumoto City, Nagano Prefecture.

In the bath system business, we have concluded a basic collaboration agreement with Matsushita Electric Works, Ltd., under which Matsushita Electric Works will take over Air Water's well-established practices and know-how in the bath system business.

Developing Human Resources, Regulatory Compliance, Corporate Social Responsibility, High Ethical Standards, and Public Trust

An important responsibility of corporate management is development of the human resources upon which the future of a company depends. AWI has dedicated significant management resources to personnel training and business orientation.

Regarding regulatory compliance, we believe that rather than merely complying with a narrow literal interpretation of the law, we need to aim for full compliance with the spirit of the law based on a sense of values that respects the public's trust. For everyone from top management to each individual employee, we are committed to promoting an attitude of "never forget, never neglect, never allow accidents to happen", including performance of necessary maintenance and safety-related investment. Through this commitment we hope to prove worthy of the trust and confidence of our customers and society.

Maintaining a strong sense of corporate social responsibility, AWI is committed to pursuing fair and equitable business practices emphasizing safety, security, and regulatory compliance, to build a respected company trusted by shareholders, customers and employees, and establish AWI as the dominant company in the industrial gas business.

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

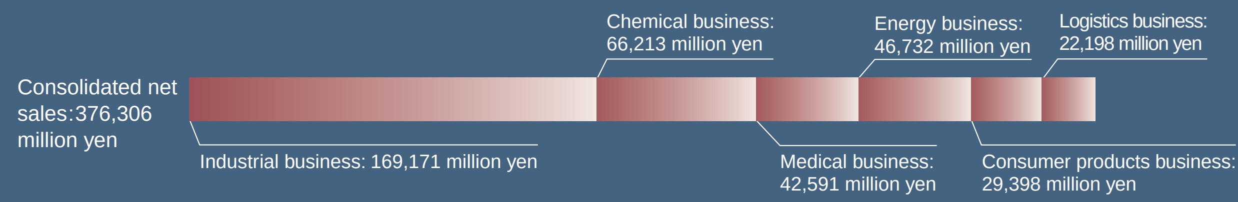
H. Aoki

Hiroshi Aoki
Chairman and Chief Executive Officer
Air Water Inc.

AWI's range of business has been rapidly expanding through a synergy of technology and services.

Our core businesses are based on the two technologies of gases and chemicals plus related services, and we pursue innovative new areas of business while emphasizing customer needs. Close integration of our core businesses – industrial business, medical business, and chemical business – has provided a strong synergistic effect between our advanced technology and services, providing a powerful stimulus for application businesses such as energy, consumer products, and logistics. This synergy is also providing the driving force for achieving the goals of our Target 3600 medium-term business plan and positioning the company to advance to the next stage.

Net Sales by Segment (for the year ended March 31, 2006)



Chemical Business

AWI's chemical business is key to our establishing unique fields of business. Offering both organic and inorganic products, our chemical business has grown into AWI's second core business. We are reorganizing this segment from this fiscal year and accelerating our M&A activities, aiming for further expansion based on the concept of "hybrid chemicals."

Industrial Business

AWI's industrial business is the keystone of our corporate management. Targeting large-volume customers in primary manufacturing industries such as steel, chemicals, shipbuilding, electrical products and electronics, our industrial business has enjoyed strong growth. Backed by robust activity in the manufacturing industry and continued tight supply and demand conditions, AWI aggressively invested in plant and equipment and strengthened our onsite business to respond to increased production by customers. Our M&A activities have also steadily contributed to business expansion and increased profits.

Medical Business

The main concept behind AWI's medical business is our "complete hospital" business model. Responding to the changing needs of the medical industry, this is a solution service strategy for providing a wide range of support services to medical institutions. In the past fiscal year our SPD (supply, processing, and distribution services for medical institutions) business in particular showed strong growth, and in collaboration with Air Water Safety Service Inc., we also began taking orders from customers for complete operating room systems.

Energy Business

AWI has long been developing its LPG business, primarily in Hokkaido, and following the start of the industry's deregulation in 1999, we also launched a natural gas supply business to large-volume customers via pipeline. Capitalizing on this energy gas handling technology and our industrial gas cryogenic technology, we have also been working to expand our sales of liquefied natural gas (LNG) and tank containers for transporting LNG.

Consumer Products Business

AWI's consumer products business is centered on our frozen food products. Our frozen foods, ham, and delicatessen items have earned an excellent reputation among professionals in the food service industry. Faced with rising prices for marine and livestock products, conditions for this segment continue to be difficult, with revenues decreasing during the past fiscal year. Beginning from this fiscal year, we will be taking a new step forward in our housing products business through a business tie-up with Matsushita Electric Works ,LTD.

Logistics and Ecoroca Business

AWI's logistics business was severely exposed to the effects of the sharp rise in crude oil prices, but we worked to limit the impact by revising transport charges in accordance with the increased costs. By capitalizing on our know-how and trusted reputation, we aggressively worked to develop new business such as third party logistics and successfully increased sales. In addition, the sales network has been expanding for our Ecoroca wood-plastic composite products, which are attracting attention as environmentally friendly exterior construction materials.

Increased Industrial Gas Supply Capability, Including Onsite Services for Steel Companies and Local Supply Facilities

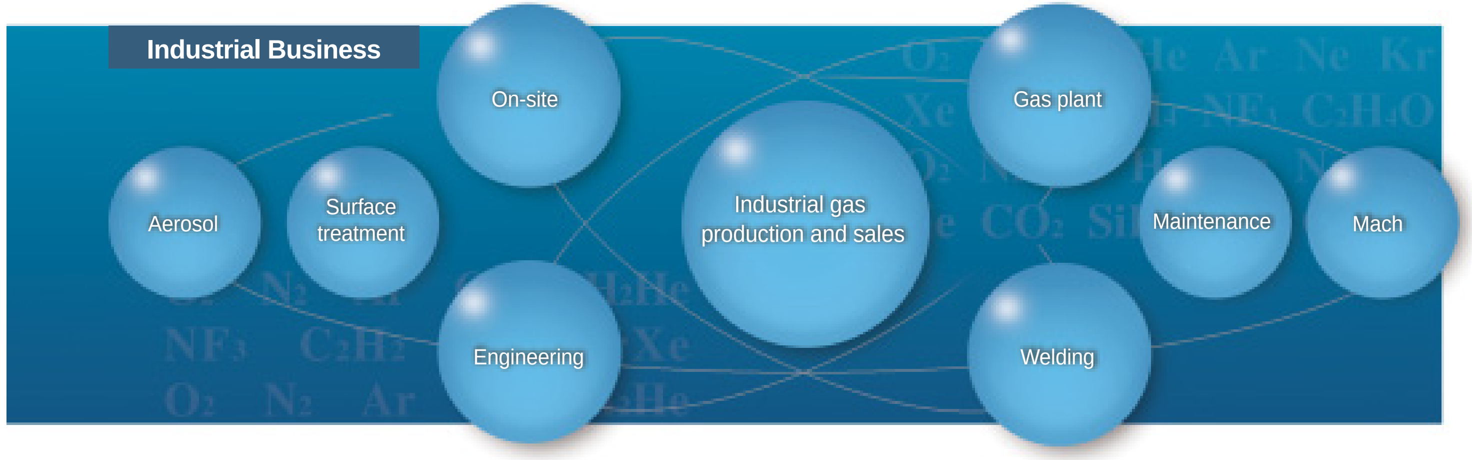
Over the past fiscal year Japan's manufacturing industry has continued to recover, showing robust growth. Primary manufacturing industries such as steel, chemicals, shipbuilding, electrical products, and electronics have benefited from a strong increase in both exports and domestic demand. While this has resulted in tight supply and demand conditions for industrial gases, AWI responded to the increased demand by aggressively investing in plant and equipment to expand onsite supply capacity at the steel companies that are our main customers and also constructed new local supply facilities.

Basic Business Policy

Recognizing that industrial gases are indispensable to our industrial customers' operations, the basis of AWI's industrial gas business is ensuring a consistent and reliable supply. AWI has thus made it a top priority to establish integrated local production and sales supply systems for "producing locally, supplying locally." This system is ideal for ensuring prompt, reliable delivery while also reducing transport costs and environmental impact. To make the most of these advantages, we have been actively expanding our network of local industrial gas supply facilities by utilizing the compact gas production plants made possible by our unique technology.

AWI has built up strong relationships with companies in the primary manufacturing industries that are our main customers and that form our business base, especially in such fields as steel and chemicals. AWI provides onsite industrial gas supply for companies such as Sumitomo Metal Industries, Ltd., Sumitomo Metals (Kokura), Ltd., Kobe Steel, Ltd., Nippon Steel Corporation, and Mitsui Chemicals Inc., and we are also involved in various businesses in partnership with these companies. We have utilized our technology and services to aggressively expand our network into such high-growth industries as electrical products and electronics, building a new business model and broadening our range of business. In addition, the ties of mutual trust with our customers have led to a number of mergers and acquisitions and alliances.

Wakayama Plant Control Room



Construction of New Air Separation Plants at the Wakayama and Kokura Plants to Keep Pace with Increased Production at Sumitomo Metal Industries

To meet the increased demand for oxygen resulting from increased production at Sumitomo Metal Industries' Wakayama Steelworks, the supply capacity of AWI's onsite Wakayama Plant needed to be expanded. In response, AWI completed construction of a new large-scale cryogenic air separation facility in March 2006. This new state-of-the-art air separation facility was made possible by Shinko Air Water Cryoplant's advanced air separation technology. The new plant efficiently separates and purifies gas with minimum energy costs, providing maintenance-free fully automatic operation. This plant's exceptional eco-friendly performance has enabled the Wakayama Plant to reduce annual CO_2 emissions by 40,000 tons, and it has been recognized by NEDO (the New Energy and Industrial Technology Development Organization) as an "Energy Use Rationalization Business Support Project." With the completion of this new plant the Wakayama Plant now has four, including one for backup operation, with a total capacity of 65,000 Nm3/h. In addition to nitrogen, oxygen and argon, the plant can also produce rare gases such as neon and xenon, with sufficient capacity to support outside sales.

To alleviate the extremely tight industrial gas supply conditions at Sumitomo Metals (Kokura), in May 2005 we completed construction at AWI's Kokura Plant of a V3 high-efficiency combination oxygen-nitrogen gas generator. Besides boosting supply capacity and ensuring more reliable operations, this new gas generator's exceptional energy efficiency has reduced both energy costs and greenhouse gas emissions.

Wakayama Plant Air Separation Plant No. 12

Kokura Plant V3

Supporting the Local Economy – Kumamoto Plant and Mikuni Ekisan

AWI considers its newly developed VSU a “key production system for the first half of the 21st century.” This compact, high-performance cryogenic air separation system for simultaneously producing liquid oxygen and liquid nitrogen enables the production capacity to be set to match local demand. AWI constructed its first VSU at the Niigata Plant in 2003, helping to generate demand and ensure reliable supply in Niigata Prefecture and the southern Tohoku region.

In February 2006 we also began operating a VSU at the NSCC Air Water Kumamoto Plant in Uto City, Kumamoto Prefecture. In addition to manufacturers of electrical and automotive related products, numerous semiconductor manufacturers have also been moving into Kumamoto Prefecture, making it a major center of “Silicon Island Kyushu.” Construction of the new VSU enables us not only to meet growing local demand, but also to open up new markets throughout southern Kyushu.

In the Hokuriku region, AWI established Mikuni Ekisan Co., Ltd. in a joint venture with Uno Sanso Co., Ltd. of Fukui Prefecture and began construction of a VSU. In April 2006 construction was completed and the Mikuni Plant began operation. In addition to generating local demand in Fukui Prefecture and the surrounding region, this new plant has also strengthened our backup system for air separation plant users in Toyama and Shiga prefectures.

In February 2006 we acquired Matsuyama Oxygen, Inc. of Ehime Prefecture as a subsidiary to strengthen our supply base in the Shikoku region, and construction of a VSU is now in the planning stages. In December 2005 we also acquired Takayasu Industry Co., Ltd. of Osaka as a subsidiary, strengthening our sales capacity for industrial gases, medical gases, and welding gases in eastern Osaka.

Accelerating Introduction of Compact Air Separation Systems

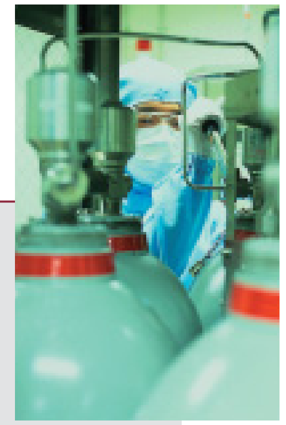
Backed by increased investment in plant and equipment by the manufacturing industry, over the past fiscal year more and more companies in such fields as electronics, steel, glass, and chemicals began installing AWI’s high-efficiency compact air separation systems.

The V1 high-purity nitrogen generator, V2 oxygen generator, and V3 combined oxygen-nitrogen gas generator were all developed by AWI and have become one of the foundations of our business model. These compact plants can produce the quantity of high-quality, high-purity gas onsite required at a customer’s facility and ensure a reliable supply. We significantly reduced energy costs and achieved a maintenance-free design by developing systems that use liquid nitrogen (or oxygen) as a refrigerant without the need for an expansion turbine. Since these gas generators were first introduced in the 1980s, this unique technology has continued evolving into higher-performance, higher-efficiency products indispensable for high-tech manufacturing systems.

Kumamoto Plant VSU

Mikuni Ekisan VSU

V3



Electronics Related Business — DAP – Meeting the Advanced Needs of the Nanotech Age

The AWI Group company Daido Air Products Electronics, Inc. (DAP), a joint venture with the major industrial gas company Air Products and Chemicals, Inc. of the United States, provides specialized solution services for the electronics industry.

DAP’s main products are high-purity, high-function specialty gases for semiconductor production processes. Accompanying the remarkable advances made in nanotechnology, semiconductor devices' performance and integration density have increased exponentially. Keeping pace requires industrial gases of the highest purity, and DAP is constantly improving its technology, capturing the top market share for onsite nitrogen gas supply and specialty process gases and chemicals.

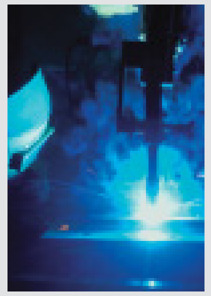
DAP products that have performed especially well in recent years include recovery systems for PFCs (perfluorocarbons, fluorine compounds with a potent greenhouse effect), spotlighted by the Kyoto Protocol; low-permittivity trimethyl silane, which is indispensable for achieving more compact sizes and longer operation time for mobile IT devices; organic metal materials required by optical devices such as LEDs (light-emitting diodes) and LDs (laser diodes); and hydrogen selenide for CIS solar cells.

Through tie-ups with leading overseas companies, AWI is expanding our sales routes while maintaining a leading position in the market.

Welding Business — Backed by robust activity in the automotive, shipbuilding, construction machinery and other industries, AWI has enjoyed solid expansion of our welding-related business.

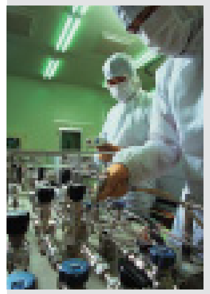
The field of heat processing, including welding and cutting, has historically been an important area for the development of new gas applications. “ELNACKS“ argon welding gas, which we jointly developed with Sumitomo Metal Industries, is mass produced at large-scale air separation facilities at our Kashima, Wakayama, and Kokura Plants. We supply this product nationwide and have the largest share of the domestic market.

The Aqua Gas Generator (AGG) developed by AWI to produce a gas mixture for fusion cutting was recently launched on the market, winning high marks for enhanced cutting quality and efficiency. In addition to gases, AWI’s welding product lineup also includes welding robots, laser processing systems, plasma cutting systems, and consumable supplies such as welding materials, tools and other items, offering a wide range of effective solution services targeting mainly welding-related industries. Through close integration with our industrial gas business and plant business, these solution services have also generated a synergistic effect.



Other Business — Developing a Diverse Range of Solution Services

【Engineering Business】



Building on our gas production and handling technology, AWI is developing engineering business covering the full range of gas processing. We are steadily expanding this market with advanced technologies such as high-purity gas purifiers, high-purity gas piping, cryogenic equipment, high-vacuum equipment, and exhaust gas processing systems.

【Maintenance Business】

Utilizing our expertise in such areas as high-pressure gas handling technology, high-voltage electric power handling technology, and exhaust gas and wastewater processing technology, AWI is developing maintenance business targeting large customers. Such solution services also help to strengthen our relationship with customers, leading to a synergistic effect.

【Surface Treatment Business】

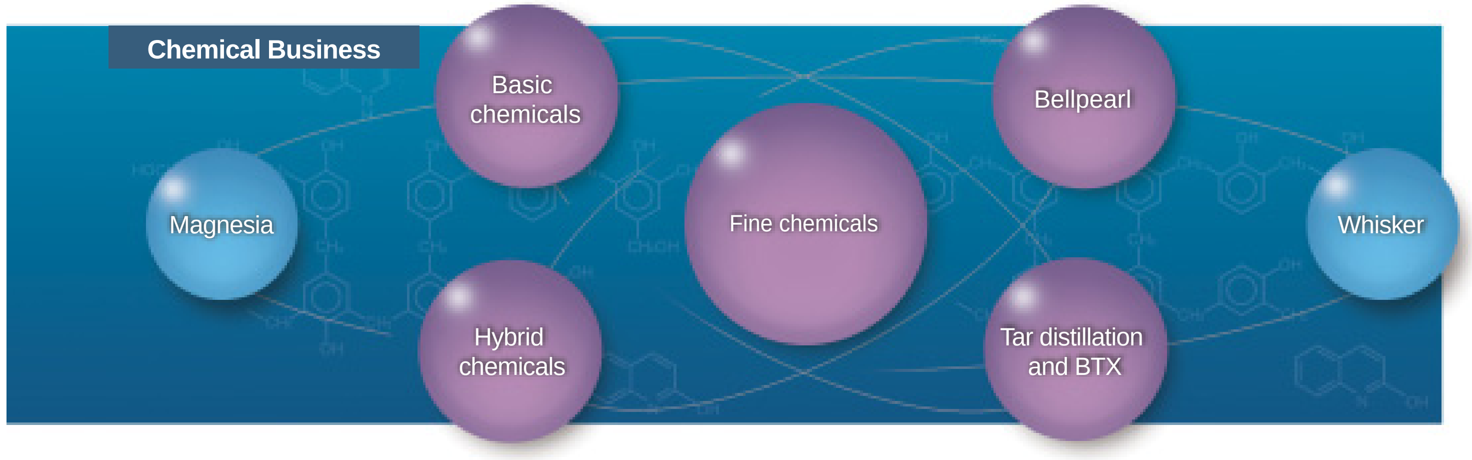
Surface treatment involves processes to improve and add specific functions to the surfaces of metals and high-polymer films. AWI possesses two proprietary surface treatment technologies, an NV nitriding process and an atmospheric-pressure plasma process. In addition to producing and selling equipment for those processes, we are also developing solution services for performing surface treatment under contract.

【Aerosol Business】

Utilizing our unique formulation and gas technologies, AWI produces a wide range of aerosol products such as disinfectant and insect repellant sprays, cleaning agents for PCs, anticorrosion agents, lubricants, canned oxygen, deodorants, cosmetics and spray paints, and also supply these products under OEM contracts. In recent years we have focused on developing eco-friendly products that are widely used for industrial applications and household use.

【Mach Business】

Rubber molded products such as O-rings and other gaskets and seals are important parts in automobiles, household appliances, and a wide range of other equipment and machinery. The AWI Group company Air Water Mach Co., Ltd., possesses unique technology for producing such products as high-performance O-rings and ultrahigh-performance fluororubber O-rings for semiconductor and LCD production equipment. These products display full performance under even severe operating conditions, and we are steadily expanding our sales network.



"Hybrid Chemicals"
– the Concept Behind AWI's Second Core Business

AWI has achieved a fusion of inorganic chemicals, long our specialty, with organic compounds to create a new field of business based on the concept of "hybrid chemicals." Through a strategic structural organization of this division we have launched an all-out effort for expansion.

Basic Business Policy

Ever since AWI was established we have been accumulating know-how and technology in various chemical- and physics-related fields through the development of our gas production, handling, and related businesses. We have also expanded our advanced organic and inorganic chemical technologies through various alliances, mergers and acquisitions, steadily building a dominant presence.

The "hybrid chemicals" concept enables more aggressive development of cutting-edge chemical technologies, by combining Tateho Chemical Industries' magnesia technology in the field of inorganic chemicals with the organic compound technologies of both Air Water Chemical and Air Water Bellpearl. Our focus on the unlimited potential of new materials and fine chemicals will help establish AWI as a leader in the field.

Our business model also capitalizes on the synergy between our gas technology and chemical technology.

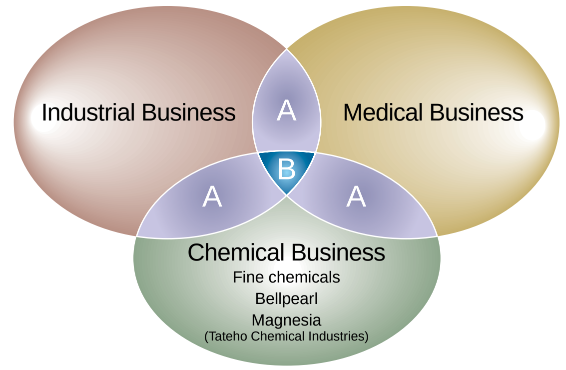
Chemical plant at the Kashima Plant

Integration and Reorganization of Our Chemical Business to Achieve Robust Growth

AWI previously conducted its chemical business through a 3-company system, with each company operating independently. However, we recently carried out a major structural reorganization to enhance our sustainable growth potential and increase shareholder value. In February 2006, through an exchange of stock, we made Tateho Chemical Industries Co., Ltd., a wholly owned subsidiary of AWI, and in April 2006 we absorbed and merged Air Water Chemical Inc. and Air Water Bellpearl Inc.

The combined organization is now able to manage its operations based on a medium to longer-term viewpoint, optimize capital investment, and more quickly conduct a broad range of research and development. Technological collaboration, expanded cooperation in different fields of expertise, and active exchange of personnel will also increase growth potential and generate further synergy.

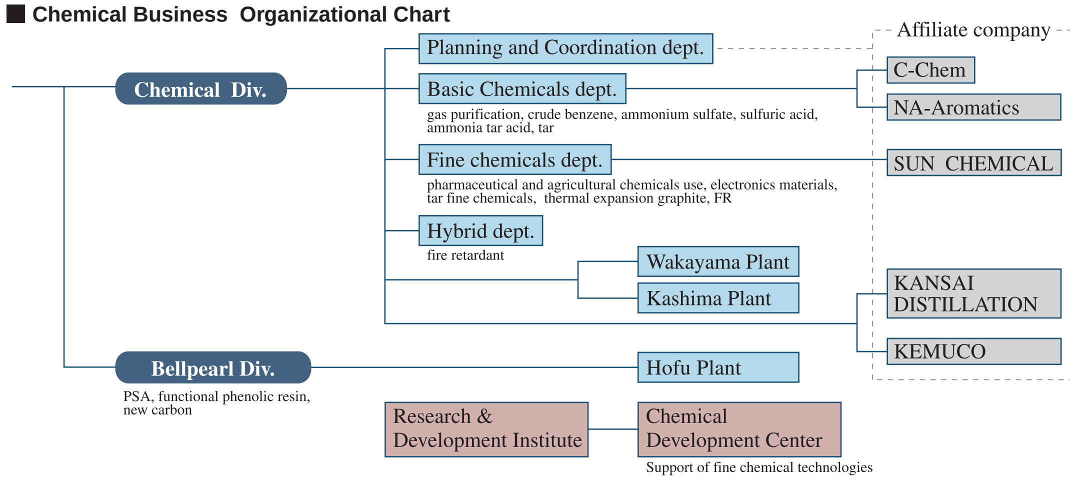
The new business strategy of "hybrid chemicals" offers the potential of continued evolution and expansion utilizing our chemical division's wealth of technology. By integrating functional material development based on magnesia and Bellpearl technology with the capability to develop fine chemical products such as intermediates for pharmaceuticals and agricultural chemicals based on tar chemical technology, we are successfully creating hybrid chemicals for high-growth fields such as the electronics, automotive, and pharmaceutical industries.



A Enhanced R&D through integration of technological resources in core businesses

B Synergy through cross-field collaboration

■ Chemical Business Organizational Chart



A Pioneer in Fine Chemicals through Organic Compound Technology

Air Water Chemical's technology has been inherited by the Basic Chemicals Department and Fine Chemicals Department. These departments have also given AWI a strong position in the steel industry through such technologies as for purifying coke oven gas and distilling the coal tar generated during coke production, and for utilizing useful components.

The Basic Chemicals Department separates and purifies crude benzene, ammonium sulfate, sulfuric acid, and other substances from coke oven gas, and the Fine Chemicals Department uses those substances to produce products such as intermediates for pharmaceuticals and agricultural chemicals and materials for electronic components. The fine chemicals business is at the core of AWI's chemical business.

Tar contains numerous substances with unique properties difficult to obtain from other sources, such as polycyclic aromatic compounds (naphthalene, methyl naphthalene, etc.) and heterocyclic compounds (quinolinic acid, indoles, etc.). Those properties hold great potential for the future, and AWI's fine chemical business involves extraction of those substances to create new functional products. Especially promising are intermediates for pharmaceuticals and agricultural chemicals and electronics materials. AWI contributes to society by responding to the needs of these advanced fields through constant innovation. In August 2005 we constructed a GMP (Good Manufacturing Practice) compliant plant at our Kashima Plant, enabling production of higher value-added products.

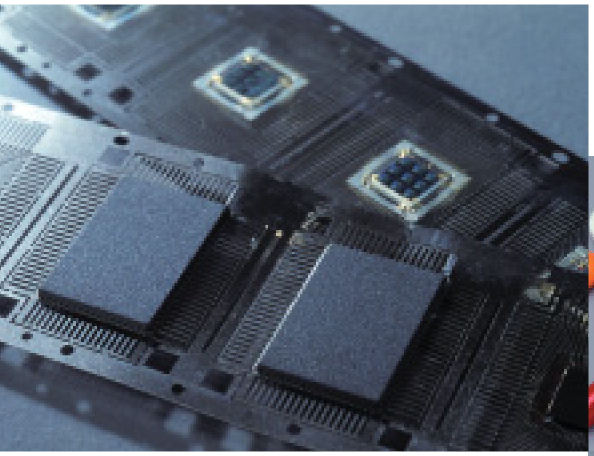
The crude benzene produced by the Basic Chemicals Department is used as a raw material for our BTX business (production and sale of benzene, toluene, and xylene), and the ammonium sulfate is widely used in agricultural chemicals.

Strengthening Our Business through M&As and Alliances

AWI aggressively pursued various mergers and acquisitions and alliances during the past fiscal year to further strengthen our chemical business. In September 2005, through the purchase of shares from four shareholder companies, we acquired as a subsidiary Sun Chemical Co., Ltd., a group company of Tanabe Seiyaku Co., Ltd. Through a synergy of the two company's technologies we are developing a wide range of high-quality pharmaceutical intermediates and electronics materials.

To develop our BTX business in collaboration with Nippon Steel Chemical Co., Ltd., in March 2006 we established NA-Aromatics Co., Ltd. Capitalizing on the synergy of the 3-way collaboration with NA-Aromatics, we are strengthening our production and sales of BTX products while enhancing our competitiveness in both the domestic and overseas markets.

■ **Main products of AWI's chemical business**



Electronic materials

Intermediates for pharmaceuticals and agricultural chemicals

Pigments

Functional materials

GMP compliant plant at Kashima Plant

Bellpearl Business – Developing New Materials through Highly Functional Phenolic Resin Technology

Bellpearl is a newly developed phenolic resin produced by a highly innovative process. Due to its unique properties, Bellpearl has been awarded substance patents both in Japan and internationally. The Bellpearl Division comprises three product areas: Bellpearl, a functional phenolic resin; Bellfine, a functional new carbon; and Bellswing, a PSA (pressure swing absorption) type nitrogen gas generator.

In addition to high heat resistance, high strength, and chemical resistance, Bellpearl also contains no formaldehyde, making it very eco-friendly. It is widely used as a refractory material for steel melting furnaces, in automotive parts, electronic components and formaldehyde-free adhesives, and is attracting attention as a structural material for fuel cells. Bellfine is widely used as a high-performance electrode material and is now under development as an electrode material for hybrid automobiles. Bellfine is also employed as a nitrogen and oxygen separation material in the Bellswing PSA type nitrogen gas generator, which is widely used in such fields as electronics and metalworking, leading the global market for medium-size nitrogen gas generators.

Building on these unique technologies, AWI is developing new materials using functional phenolic resin and sintering technology. Our Hybrid Chemical Department has also inherited Tateho Chemical Industries' flame retardant business, and while expanding the sales network for halogen flame retardant we are also seeking a synergy with related technologies.

Tateho Chemical Industries – Leading the World with One-of-a-Kind Technology

AWI's wholly owned subsidiary Tateho Chemical Industries possesses world-leading, one-of-a-kind technology for the separation and purification of magnesia from seawater. Tateho Chemical has 5 product categories – chemicals, electrofused products, single crystal products, ceramics, and flame retardants – and is the world leader in all of these categories. Tateho Chemical is especially dominant in magnesia for electromagnetic steel plates, magnesia for electrical heating, and single crystal magnesia.

Tateho Chemical's magnesia for electromagnetic steel plates boasts the world's best electromagnetic properties and has captured the top global market share. Demand for magnesia for electrical heating has been rapidly rising in China, and Tateho Chemical has constructed a production plant in Dalian while expanding its sales network not only in China, but also in the EU, Russia, and other markets. Tateho Chemical also leads the market for single crystal magnesia, which is used in PDPs (plasma display panels) and thin-film molded circuit boards for IT-related applications.

Ceramic products produced using electrofused magnesia and electrofused zirconia provide excellent electrical insulation, heat resistance, thermal conductivity, and other properties, and are widely used as industrial materials.

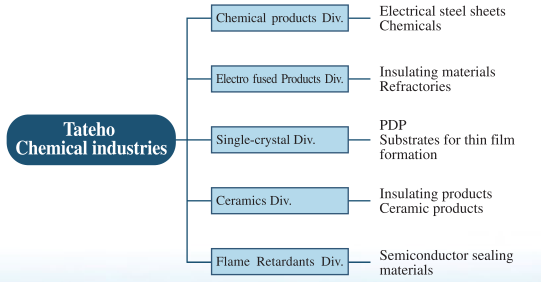
Now that Tateho Chemical Industries is a wholly owned subsidiary, AWI is using the synergy between Tateho's unique products and advanced technologies plus our expertise in organic and inorganic chemicals to push ahead with the development of new hybrid chemicals.

BELLPEARL New Carbon

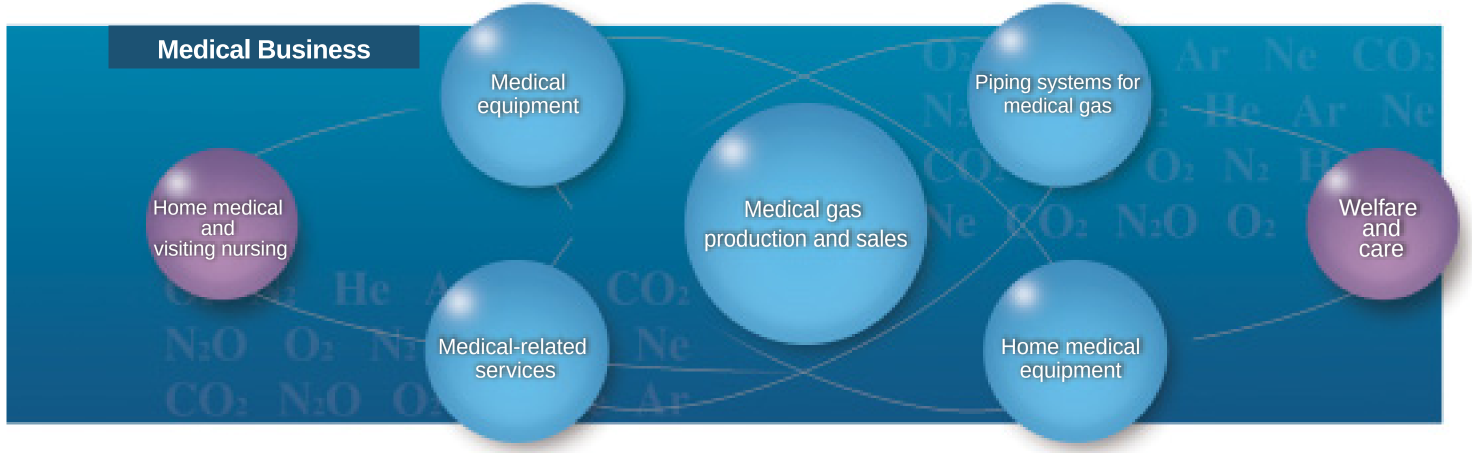
MIRACRYSTAR® single-crystal magnesia

Bellpearl plant at the Hofu Plant

■ **Tateho Chemical Industries - description of business**



Light-burned magnesium oxide　MAGSTAR® magnesium hydroxide



Supporting Better Health and Saving Lives through Fully Integrated Solution Services

AWI boasts the top market share for medical gases, but instead of resting on our laurels we are developing a unique comprehensive medical related business that includes everything from the production and sale of medical devices and equipment to solution services for supporting medical activities, as well as local health care and elderly nursing care services. Through our long support of the medical community and hospital management, we have established strong bonds of trust with healthcare professionals that have been the driving force behind our success in this field.

Through a structural reorganization in June 2006, AWI's medical related business was split into the Medical Business Division and the SPD Division. This clearly defined system facilitates our development of various businesses with complementary roles for enhanced corporate value.

Basic Business Policy

Medical gases have therapeutic properties. Oxygen, synthetic air, and anesthesia gas are vital to saving lives. The same is true of the medical devices and equipment that AWI supplies. Because lives depend on these products, superior quality and prompt service are essential. Recent governmental reforms in the healthcare sector, however, have made conditions more difficult.

To meet the exacting demands of a clinical setting while improving our business performance, AWI has introduced a "complete hospital" business model. Centered around our production and sale of medical gases, this strategy has generated a synergistic effect through the development of new applications and response to diverse hospital needs.

Building on this success, AWI is aiming at sustainable growth for our medical related business, while pursuing closer integration with our chemical business and industrial gas business, such as in the development of pharmaceutical intermediates and new gas applications. With Japan's population now aging faster than in any other country, AWI is also focusing on local medical and elderly nursing care services that capitalize on the relationships of trust we have established with physicians and medical institutions around the nation.

Operating room equipment

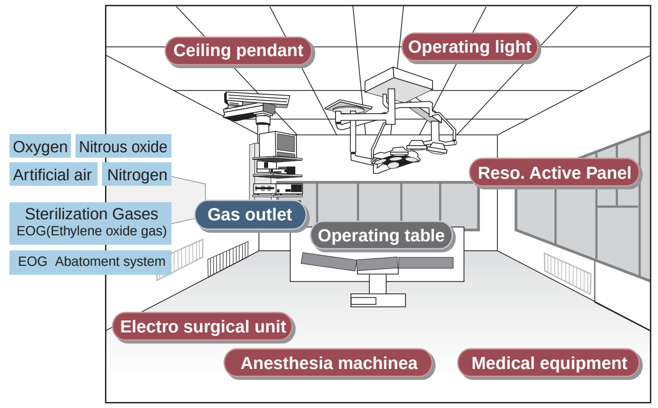
AWI's "Complete Hospital" – a High-priority Business Model

As a supplier of medical gases and manufacturer of respiratory equipment, AWI gives top priority to ensuring safety and a reliable supply. Technological development is vital to keep pace with the advances of modern medicine, so we pursue a wide range of R&D in collaboration with our chemical and industrial divisions.

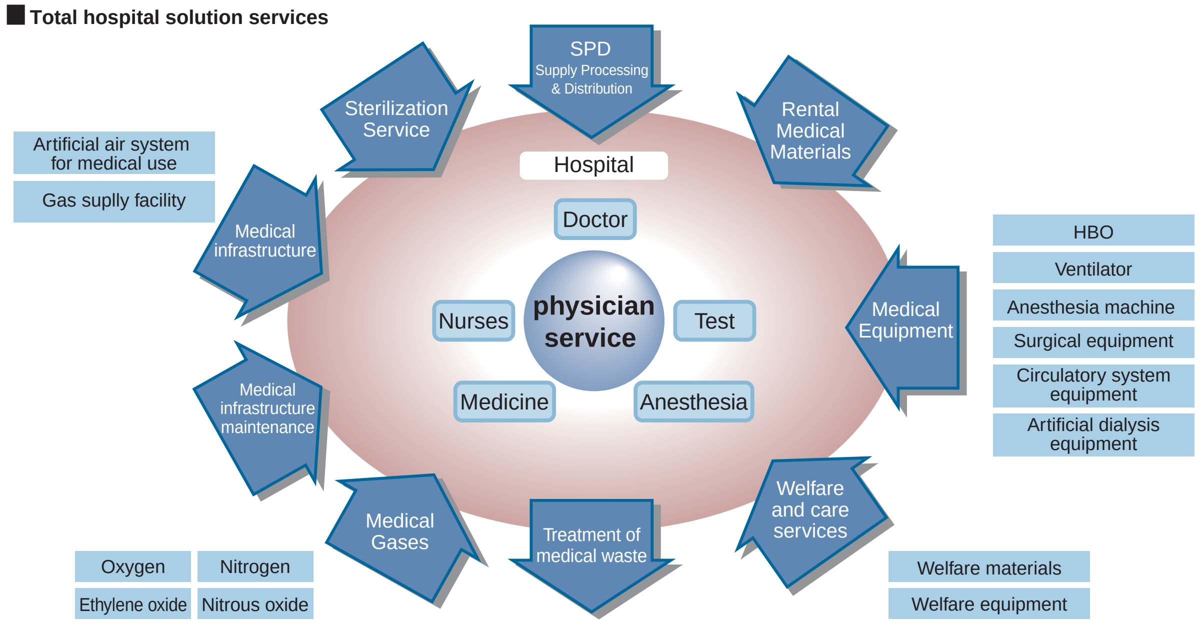
In July 2005 we acquired our affiliate Kawasaki Safety Service Industries, Ltd., and made it a consolidated subsidiary of AWI in August of that same year. Then, in August 2006, we changed the company name to Air Water Safety Service Inc. to clearly position it as an AWI Group company. The resulting synergy of Air Water Safety Service's technology and know-how has further augmented our "complete hospital" business model.

Air Water Safety Service has expertise in the manufacture of medical gas supply systems and other medical equipment, as well as construction of hospital operating rooms and other facilities. Plus it has considerable experience in fire extinguishing equipment and breathing apparatuses used by firefighters and for lifesaving applications. As one of the few companies capable of providing comprehensive services from the construction of hospital in-house gas piping to the construction and outfitting of complete operating rooms, Air Water Safety Service is constructing new facilities at major hospitals.

■ Total hospital business (operating room)



■ Total hospital solution services



Expansion of Our SPD Business and Contract Sterilization Services Business

AWI's solution services business plays a key role in pursuing our "complete hospital" business model. AWI's unique contract sterilization services and SPD (supply, processing, and distribution) services for the medical industry enable hospitals to rationalize management.

An increasing number of hospitals are streamlining their management to concentrate their resources on medical related activities. This has led to more and more hospitals using AWI's unique SPD services and contract sterilization services. AWI is recognized as a pioneer in the field, and over the past fiscal year this business made a strong contribution to our overall performance.

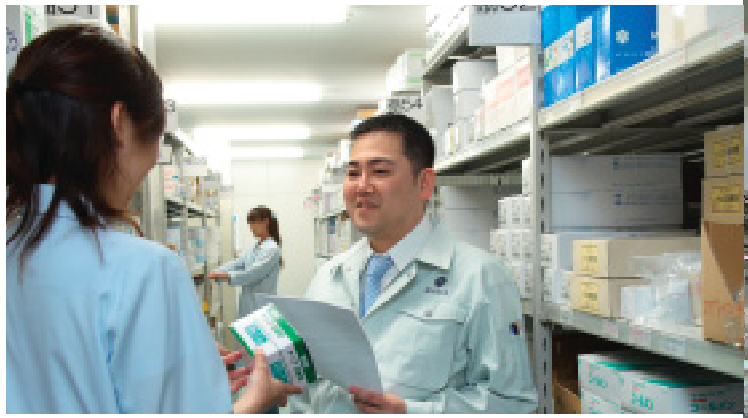
In our SPD business, AWI provides outsourcing for the supply and distribution of the tens of thousands of medical related items that hospitals use, and we also offer medical equipment rental services. By taking advantage of our SPD services, a medical institution can rationalize its non-medical operations and more efficiently utilize hospital staff.

Medical institutions' awareness of our SPD services continues to increase, and in the past fiscal year — the sixth year since launching this business — AWI was operating six outside SPD Centers serving a total of 45 medical institutions nationwide. Our contract sterilization services are being developed both in-hospital and at outside regional Sterilization Centers. We currently have 8 outside centers providing contract sterilization services, with a ninth now under construction in Asahikawa. AWI boasts the top share of the market for contract sterilization services.

■ SPD and Contract Sterilization Services

SPD and Contract Sterilization Services	Location
Medical Centers (both SPD and sterilization services)	Sapporo Kanto Miyagi Shounai
SPD Centers	Yokohama Amagi
Sterilization Centers	Asahikawa (under construction) Niigata Shinano Hirakata Kitakyushu

Kanto Medical Center (SPD and sterilization services)



Shounai Medical Center (SPD and sterilization services)

Nishimura Kikai, a Company with a Proven Track Record in Circulatory System and Dialysis Equipment, Becomes an AWI Subsidiary.

AWI has been actively pursuing mergers and acquisitions and alliances to expand our range of business in medical related fields.

In November 2005 we acquired as a subsidiary Nishimura Kikai Co., Ltd., a Kyoto based medical equipment dealer trusted by many leading medical institutions. The company has a proven track record in circulatory system related equipment and artificial dialysis equipment and supplies, and also offers a range of highly specialized services.

This acquisition enables us to further strengthen our "complete hospital" business in Kyoto and the surrounding region. In the future, a synergy of expertise is expected to expand such businesses as medical gas sales, hospital piping construction, and sales of respiratory and circulatory system related equipment, artificial dialysis equipment, and other medical equipment. That same synergy is also expected to result in a more complete range of medical supplies and more efficient purchasing for AWI's SPD business. Nishimura Kikai's highly experienced staff and extensive network will be extremely useful in the pursuit of new business opportunities.

Medical Business – Medical Gases

Increasing Orders for Synthetic Air Production Systems

Despite the difficult business environment for medical gases, the past fiscal year saw favorable progress in the introduction of synthetic air production systems. AWI has been actively promoting these systems as onsite hospital facilities from the aspect of ensuring a safe, reliable supply of lifesaving gas. Systems have already been introduced at numerous large hospitals throughout Japan, and in the past fiscal year we completed construction and began operation of systems at 5 hospitals.

The supply of medical gases is the core of our "complete hospital" business, and growing synergy is expected with solution services such as contract sterilization and SPD.

Artificial Air System for medical use

Medical Business – Medical Related Equipment

AWI Is a Leader in Respiratory System Related Equipment.

One segment of the medical equipment business that AWI has concentrated on is respiratory system related equipment, which is directly related to medical gases. AWI offers a full lineup of high-pressure oxygen treatment devices, mechanical respirators, incubators, artificial resuscitation systems, and other respiratory system related equipment. We also support home medical care through a wide range of home medical equipment, including portable oxygen ventilators, oxygen concentrators, and mechanical respirators.

Beginning from fiscal 2006, with the addition of Nishimura Kikai as an AWI subsidiary, we will also be focusing on circulatory system related equipment and artificial dialysis equipment, pursuing additional synergy for our medical equipment business.

Open and closed-circulation type incubators

Ventilator

Oxygen concentrator (medical use)

SPD Business — Welfare Services

Establishing a Unique Business Model for Local Medical and Elderly Nursing Care Services

Local medical and elderly nursing care services have become extremely important to Japan's rapidly aging population, and AWI's welfare services related business was quick to respond.

This business is being developed through the trust of the medical community that AWI has earned through our "complete hospital" business. Also important is the trust of the many respiratory disease patients who for years have relied on AWI products to continue their therapy at home.

The know-how obtained through this welfare services business has also been applied in our other medical businesses, such as collaboration with our SPD business and the sale and rental of nursing care products at hospitals. Trust established with local medical institutions has further benefited our medical business.

While AWI's welfare services business has only just gotten started, as the aging of the Japanese population accelerates, we plan to make maximum use of the know-how accumulated to stimulate new business expansion.

Shower equipment for nursing care

As an Energy Service Provider, AWI is Focusing on New Energy Sources

In every aspect of our energy business, AWI is committed to recycling the world's natural resources. In the face of rising crude oil prices and increasing competition in the energy industry, AWI is aiming for continued growth based on our accumulated technology. In new energy fields, AWI has focused on the supply of natural gas (CNG and LNG) and micro co-generation, offering a variety of clean energy options.

Basic Business Policy

AWI's involvement with LPG, an energy source with low environmental impact, began half a century ago. We are strongly committed to supplying clean energy utilizing our LPG technology and high-pressure gas technology. In addition to our LPG business, AWI also supplies natural gas by pipeline to large-volume customers in Chitose, Hokkaido, and has enjoyed steadily improving results in the LNG business and co-generation. In cold areas of Japan such as Hokkaido we propose a "best mix" of energy that includes kerosene for space heating while expanding our handling of peripheral equipment.

Recent areas of focus include the development of natural gas solution technology, such as tank containers for transporting LNG, and the development of fuel cells that employ LPG reforming. We have already begun introducing some of these technologies to the market and will continue to expand their application.

Development of LNG Supply Systems Employing Cryogenic Technology

In response to rising crude oil prices and environmental issues, more companies are switching to natural gas as an industrial fuel, leading to sharply increased demand. In answer to this trend, AWI offers LNG solutions employing our cryogenic technology.

AWI's LNG supply systems include LNG sampling systems for terminals that receive imported LNG via special LNG tankers, various equipment for the LNG users' satellite terminals, equipment for "ecostations" serving LNG/CNG fuel cell powered vehicles, and LNG tank containers for transporting LNG from the terminal to the customer via rail or truck. AWI developed an extra-large 40-foot LNG tank container that employs a composite vacuum ventilation system for overland transport of LNG, improving transport efficiency and saving energy. Orders for this tank container have been steadily increasing since its introduction to the market.

LNG is also suitable for producing hydrogen, a next-generation energy source, and such systems are now reaching the stage of practical application.

40-foot LNG tank container

LNG satellite facility

ESCO Business - Additional Synergy with Our Natural Gas Business

AWI is promoting our ESCO systems (co-generation using LPG and natural gas) as a source of clean energy. In addition to large systems for factories, we have developed unique ESCO systems (ET Series) for commercial facilities featuring co-generation of 5 to 25 kW. These systems are sold primarily to hospitals, public welfare facilities, and restaurants. We also offer solution services that include operation management and maintenance. AWI is now developing even smaller systems for household use.

AWI's business of supplying natural gas via pipeline from the Yufutsu gas field near Tomakomai, Hokkaido, to large-volume customers in the Chitose Airport Industrial Complex has been steadily expanding, and we currently supply approximately 6 million cubic meters a year. In the future we aim to achieve even further synergy among our LPG, natural gas, and co-generation technologies and expertise.

MIX – Expanding LPG Solutions

AWI's "Hello Gas" brand LPG is well known among consumers, primarily in Hokkaido, and is widely used in both homes and businesses. We also sell kerosene for space heating in Japan's colder areas, offering a "best mix" of energy sources. Serving as a base for these operations are MIX Showrooms in 10 locations throughout Hokkaido. These interactive showrooms offer a variety of ideas for comfortable living and also feature displays of home appliances and fixtures centering on household energy.

"Better living begins with MIX" – AWI has accumulated years of marketing data for offering energy-related advice matched to our customers' lifestyles, such as on equipment inspection and maintenance and switching to more energy efficient appliances, generating increased demand. Our 24-hour call center helps to ensure safe energy use. In recent years, AWI has also been expanding its service business to include areas served by gas pipelines. We will continue to develop these solution services while offering our customers the best energy mix.

Co-generation system

Spherical LPG tanks

Expanding Our Unique Food Products Business Specializing in High-Quality Frozen Foods plus Ham and Delicatessen Items

AWI's food product business comprises frozen foods that utilize our expertise in cryogenic technology and high-grade ham products from Hokkaido. Our excellent reputation among professionals in the food service industry has enabled us to steadily expand the market. Despite increased costs for marine and livestock products used as raw materials, diversifying consumer tastes, and the deflationary trend of consumer product prices, we are further expanding our sales routes based on our reputation for quality. We have also been pursuing our bath system business, and signed an agreement with Matsushita Electric Works, Ltd. to work together manufacturing and marketing bath systems and other plumbing equipment from October 2006.

Strengthening Sales Routes in the Convenience Store and HMR (Home Meal Replacement) Market

We are developing our food products business under the Shunsetsu brand for the consumer market and the Saveur brand for the commercial market.

The main products of our ham and delicatessen item business are raw ham and bacon that were initially sold only in Hokkaido. We have been steadily expanding our sales routes nationwide, focusing primarily on ready-to-eat items for convenience stores and commercial use such as restaurant chains. Our newly introduced processed lamb products for "Ghengis Kahn" style barbecuing have filled the commercial market's need for new ingredients, and sales are steadily increasing. We are also expanding our lineup of ham and delicatessen items.

Faced with rising prices for the marine and livestock products used as raw materials, our frozen food business is experiencing difficult market conditions and lower profitability. In response, we have gradually reduced our lineup of marine products, for which price fluctuations are especially volatile, and shifted toward agricultural products such as broccoli and processed products such as smoked foods in an effort to achieve sustainable growth.

We are also expanding sales routes for our ham and delicatessen items and frozen food products in the HMR market, which continues to enjoy steady growth.

Strengthening Our Food Safety Measures and Product Development

With increasing consumer focus on food safety, we have continued strengthening our safety measures and in the past fiscal year established a Food and Labor Safety Promotion Office and a Food Product Evaluation Center.

Success in the convenience store market requires a product lineup that rapidly responds to changing consumer tastes. We have therefore strengthened the product planning system at our Hayakita Plant, our main facility for producing ham and delicatessen items, to shorten product development lead times. As a result, we have been able to expand our product lineup for the convenience store and HMR market.

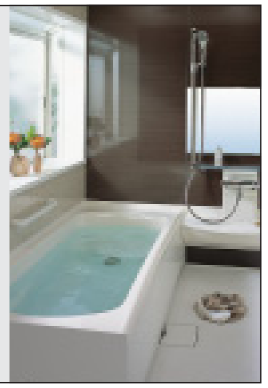
Product lineup

Introduction of HACCP food safety analysis at the Hayakita Plant

Aiming to Expand Our Housing Products Business, AWI Has Launched a Bath Systems Business in Cooperation with Matsushita Electric Works

In May 2006 AWI and Matsushita Electric Works agreed to launch a joint bath systems business, and on October 1, 2006 80% of the outstanding shares of our consolidated subsidiary Air Water Emoto Inc., and all of the outstanding shares of our consolidated subsidiary Air Water Chemical Co., Ltd., will be transferred to Matsushita Electric Works Bath & Life Co., Ltd.

AWI's bath systems business dates back to Hoxan Bath All, a pioneer in home bath systems. We have been expanding our sales routes through an integrated production and sales system, and by providing customers with personalized service. As a comprehensive manufacturer of housing products, Matsushita Electric Works possesses extensive expertise in product and service development and marketing know-how. This joint venture capitalizing on both companies' strengths is expected to further expand our bath systems business.



Comprehensive Third-Party Logistics Services to Meet Customers' Cost Needs

Reducing distribution costs is a common theme throughout the manufacturing industry. In particular, increasing transportation costs due to higher crude oil prices has dampened profits. In response, we have been developing our third-party logistics business based on long-standing relationships of trust with customers, enabling us to meet the need for lower costs through our total distribution support services. Meanwhile, our Ecoroca wood-plastic composite products have come to be widely used in public spaces such as schools and welfare facilities.

Focusing on Price Revisions and Developing Distribution Solutions

In the past fiscal year our logistics business faced severe conditions, including higher costs for diesel fuel, ferry freightage and tires, as well as increased expenses for vehicle modifications to meet stricter environmental regulations. To reduce transport costs we had to carry out further rationalization.

AWI was quick to introduce "solution logistics" through comprehensive outsourcing services to assist our customers in reducing costs, and in the past fiscal year we aggressively worked to increase sales by consolidating our third-party logistics business.

Through this integration of our logistics know-how, utilizing our distribution centers as bases, AWI is now able to accept contracts for complete logistics services for everything from imports and domestic delivery to production and sales. This system was made possible by our comprehensive logistics know-how and network for gas and related products.

Ebetsu Distribution Center

The Distribution Power of 111 Locations and More Than 2,100 Trucks

AWI's logistics business is supported by a network of 4 consolidated subsidiaries, including Air Water Specialized Transportation Inc., and 55 affiliated distribution companies. With our 111 locations, the locations of affiliates, and more than 2,100 trucks, we are able to offer complete services from customs clearance to final product shipment.

Utilizing this distribution capability, in Hokkaido we are developing our third-party logistics business for handling the distribution operations of major supermarket chains and joint delivery services for livestock feed. We are also pursuing other business activities to meet customer needs, such as developing low-cost CS (Cost Support) liner services by utilizing small-to-medium cargo consolidation shipments.

Utilizing our patented low-temperature transport technology, for many years we have been providing outsourcing services for the transport of plasma and NAT (nucleic amplification test) samples for the Japan Red Cross.

Expanding the Sales Routes for Our Ecoroca Recycled Wood-based Building Material

AWI's Ecoroca is a new wood-plastic composite material made using recycled factory and construction wood waste. This hit product was developed with the aim of achieving zero emissions. It has the warmth and feel of natural wood and boasts excellent water resistance, weather resistance, and durability. After use it can be crushed and recycled again.

In addition to wood decking for homes, the market for Ecoroca is also expanding for public spaces such as schools, welfare facilities, park boardwalks, and building rooftop areas. AWI has also developed a wall material using recycled waste wood and we are developing applications for it as an interior and exterior building material.

In 2005, in recognition of its exceptional environmental friendliness, Ecoroca was authorized by the Japan Environment Association to display the "Eco Mark." And in recognition of the Mito Plant's efforts to achieve zero emissions, it was designated as a "Good Recycler Business" by Ibaragi Prefecture.

Construction using Ecoroca
(Toyosu Campus of Shibaura Institute of Technology)

Creating New Business and Expanding through Our Integrated R&D Center

Air and water are the two main raw materials that support AWI's various businesses. While they may seem inexhaustible, these raw materials are actually limited in supply just as any other natural resource. However, there is no limit on imagination and innovation. Through the synergy of our technologies and know-how, AWI is creating new business and expanding existing business while efficiently utilizing these limited natural resources.

Further Innovation in Air Separation Technology

Air separation technology is AWI's core technology. Developed in collaboration with Shinko Air Water Cryoplant, the large-scale cryogenic air separation plant completed at the Wakayama Plant in March 2006 boasts revolutionary energy efficiency. The VSU liquid oxygen and liquid nitrogen cogeneration plant at the Kumamoto Plant is another state-of-the-art air separation system with exceptional energy-saving technology. AWI is constantly upgrading the performance of our V1 high-purity nitrogen generator, V2 oxygen generator, V3 combined oxygen-nitrogen generator, and VSU. For example, by employing multiple purifiers, we increased the V1's nitrogen recovery rate by 1.5 fold while reducing energy consumption.

The V2 and V3 - Pioneering new markets through unique technology

Hydrogen Generating Systems Equipped with Revolutionary Technology

Hydrogen is seen as a 21st century energy source, and there is a rush to develop hydrogen generating technology. As a leading industrial gas producer, AWI was quick to begin work on such technology, and our first system is now being used by a major steel company. The system generates hydrogen by reforming natural gas and is the world's first practical application of the heat neutralization method for the reforming process, thanks to a high-performance catalyst developed by AWI. The system not only offers a much faster reforming speed, but is much more compact and significantly lowers operating costs.

A hydrogen generator for home-use fuel cells developed by AWI under a research contract for the New Energy and Industrial Technology Development Organization (NEDO, an independent incorporated administrative agency) has cleared NEDO's performance target and is currently undergoing further studies to lower costs.

Hydrogen Production Using Thermo-Neutral Reforming

Development of a Large-scale Pulse Tube Refrigerator in Collaboration with the Railway Technical Research Institute

AWI has developed numerous pulse tube refrigerators, including a pulse tube refrigerator for use as a low temperature generator for air separation systems. We are now collaborating with the Railway Technical Research Institute on the development of a large-scale pulse tube refrigerator, already achieving a cooling capacity of 1 kW at 65° K. This newly developed system was announced at the Cryogenic Society of Japan, where it attracted interest for its high potential capacity. AWI is now working to achieve even higher capacity and greater efficiency.

Concentration and Recovery System for PFCs Contributing to Global Warming

PFCs strongly contribute to global warming. We developed a concentration and recovery system for PFCs used as etching gases that is enjoying growing sales to semiconductor manufacturers. We are now working to establish PFC purification technology using a special absorbent material developed by our chemical research department that will enable purification of recovered PFCs for reuse.

In the area of semiconductors, AWI is conducting research in collaboration with Osaka Prefecture University to develop composite semiconductor substrates for combination photo-electronic devices. We have already succeeded in developing the world's first technology for the epitaxial growth of GaN (gallium nitride) on a large-diameter 8-inch SiC (silicon carbide) substrate, and are now working toward practical application.

Vacuum Chemical Epitaxy for Silicon Equipment

Developing Hybrid Chemicals for our Chemical Division

With the reorganization of our chemical related business, AWI's Integrated R&D Center has begun research to develop hybrid chemicals. AWI is developing new technologies and products in various fields, including basic chemicals derived from tar chemicals, fine chemicals such as pharmaceutical and agricultural intermediates using polycyclic aromatic compounds and film materials for LCD panels employing liquid-phase air oxidation technology, Bellpearl products using functional phenolic resin technology, and magnesia products utilizing inorganic crystallization technology. At the same time we are seeking to establish hybrid chemicals through a synergistic effect among these various fields.

New Carbon

Participation in the University of Tokyo Hospital's "22nd Century Medical Center Project"

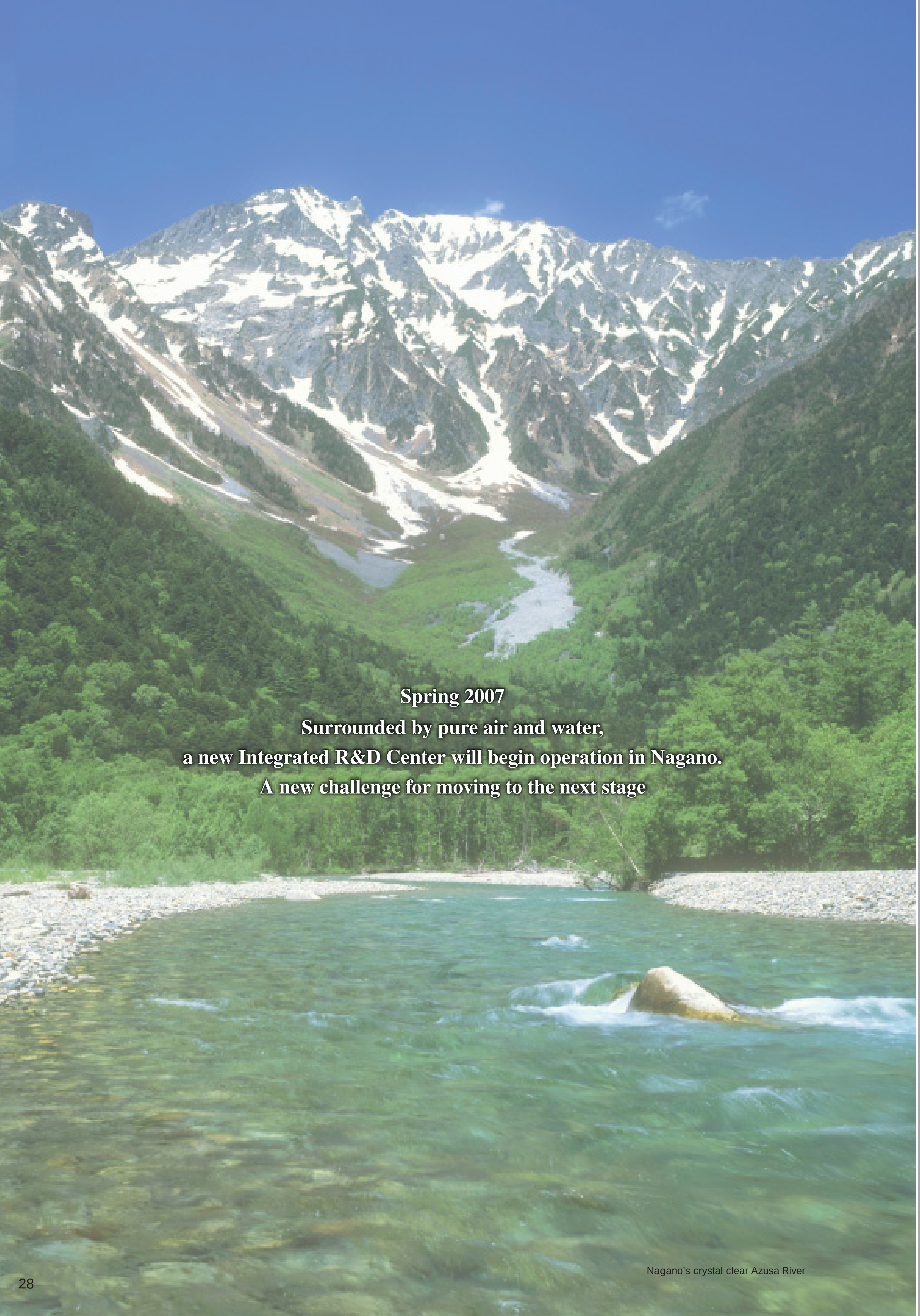
As a supplier of medical gases, AWI is actively participating in the "Healthcare Environment Management" subproject of the "22nd Century Medical Center Project" sponsored by the University of Tokyo Hospital.

With the rapid increase of emergent and re-emergent infectious diseases such as HIV, SARS, and multidrug-resistant bacteria, environment management for operating rooms, ICUs, ward rooms, and entire hospitals has become increasingly important. In order to establish sterilization standards suitable for Japan's medical environment and devise measures for preventing in-hospital infection, we have contracted the University of Tokyo's Environmental Medicine Department and related departments to evaluate the performance of the latest medical instrument sterilization equipment.

AWI has also developed and is marketing products such as low-temperature containers for the controlled storage of blood and blood products and biological materials, and a highly energy-efficient oxygen concentrator for home medical use.

Launching of a New Integrated R&D Center

On July 7, 2006, AWI held a groundbreaking ceremony for the construction of a new Integrated R&D Center at our Shinano facility in Matsumoto City, Nagano Prefecture. Scheduled to begin full operation in fiscal 2007, this new R&D Center will become a core facility of our R&D department. It is expected to increase both the speed and efficiency of our R&D activities. This new Integrated R&D Center will also enable us to conduct R&D in a wide range of fields, including semiconductors, chemicals, medical products, and hybrid materials, and through collaboration and synergy we expect to create new technologies that will become the seeds of new business.



Nagano's crystal clear Azusa River

FINANCIAL SECTION

Corporate Profile

CONTENTS

Management Discussion and Analysis of Operating Results and Financial Condition

The following discussion of the AWI Group's business results and financial condition is based on management's understanding of current circumstances as of March 31, 2006.

1 Business Overview

Net Sales

Net sales increased by 58,340 million yen (18.3%) from 317,966 million yen to 376,306 million yen.

The Industrial Business Group posted sales of 169,172 million yen, an increase of 33,424 million yen (24.6%) from 135,748 million yen for the previous year. The Medical Business Group posted sales of 42,591 million yen, an increase of 12,277 million yen (40.5%) from 30,314 million yen for the previous year. The Energy Business Group posted sales of 46,733 million yen, an increase of 6,014 million yen (14.8%) from 40,718 million yen for the previous year. The Consumer Products Group posted sales of 29,399 million yen, an increase of 478 million yen (1.7%) from 28,920 million yen for the previous year. The Chemical Business Group posted sales of 66,213 million yen, an increase of 6,889 million yen (11.6%) from 59,324 million yen for the previous year. The Other Business Group posted sales of 22,198 million yen, a decrease of 743 million yen (3.2%) from 22,942 million yen for the previous year.

Costs of Sales and Selling, General and Administrative (SG&A) Expenses

Costs of sales rose by 49,215 million yen from 235,303 million yen to 284,517 million yen. SG&A expenses rose by 6,848 million yen from 64,528 million yen to 71,376 million yen.

Operating Income

Operating income totaled 20,413 million yen, an increase of 2,278 million yen (12.6%) from 18,135 million yen for the previous fiscal year.

The Industrial Business Group reported operating income of 14,088 million yen, an increase of 2,152 million yen (18.0%) from 11,936 million yen for the previous year. The Medical Business Group reported operating income of 2,014 million yen, an increase of 532 million yen (35.9%) from 1,482 million yen for the previous year. The Energy Business Group reported operating income of 1,631 million yen, an increase of 32 million yen (2.0%) from 1,598 million yen for the previous year. The Consumer Products Group reported an operating loss of 394 million yen, a worsening of 300 million yen from the operating loss of 94 million yen for the previous year. The Chemical Business Group reported operating income of 2,319 million yen, a decrease of 21 million yen (0.9%) from 2,340 million yen for the previous year. The Other Business Group reported operating income of 755 million yen, a decrease of 118 million yen (13.5%) from 873 million yen for the previous year.

Other Income and Expenses

Net other expenses totaled 1,187 million yen compared with 4,591 million yen for the previous fiscal year.

Income Before Taxes and Minority Interest

Income before taxes and minority interest increased by 5,682 million yen to 19,225 million yen from 13,544 million yen for the previous fiscal year.

Income Taxes

Income taxes totaled 8,472 million yen, an increase of 3,889 million yen from 4,583 million yen for the previous fiscal year.

Minority Interest

Minority interest decreased by 52 million yen to 1,106 million yen from 1,158 million yen for the previous fiscal year.

Net Income

Net income increased by 1,845 million yen (23.6%) to 9,648 million yen from 7,803 million yen for the previous fiscal year. As a result, net income per share rose from 50.73 yen to 61.93 yen, return on equity (ROE) improved from 10.7% to 11.5%, and return on assets (ROA) improved from 7.0% to 7.5%.

2 Financial Condition

Current Assets

Current assets totaled 132,477 million yen, an increase of 15,542 million yen from 116,935 million yen at the end of the previous fiscal year. The increase was attributable primarily to an increase of 12,750 million yen in notes and accounts receivable due to business expansion and newly consolidated companies such as Kawasaki Safety Service Industries, Ltd., Nishimura Kikai Co., Ltd., and Sun Chemical Co., Ltd., and to an increase of 2,162 million yen in inventory.

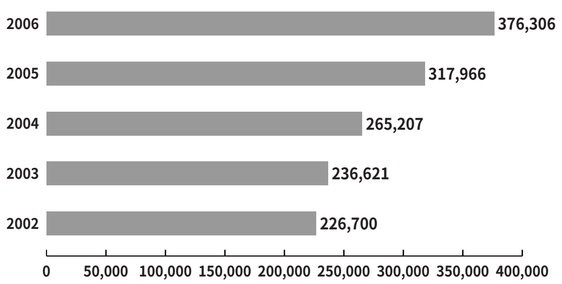
Fixed Assets

Fixed assets totaled 173,889 million yen, an increase of 17,360 million yen from 156,529 million yen for the previous fiscal year. The increase was attributable primarily to an increase of 6,552 million yen in machinery, equipment, and vehicles due to active capi-

(For the years ended March 31)

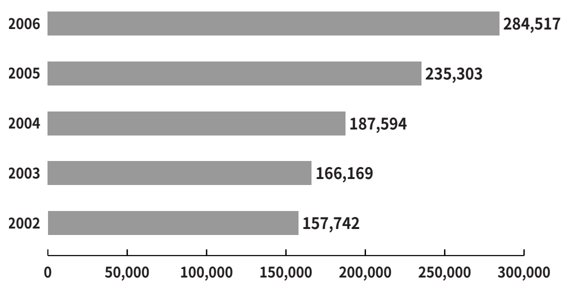
Net sales

(Millions of yen)



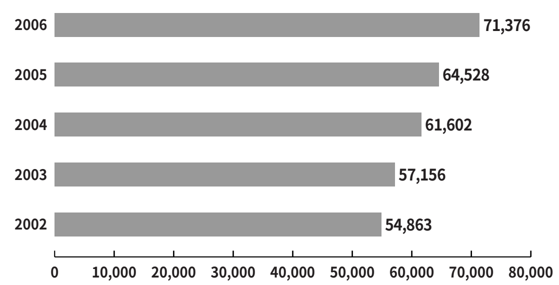
Cost of sales

(Millions of yen)



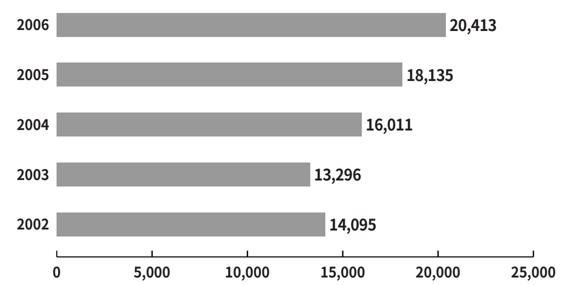
Selling, general and administrative expenses

(Millions of yen)



Operating income

(Millions of yen)



tal investment and to an increase of 5,566 million yen in investment securities.

Total Assets
Total assets increased by 32,903 million yen to 306,366 million yen from 273,464 million yen for the previous fiscal year.

Current Liabilities
Current liabilities totaled 134,325 million yen, an increase of 22,161 million yen from 112,164 million yen for the previous fiscal year. The increase was attributable primarily to an increase of 4,925 million yen in notes and accounts payable and an increase of 13,961 million yen in short-term borrowings.

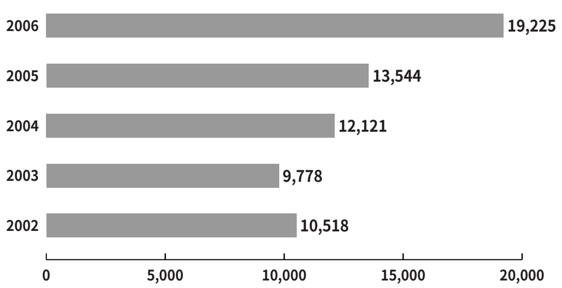
Long-term Liabilities
Long-term liabilities totaled 73,631 million yen, a decrease of 5,399 million yen from 79,031 million yen for the previous fiscal year. The decrease was attributable primarily to a decrease of 2,300 million yen in convertible bonds with stock acquisition rights as a result of the conversion of yen-denominated zero coupon convertible bonds with stock acquisition rights due in 2009 through the exercise of those stock acquisition rights and to a decrease of 8,191 million yen in long-term debt, partially offset by an increase of 3,047 million yen in deferred tax liabilities.

Total Liabilities
Total liabilities increased by 16,762 million yen to 207,956 million yen from 191,194 million yen for the previous fiscal year.

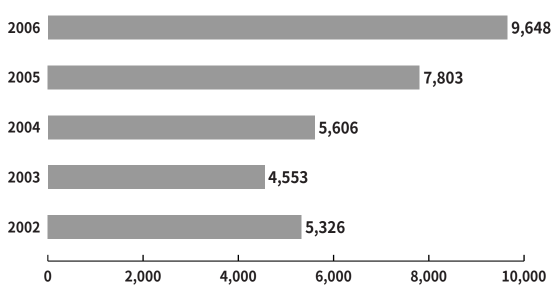
Interest-bearing Debt
Interest-bearing debt totaled 105,273 million yen, an increase of 7,163 million yen from 98,110 million yen for the previous fiscal year. The ratio of interest-bearing debt decreased to 34.4%.

Shareholders' Equity
As a result of an increase of 9,648 million yen in net income, an increase of 2,300 million yen due to the conversion of convertible bonds with stock acquisition rights through the exercise of those stock acquisition rights, an increase of 1,927 million yen due to the exchange of stock with Tateho Chemical Industries Co., Ltd. as part of the reorganization of our Chemical Business Group, an increase of 3,031 million yen in net unrealized holding gains on securities, and other factors, shareholders' equity increased by 14,109 million yen to 90,894 million yen from 76,784 million yen for the previous fiscal year. Consequently, shareholders' equity per share stood at 559.94 yen, an increase of 53.42 yen from 506.52 for the previous year, and the equity ratio rose from 28.1% to 29.7%

Income before income taxes and minority interest (Millions of yen)



Net income (Millions of yen)



3 Cash Flows

Cash Flows from Operating Activities
Net cash flow from operating activities, calculated as income before taxes and minority interest of 19,225 million yen plus depreciation of 13,267 million yen less income taxes paid of 8,040 million yen, totaled 23,511 million yen. While income before taxes increased in comparison with the previous fiscal year, as a result of increased operating capital investment outlays due to business expansion, the increase in net cash flow from operating activities was limited to 1,636 million yen.

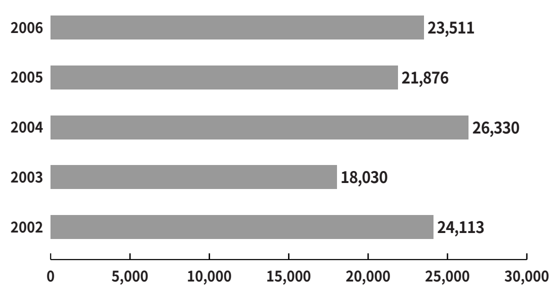
Cash Flows from Investment Activities
As a result of aggressive investment in new gas production equipment for the Industrial Business Group, including a large-scale oxygen plant at the Wakayama Plant and a V3 oxygen-nitrogen gas generator at the Kokura Plant, for the acquisition of home-care oxygen generators in the Medical Business Group, and for the installation of new GMP (Good Manufacturing Practice) equipment in the Chemical Business Group, cash outlays for plant and equipment totaled 22,505 million yen. Cash outlays for business investments, including the acquisition and consolidation of Kawasaki Safety Service Industries, Ltd., and the acquisition of Nishimura Kikai Co., Ltd., Sun Chemical Co., Ltd., and Takayasu Industry, Co., Ltd., totaled 2,802 million yen. As a result, net cash used in investment activities totaled 21,903 million yen. In comparison with the previous fiscal year, this represented an increase in cash outlays of 296 million yen, primarily due to increased investment in plant and equipment.

Cash Flows from Financing Activities
Proceeds from financing activities totaled 656 million yen, representing an increase of 1,773 million yen in net cash flow in comparison with the previous fiscal year.

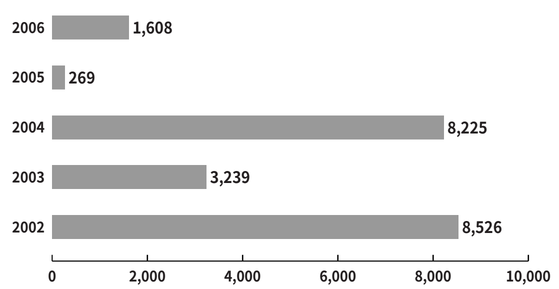
Cash and Cash Equivalents
As a result of the above cash flows, the balance of cash and cash equivalents at the end of the fiscal year was 12,876 million yen, an increase of 2,519 from the previous year.

(For the years ended March 31)

Cash flows from operating activities (Millions of yen)



Free cash flows (Millions of yen)



4 Risk Factors

The primary risk factors that may affect the AWI Group in conducting its business are described below. Forward-looking statements in the following discussion are based on judgments at the close of the fiscal year ending March 31, 2006.

Market

The oxygen, nitrogen, and other industrial gases produced and sold by the AWI Group are used by major customers in the steel, electronics, automobile, and shipbuilding industries. Consequently, industrial gas sales can be affected by demand in these industries, which are supported primarily by the rapid growth in East Asia.

The LPG and kerosene sold by the AWI Group are affected by such factors as contract prices and crude oil prices, and if fluctuations in costs cannot be quickly reflected in sales prices, profits from the sale of LPG and kerosene could be affected.

The costs and market prices of the marine products that comprise some of the frozen food ingredients sold by the AWI Group are affected by fishery catches, and profits can also be affected.

Rising Fuel Expenses

If the prices of kerosene and other fuels increase as a result of higher crude oil prices and other factors, transport expenses, including the costs of kerosene, fuel oil, ocean freight, and air freight, will increase. If these increased costs cannot be passed on to the customer, profits could be affected.

Drug Reimbursement Prices

The AWI Group supplies medical gases and provides services to medical institutions, and sales of those products and services could be affected by revision of the national insurance drug reimbursement prices.

Safety and Quality

The AWI Group produces and sells high-pressure gases and other products in compliance with the High Pressure Gas Safety Law and the LPG Law, so the Group's operating results and financial condition could be affected in the event of an industrial accident or similar event. The AWI Group produces, imports, and sells medical gases and medical equipment in compliance with the Pharmaceutical Affairs Law, so the Group's operating results and financial condition could be affected in the event of a product defect resulting in a recall or liability compensation. The AWI Group produces and sells frozen foods, ham, and delicatessen items in compliance with the Food Sanitation Law, the JAS (Japan Agricultural Standards) Law (labeling standards), and other relevant laws and regulations, so the Group's operating results and financial condition could be affected in the event of a quality issue or other problem resulting in a loss of consumer trust.

Business Investment

The AWI Group has been actively expanding its business in recent years through mergers and acquisitions, and the Group's operating results and financial condition could be affected in the event that these investments do not perform as anticipated.

Competitors

The AWI Group's business groups all compete with a variety of other companies, and there is also potential competition risk from new companies entering each of our fields of business. As a result, the Group's operating results and financial condition could be affected if measures such as business expansion and cost reductions are not implemented in a timely manner in response to that competition.

Environmental Regulations

The AWI Group's business operations are subject to environmental laws and regulations in Japan and other countries, and while all operations are conducted in full compliance with those laws and regulations, in the event that stricter requirements are enforced as a result of revised or newly implemented environmental laws and regulations, the Group's operating results and financial condition could be affected due to the increased cost of compliance.

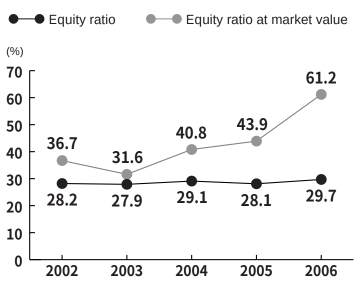
Natural Disasters

In the event that a natural disaster such as an earthquake causes serious damage to the AWI Group's production facilities and results in a significant loss of production capacity or a delay in production operations, the Group's operating results and financial condition could be affected.

The AWI Group also faces various other potential risks; the risks discussed here do not represent all of the potential risks.

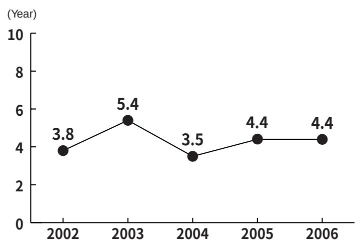
(For the years ended March 31)

Equity ratio and equity ratio at market value



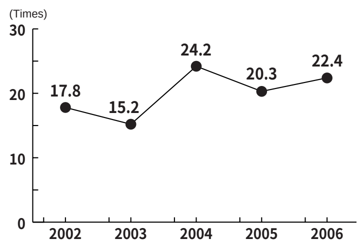
Equity ratio : Shareholders equity/total assets
Equity ratio at market value : Market capitalization/total assets

Debt repayment period



Interest bearing loans/operating cash flow

Interest coverage ratio



Operating cash flow/interest payments

1. All indicators are calculated using consolidated financial figures.
2. Market capitalization is calculated by multiplying the stock closing price at the end of the fiscal year by the number of shares outstanding on that date.
3. The figures for cash flows from operating activities use the figures from the Consolidated Statements of Cash Flows. The figure for interest-bearing debt represents all debt on which interest is paid from among the liabilities recorded in the Consolidated Balance Sheets. The figure for interest paid uses the figure for interest paid from the Consolidated Statements of Cash Flows.

Consolidated Balance Sheets

AIR WATER INC.   As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
ASSETS			
Current assets:			
Cash on hand and in banks (Notes 3 and 7)	\ 12,989	\ 11,023	$ 110,573
Marketable securities (Note 5)	362	5	3,082
Notes and accounts receivable - trade	81,601	68,851	694,654
Inventories (Note 4)	23,988	21,826	204,205
Short-term loans receivable	4,999	5,288	42,556
Deferred tax assets (Note 9)	2,688	2,467	22,882
Other current assets	6,250	7,700	53,205
Allowance for doubtful accounts	(400)	(225)	(3,405)
Total current assets	\132,477	116,935	1,127,752
Property, plant and equipment (Note 7):			
Land (Note 6)	36,791	34,557	313,195
Buildings and structures	67,471	61,882	574,368
Machinery and equipment	95,349	85,212	811,688
Construction in progress	4,456	4,640	37,933
Other	52,683	49,877	448,480
	256,750	236,168	2,185,664
Less accumulated depreciation	139,816	129,973	1,190,227
Total property, plant and equipment	116,934	106,195	995,437
Investments and other assets:			
Investment securities (Notes 5 and 7)	28,490	22,924	242,530
Investment in partnerships	1,132	936	9,637
Deferred tax assets (Note 9)	2,587	2,343	22,023
Deferred tax assets related to revalued land (Note 6)	3,291	3,604	28,016
Other assets (Note 7)	22,532	22,310	191,810
Allowance for doubtful accounts	(1,077)	(1,783)	(9,169)
Total investments and other assets	56,955	50,334	484,847
Total assets	\306,366	\273,464	$2,608,036

The accompanying notes to consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes and accounts payable:			
Trade (Note 7)	\ 59,389	\ 54,464	$ 505,567
Construction	4,683	3,495	39,865
Short-term borrowings, including current portion of long-term debt (Note 7)	49,285	32,010	419,554
Accrued expenses	10,085	9,517	85,852
Income taxes payable (Note 9)	3,582	4,372	30,493
Other current liabilities	7,301	8,306	62,152
Total current liabilities	134,325	112,164	1,143,483
Long-term liabilities:			
Long-term debt due after one year (Note 7)	55,987	66,100	476,607
Deferred tax liabilities (Note 9)	5,611	2,564	47,765
Deferred tax liabilities related to revalued land (Note 6)	280	282	2,384
Employees' severance and pension benefits (Note 19)	7,635	5,808	64,995
Directors and statutory auditors' retirement benefits	1,913	1,800	16,285
Other long-term liabilities	2,205	2,477	18,771
Total long-term liabilities	73,631	79,031	626,807
Contingent liabilities (Note 12)			
Minority interests	7,516	5,485	63,982
Shareholders' equity (Note 10):			
Common stock			
Authorized - 480,000,000 shares			
Issued - 162,524,257 shares in 2006	16,664	15,514	141,857
- 151,700,942 shares in 2005			
Capital surplus	15,144	12,024	128,918
Retained earnings (Note 20)	58,830	52,185	500,809
Land revaluation difference (Note 6)	(4,638)	(5,094)	(39,482)
Net unrealized holding gains on securities	5,624	2,593	47,876
Foreign currency translation adjustments	(408)	(237)	(3,473)
Treasury stock, at cost	(322)	(201)	(2,741)
2006 - 465,719 shares			
2005 - 351,603 shares			
Total shareholders' equity	90,894	76,784	773,764
Total liabilities, minority interests and shareholders' equity	\306,366	\273,464	$2,608,036

Consolidated Statements of Income

AIR WATER INC. Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	**2005**	**2006**
Net sales	**\376,306**	\317,966	**$3,203,422**
Cost of sales	**284,517**	235,303	**2,422,040**
Selling, general and administrative expenses	**71,376**	64,528	**607,610**
Operating income	**20,413**	18,135	**173,772**
Other income (expenses):			
Interest and dividend income	**351**	279	**2,988**
Interest expense	**(1,044)**	(1,076)	**(8,887)**
Equity in earnings of non-consolidated subsidiaries and affiliates	**1,498**	385	**12,752**
Gain on sale of property, plant and equipment	**123**	62	**1,047**
Gain on sale of investment securities	**348**	183	**2,962**
Loss on sale and disposal of property, plant and equipment	**(674)**	(983)	**(5,738)**
Loss on impairment of fixed assets (Note 16)	**(1,247)**	–	**(10,615)**
Losses on sale of investments (Note 13)	**(14)**	(63)	**(119)**
Losses on devaluation of investments (Note 14)	**(95)**	(67)	**(809)**
Amortization of net transition obligation of employee retirement benefit plans	**–**	(1,358)	**–**
Loss on liquidation of affiliated company (Note 15)	**–**	(1,568)	**–**
Additional early retirement benefits	**(17)**	(55)	**(145)**
Loss on disposal of inventories	**(204)**	(287)	**(1,737)**
Other-net	**(213)**	(43)	**(1,812)**
Income before income taxes and minority interest	**19,225**	13,544	**163,659**
Income taxes (Note 9):			
Current	**6,655**	6,848	**56,653**
Deferred	**1,816**	(2,265)	**15,459**
	10,754	8,961	**91,547**
Minority interest	**(1,106)**	(1,158)	**(9,415)**
Net income	**\ 9,648**	\ 7,803	**$ 82,132**

	yen		U.S. dollars (Note 1)
	2006	**2005**	**2006**
Per share of common stock:			
Net income - basic	**\61.93**	\50.73	**$0.53**
Net income - diluted	**54.17**	48.05	**0.46**
Cash dividends applicable to the year	**17.00**	14.00	**0.14**

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

AIR WATER INC. Years ended March 31, 2006 and 2005

		Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized holding gains on securities	Foreign currency translation adjustment	Treasury stock
Balance as of March 31, 2004	151,700,942	¥15,514	¥12,023	¥46,459	¥(5,181)	¥1,256	¥(225)	¥(125)
Net income	–	–	–	7,803	–	–	–	–
Surplus from sale of treasury stock	–	–	1	–	–	–	–	–
Foreign currency translation adjustments	–	–	–	–	–	–	(12)	–
Change in treasury stock	–	–	–	–	–	–	–	(76)
Increase in retained earnings due to newly consolidated subsidiaries	–	–	–	15	–	–	–	–
Decrease in retained earnings due to newly consolidated subsidiaries	–	–	–	(215)	–	–	–	–
Decrease in retained earnings due to affiliated companies changes in accounted for by the equity method	–	–	–	(2)	–	–	–	–
Decrease resulting from merger	–	–	–	(42)	–	–	–	–
Cash dividends paid	–	–	–	(1,666)	–	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(75)	–	–	–	–
Land revaluation difference	–	–	–	(87)	87	–	–	–
Net unrealized holding gains on securities	–	–	–	–	–	1,337	–	–
Other	–	–	–	(5)	–	–	–	–
Balance as of March 31, 2005	151,700,942	¥15,514	¥12,024	¥52,185	¥(5,094)	¥2,593	¥(237)	¥(201)
Net income	**–**	**–**	**–**	**9,648**	**–**	**–**	**–**	**–**
Stock swap	**8,239,047**	**–**	**1,927**	**–**	**–**	**–**	**–**	**–**
Exercise of stock acquisition rights	**2,584,268**	**1,150**	**1,150**	**–**	**–**	**–**	**–**	**–**
Surplus from sale of treasury stock	**–**	**–**	**43**	**–**	**–**	**–**	**–**	**–**
Foreign currency translation adjustments	**–**	**–**	**–**	**–**	**–**	**–**	**(171)**	**–**
Change in treasury stock	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(121)**
Decrease in retained earnings due to newly consolidated subsidiaries	**–**	**–**	**–**	**(65)**	**–**	**–**	**–**	**–**
Decrease resulting from merger	**–**	**–**	**–**	**(87)**	**–**	**–**	**–**	**–**
Cash dividends paid	**–**	**–**	**–**	**(2,270)**	**–**	**–**	**–**	**–**
Bonuses to directors and statutory auditors	**–**	**–**	**–**	**(125)**	**–**	**–**	**–**	**–**
Land revaluation difference	**–**	**–**	**–**	**(456)**	**456**	**–**	**–**	**–**
Net unrealized holding gains on securities	**–**	**–**	**–**	**–**	**–**	**3,031**	**–**	**–**
Balance as of March 31, 2006	**162,524,257**	**¥16,664**	**¥15,144**	**¥58,830**	**¥(4,638)**	**¥5,624**	**¥ (408)**	**¥ (322)**

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized holding gains on securities	Foreign currency translation adjustment	Treasury stock
Balance as of March 31, 2005	$132,068	$102,358	$444,241	$(43,364)	$22,074	$(2,018)	$(1,711)
Net income	**–**	**–**	**82,132**	**–**	**–**	**–**	**–**
Stock swap	**–**	**16,404**	**–**	**–**	**–**	**–**	**–**
Exercise of stock acquisition rights	**9,789**	**9,790**	**–**	**–**	**–**	**–**	**–**
Surplus from sale of treasury stock	**–**	**366**	**–**	**–**	**–**	**–**	**–**
Foreign currency translation adjustments	**–**	**–**	**–**	**–**	**–**	**(1,455)**	**–**
Change in treasury stock	**–**	**–**	**–**	**–**	**–**	**–**	**(1,030)**
Decrease in retained earnings due to newly consolidated subsidiaries	**–**	**–**	**(553)**	**–**	**–**	**–**	**–**
Decrease resulting from merger	**–**	**–**	**(741)**	**–**	**–**	**–**	**–**
Cash dividends paid	**–**	**–**	**(19,324)**	**–**	**–**	**–**	**–**
Bonuses to directors and statutory auditors	**–**	**–**	**(1,064)**	**–**	**–**	**–**	**–**
Land revaluation difference	**–**	**–**	**(3,882)**	**3,882**	**–**	**–**	**–**
Net unrealized holding gains on securities	**–**	**–**	**–**	**–**	**25,802**	**–**	**–**
Balance as of March 31, 2006	**$141,857**	**$128,918**	**$500,809**	**$(39,482)**	**$47,876**	**$(3,473)**	**$(2,741)**

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

AIR WATER INC.   Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interest	¥19,225	¥13,544	$163,659
Depreciation	13,267	11,643	112,939
Loss on impairment of fixed assets	1,247	–	10,615
Amortization of cost in excess of net assets of subsidiaries	508	408	4,325
Decrease in allowance for doubtful accounts	(602)	(89)	(5,125)
Increase (decrease) in retirement benefits	(214)	1,099	(1,822)
Interest and dividend income	(351)	(279)	(2,988)
Interest expense	1,044	1,076	8,887
Equity in earnings of non-consolidated subsidiaries and affiliates	(1,498)	(385)	(12,752)
Gain on sale of property, plant and equipment	(123)	(62)	(1,047)
Loss on sale and disposal of property, plant and equipment	674	983	5,738
Gain on sale of investment securities	(348)	(183)	(2,962)
Losses on sale of investments	14	63	119
Losses on devaluation of investments	95	67	809
Increase in notes and accounts receivable	(5,955)	(7,312)	(50,694)
(Increase) decrease in inventories	3,261	(2,653)	27,760
Increase in notes and accounts payable	933	10,081	7,942
Directors' and statutory auditors' bonuse	(137)	(84)	(1,166)
Other - net	1,121	980	9,544
Subtotal	32,161	28,897	273,781
Interest and dividends received	439	388	3,737
Interest paid	(1,049)	(1,076)	(8,930)
Income taxes paid	(8,040)	(6,333)	(68,443)
Net cash provided by operating activities	¥23,511	¥21,876	$200,145
Cash flows from investing activities:			
Acquisitions of property, plant and equipment	(21,124)	(14,866)	(179,825)
Proceeds from sales of property, plant and equipment	3,218	2,514	27,394
Acquisitions of intangible assets	(1,381)	(1,508)	(11,756)
Purchase of investment securities	(1,522)	(2,234)	(12,956)
Proceeds from sales of investment securities	560	2,078	4,767
Acquisitions of consolidated subsidiaries, net of cash acquired (Note 3)	(1,280)	(7,490)	(10,896)
Disbursement of loans receivable	(1,815)	(653)	(15,451)
Collection of loans receivable	138	729	1,175
Other - net	1,303	(167)	11,092
Net cash used in investing activities	(21,903)	(21,607)	(186,456)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	9,901	(10,692)	84,285
Proceeds from long-term debt	12,447	7,959	105,959
Repayments of long-term debt	(18,152)	(16,338)	(154,525)
Proceeds from issuance of bonds	100	20,100	851
Repayments of bonds	(1,120)	(380)	(9,534)
Purchase of treasury stock	(124)	(80)	(1,056)
Proceeds from sales of treasury stock	183	5	1,558
Cash dividends paid	(2,270)	(1,666)	(19,324)
Cash dividends paid to minority interests	(309)	(126)	(2,630)
Net cash provided by (used in) financing activities	656	(1,118)	5,584
Effect of exchange rate changes on cash and cash equivalents	39	3	332
Net increase (decrease) in cash and cash equivalents	2,303	(846)	19,605
Cash and cash equivalents at beginning of year	10,357	10,284	88,167
Net increase in cash and cash equivalents by merger	89	41	758
Increase in cash and cash equivalents due to newly consolidated subsidiaries	127	878	1,081
Cash and cash equivalents at end of year (Note 3)	¥12,876	¥10,357	$109,611

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

AIR WATER INC.   Years ended March 31, 2006 and 2005

1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2 Summary of significant accounting policies

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (together the "Companies") , over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates over which the Company has the ability to exercise significant influence on operating and financial policies of the investees, are accounted for using the equity method and, accordingly, stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

The number of consolidated subsidiaries was 61 in 2006 and 58 in 2005, and the number of companies accounted for using the equity method was 5 in 2006 and 8 in 2005.

Acquisition cost in excess of the net assets of acquired subsidiaries and affiliates which cannot be specifically assigned to land are amortized on the straight-line basis over periods ranging from 10 years to 20 years in 2006 and 2005.

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion attributable to minority interests is charged/credited to minority interests.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Accounting change

For the year ended March 31, 2006, the Companies adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6) issued by the Accounting Standards Board of Japan on October 31, 2003.

As a result, income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥1,247 million (US$10,615 thousand) for the year ended March 31, 2006.

(2) Securities

Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost.

Available-for-sale securities with available fair market values held by the Company are stated at fair market value based on the average market price in the month before the balance sheet date.

Available-for-sale securities with available fair market values held by the consolidated subsidiaries are stated at year-end fair market value.

Unrealized gains and unrealized losses on available-for-sale securities with available market prices are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities' are computed using moving-average cost.

Available-for-sale securities with no available fair market values are stated at moving-average cost.

If the market value of available-for-sale securities declines significantly and is not expected to recover, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline.

If the fair market value of available-for-sale securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly and is not expected to recover. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(3) Inventories
Inventories are principally stated at average cost.

(4) Derivatives and hedge accounting
The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, and are executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

(5) Property, plant and equipment
Property, plant and equipment are carried at cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives in accordance with income tax laws. Also, buildings acquired after March 31, 1998 are depreciated using the straight-line method.

(6) Administrative software costs
Administrative software costs are recorded principally in other assets and amortized using the straight-line method over an estimated useful life of five years.

(7) Allowance for doubtful accounts
The allowance for doubtful accounts is provided for in an amount sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based upon the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

(8) Retirement benefits
(a) Employees: The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans to supplement a governmental welfare pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet dates.

Actuarial gains and losses are recognized in expenses using the straight-line method within the average of the estimated remaining service lives commencing with the following period. Prior service cost is recognized in expenses using the straight-line method within the average of the estimated remaining service lives commencing with the period incurred.

(b) Directors and Statutory Auditors: the Company and certain consolidated subsidiaries provide for the liability for directors' and statutory auditors' retirement benefits based on the Companies' regulations decided internally in the estimated amount (including the present value of estimated amounts to be paid as pension benefits) to be paid if all directors and statutory auditors retired at the balance sheet date.

(9) Research and development expenses
Research and development expenses, which were ¥2,615 million (US$22,261 thousand) and ¥2,317 million for the years ended March 31, 2006 and 2005, respectively, are charged to income when paid and are included in general and administrative expenses.

(10) Finance leases
Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases under Japanese GAAP.

(11) Translation of foreign currencies
Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

(12) Income taxes
The asset and liability approach is used to recognize deferred tax assets and liabilities for loss carry forwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(13) Reclassifications
Certain prior year amounts have been reclassified to conform to the 2006 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

(14) Cash and cash equivalents
Cash and cash equivalents include cash on hand, readily-available deposits placed with banks on demand and highly liquid investments, with insignificant risk of changes in value, which have maturities of three months or less when purchased.

(15) Per share of common stock
The computations of net income per share are based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is based on the assumption that dilutive convertible bonds were converted at the beginning of the year.

Cash dividends per share presented in the statements of income represent the cash dividends declared as applicable to each year.

3 Statements of cash flows

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash on hand and in banks on the consolidated balance sheets	**\12,989**	\11,023	**$110,573**
Time deposits with maturities exceeding 3 months	**(475)**	(666)	**(4,044)**
Free financial funds	**362**	–	**3,082**
Cash and cash equivalents on the consolidated statements of cash flows	**\12,876**	\10,357	**$109,611**

The assets and liabilities of newly acquired subsidiaries are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Current assets	**\14,472**	\2,638	**$123,197**
Non-current assets	**6,249**	6,489	**53,197**
Current liabilities	**(10,321)**	(4,807)	**(87,861)**
Long-term liabilities	**(3,664)**	(1,621)	**(31,191)**
Cost in excess of net assets of subsidiaries	**53**	7,268	**451**
Minority interests	**(2,839)**	(111)	**(24,167)**
The Companies' share before additional acquisition of stocks	**(39)**	80	**(332)**
Acquisition cost	**3,911**	9,936	**33,294**
Purchase amount of stocks	**1,879**	7,706	**15,995**
Cash and cash equivalents of acquired companies	**(599)**	(216)	**(5,099)**
Net expenditure	**\ 1,280**	\7,490	**$ 10,896**

4 Inventories

Inventories as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Finished goods and merchandise	**\14,869**	\13,721	**$126,577**
Raw materials	**2,176**	1,504	**18,524**
Work in process	**3,546**	950	**30,186**
Contract work in progress	**1,184**	3,590	**10,079**
Supplies	**2,213**	2,061	**18,839**
	\23,988	\21,826	**$204,205**

5 Securities

(1) Available-for-sale securities with available fair market values at March 31, 2006 and 2005 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	Acquisition Cost	Book Value	Difference Gain (Loss)	Acquisition Cost	Book Value	Difference Gain (Loss)	Acquisition Cost	Book Value	Difference Gain (Loss)
			2006			**2005**			**2006**
Securities with book values exceeding acquisition costs:									
Stocks	**\6,050**	**\16,293**	**\10,243**	\5,688	\10,469	\4,781	**$51,502**	**$138,699**	**$87,197**
Corporate bonds	**–**	**–**	**–**	5	5	0	**–**	**–**	**–**
Securities with book values not exceeding acquisition costs:									
Stocks	**208**	**166**	**(42)**	435	365	(70)	**1,771**	**1,413**	**(358)**
Corporate bonds	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
	\6,258	**\16,459**	**\10,201**	\6,128	\10,839	\4,711	**$53,273**	**$140,112**	**$86,839**

(2)The following table summarizes book values of securities with no available fair values as of March 31, 2006 and 2005:
(a) Shares of subsidiaries and affiliates:

	Book value		
	Millions of yen		Thousands of U.S. dollars
Type	**2006**	2005	**2006**
Non-listed shares	**\8,038**	\8,384	**$68,426**

(b) Available-for-sale securities:

	Book value		
	Millions of yen		Thousands of U.S. dollars
Type	**2006**	2005	**2006**
Non-listed shares	**\3,983**	\3,445	**$33,907**
Other	**371**	261	**3,158**
	\4,354	\3,706	**$37,065**

(3) At March 31, 2006 and 2005, available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

	Millions of yen		Thousands of U.S. dollars	
March 31, 2006	Within one year	Over one year but within five years	Within one year	Over one year but within five years
Corporate bonds	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**

	Millions of yen	
March 31, 2005	Within one year	Over one year but within five years
Corporate bonds	\5	–

6 Land Revaluation

On March 31, 2002, in accordance with "The Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land", the Company and a subsidiary revalued land, and the decrease in value, net of income tax effect, was directory charged to shareholders' equity.

The following table summarizes the book value and fair value of the revalued land as of March 31, 2006

	Millions of yen			Thousands of U.S. dollars
	Book value after revaluation	Fair value	Difference	Difference
Revalued land	**\15,896**	**\13,202**	**\2,694**	**$22,934**

7 Short-term borrowings and long-term debt

The weighted average interest rates of short-term borrowings as of March 31, 2006 and 2005, were 0.84% and 0.89%, respectively.
Long-term debt as of March 31, 2006 and 2005 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Loans from banks and insurance companies with interest rates ranging from 0.68% to 5.76% maturing through 2023	**\58,119**	\62,197	**$494,756**
Zero coupon convertible bonds due 2009	**17,700**	20,000	**150,677**
0.42% unsecured bonds due 2008	**560**	840	**4,767**
0.38% unsecured bonds due 2006	**–**	700	**–**
0.78% unsecured bonds due 2007	**100**	100	**851**
1.33% unsecured bonds due 2006	**–**	100	**–**
0.20% unsecured bonds due 2008	**100**	–	**851**
0.82% unsecured bonds due 2009	**140**	–	**1,192**
1.24% unsecured bonds due 2011	**83**	–	**707**
0.51% unsecured bonds due 2008	**136**	–	**1,158**
0.62% unsecured bonds due 2008	**100**	–	**851**
0.97% unsecured bonds due 2010	**100**	–	**851**
	77,138	83,937	**656,661**
Less amount due within one year	**21,151**	17,837	**180,054**
	\55,987	\66,100	**$476,607**

The aggregate annual maturities of long-term debt as of March 31, 2006 are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	**\21,151**	**$180,054**
2008	**12,029**	**102,401**
2009	**12,579**	**107,083**
2010	**20,139**	**171,440**
2011	**8,421**	**71,686**
2012 and thereafter	**2,819**	**23,998**

As of March 31, 2006 the following assets were pledged as collateral for accounts payable of ¥1,227 million (US$10,445 thousand), short-term bank loans of ¥239 million (US$2,035 thousand), and long-term debt of ¥7,184 million (US$61,156 thousand):

	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	¥ 105	$ 894
Land	5,859	49,877
Buildings and structures	4,676	39,806
Machinery, equipment and vehicles	1,365	11,620
Investments securities	1	9
Other (property, plant and equipment)	50	426
Other assets	92	782
	¥ 12,148	$103,414

8 Derivative financial instruments and hedging transactions

The Companies use forward foreign exchange contracts for the purpose of mitigating future risks of fluctuations in foreign exchange rates with respect to import transactions, and use interest rate swap contracts for the purpose of mitigating risks of interest rate changes with respect to long-term debt. The Companies do not use derivative transactions for the purpose of speculation.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:
Hedging instruments: Forward foreign exchange contracts
Interest rate swap contracts
Hedging items: Import transactions
Interest on long-term debt

9 Income taxes

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 40.6% for the years ended March 31, 2006 and 2005.
The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2006 and 2005:

	2006	2005
Statutory tax rate	40.6%	40.6%
Equity in earnings of non-consolidated subsidiaries and affiliates	(3.2)	–
Non-deductible expenses	2.5	2.4
Loss of subsidiaries	1.5	–
Deductions of net operating losses carried forward for tax purposes	(1.3)	1.3
Amortization of cost in excess of net assets of subsidiaries	1.1	–
Per capita inhabitant tax	1.0	(2.0)
Tax effect of liquidation of affiliated company	–	(7.4)
Other	1.9	(1.1)
Effective tax rate	44.1%	33.8%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Retirement benefits	¥4,157	¥3,362	$35,388
Net operating losses carried forward for tax purposes	3,979	4,206	33,872
Loss on liquidation of affiliated company	–	1,520	–
Excess bonuses accrued	1,575	1,088	13,408
Devaluation of investment securities	1,312	1,425	11,169
Accrued enterprise taxes	–	346	–
Allowance for doubtful accounts	453	604	3,856
Other	2,852	1,893	24,279
Total deferred tax assets	14,328	14,444	121,972
Valuation allowance	(4,378)	(4,362)	(37,270)
Net deferred tax assets	9,950	10,082	84,702
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	(4,391)	(4,397)	(37,380)
Net unrealized holding gains on securities	(4,155)	(1,874)	(35,371)
Other	(1,740)	(1,566)	(14,812)
Total deferred tax liabilities	(10,286)	(7,837)	(87,563)
Net deferred tax assets (Net deferred tax liabilities)	¥ (336)	¥ 2,245	$ (2,861)

10 Shareholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its board of directors, account for an amount not exceeding 50% of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for dividends by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code of Japan.

11 Segment information

The Companies are primarily engaged in the manufacture and sale of products in six categories: Industrial business; Medical business; Energy business; Consumer products; Chemical business and Other business.

Information by industry segment for the years ended March 31, 2006 and 2005 is summarized as follows:

Millions of yen

For 2006	Industrial business	Medical business	Energy business	Consumer products	Chemical business	Other business	Elimination and corporate	Consolidated
Net sales:								
Customers	\169,172	\42,591	\46,733	\29,399	\66,213	\22,198	\ –	\376,306
Inter-segment	6,124	78	538	1,025	1,049	12,499	(21,313)	–
Total	175,296	42,669	47,271	30,424	67,262	34,697	(21,313)	376,306
Costs and expenses	161,208	40,655	45,640	30,818	64,943	33,942	(21,313)	355,893
Operating income (loss)	\ 14,088	\ 2,014	\ 1,631	\ (394)	\ 2,319	\ 755	\ –	\ 20,413
Assets	\138,716	\34,733	\27,568	\13,147	\33,803	\36,454	\21,945	\306,366
Depreciation	\ 6,415	\ 1,245	\ 2,229	\ 665	\ 834	\ 1,879	\ –	\ 13,267
Loss on impairment of fixed assets	\116	\ –	\ –	\ 1,015	\ –	\ 116	\ –	\ 1,247
Capital expenditures	\ 14,620	\ 1,786	\ 2,926	\ 387	\ 1,899	\ 2,059	\ –	\ 23,677

Millions of yen

For 2005	Industrial business	Medical business	Energy business	Consumer products	Chemical business	Other business	Elimination and corporate	Consolidated
Net sales:								
Customers	\135,748	\30,314	\40,718	\28,920	\59,324	\22,942	\ –	\317,966
Inter-segment	4,534	73	414	1,028	259	12,616	(18,924)	–
Total	140,282	30,387	41,132	29,948	59,583	35,558	(18,924)	317,966
Costs and expenses	128,346	28,905	39,534	30,042	57,243	34,685	(18,924)	299,831
Operating income (loss)	\ 11,936	\ 1,482	\ 1,598	\ (94)	\ 2,340	\873	\ –	\ 18,135
Assets	\128,309	\23,740	\23,855	\15,117	\33,528	\40,940	\7,975	\273,464
Depreciation	\ 5,106	\ 1,440	\ 2,262	\ 471	\ 644	\ 1,720	\ –	\ 11,643
Capital expenditures	\ 7,023	\ 1,329	\ 3,032	\ 1,321	\ 1,815	\ 2,920	\ –	\ 17,440

Thousands of U.S. dollars

For 2006	Industrial business	Medical business	Energy business	Consumer products	Chemical business	Other business	Elimination and corporate	Consolidated
Net sales:								
Customers	$1,440,130	$362,569	$397,829	$250,268	$563,659	$188,967	$ –	$3,203,422
Inter-segment	52,132	664	4,580	8,726	8,930	106,402	(181,434)	–
Total	1,492,262	363,233	402,409	258,994	572,589	295,369	(181,434)	3,203,422
Costs and expenses	1,372,333	346,088	388,525	262,348	552,848	288,942	(181,434)	3,029,650
Operating income (loss)	$119,929	$ 17,145	$ 13,884	$ (3,354)	$ 19,741	$ 6,427	$ –	$ 173,772
Assets	$1,180,863	$295,675	$234,681	$111,918	$287,759	$310,326	$186,814	$2,608,036
Depreciation	$ 54,610	$ 10,598	$ 18,975	$ 5,661	$ 7,100	$ 15,995	$ –	$ 112,939
Loss on impairment of fixed assets	$ 987	$ –	$ –	$ 8,641	$ –	$ 987	$ –	$10,615
Capital expenditures	$ 124,457	$ 15,204	$ 24,908	$ 3,295	$ 16,166	$ 17,528	$ –	$ 201,558

Corporate assets are mainly comprised of cash and time deposits, marketable securities, investment securities and assets of administrative departments. Corporate assets as of March 31, 2006 and 2005 were ¥54,180 million (US$461,224 thousand) and ¥48,321 million, respectively.

Sales and assets in Japan accounted for more than 90% of consolidated net sales and net assets. Overseas sales of the Companies for the years ended March 31, 2006 and 2005 accounted for less than 10% of consolidated net sales.

12 Contingent liabilities

As of March 31, 2006 the Companies were contingently liable with respect to notes receivable discounted in the amount of ¥497 million (US$4,231 thousand) and notes receivable endorsed in the amount of ¥31 million (US$264 thousand).

As of the same date, the Companies were also contingently liable as guarantors for loans to other companies and employees in the amount of ¥1,203 million (US$10,241 thousand).

13 Losses on sale of investments

Losses on sale of investments for the years ended March 31, 2006 and 2005 are shown below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loss on sale of investment securities	\14	\51	$119
Loss on sale of golf membership rights	–	12	–
	\14	\63	$119

14 Losses on devaluation of investments

Losses on devaluation of investments for the years ended March 31, 2006 and 2005 are shown below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loss on devaluation of investment securities	\72	\35	$613
Loss on devaluation of golf membership rights	23	32	196
	\95	\67	$809

15 Loss on liquidation of affiliated company

Loss on liquidation of affiliated company is an estimated amount for the loss arising from withdrawal from operations of TMG Co., Ltd.

16 Loss on impairment of fixed assets

In the year then ended March 31, 2006, the Company recognized the following losses on impairment fixed assets;

Use	Type of assets	Place	Millions of yen
Consumer product-assets	Lease properties and others	Mito-shi Ibaragi Prefecture, etc.	\1,015
Idle assets	Lease properties	Wakayama-shi Wakayama Prefecture	\ 111
Idle assets	Land and others	Wakamatsu-ku Kitakyusyu-shi, etc.	\ 121

The Companies, fixed assets are grouped based on the relationship in terms of operating activities, and idle assets are considered individually.

The Companies recognized a loss on impairment of fixed assets for the consumer product-assets, for which future cash-flows are expected to be lower than book value and the profitability of the business has decreased.

As for the idle assets, the impairment loss was recognized because the recoverable amount is below the book value and there are no future use prospects.

The recoverable amounts of the assets are the greater of net selling price or the present values of expected cash flows from on-going utilization and subsequent disposal of the assets based on a discount rate of 7%.

17 Finance leases

Information relating to non-capitalized finance leases of the Companies, as lessee, as of March 31, 2006 and 2005, and for the years then ended is shown below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(1) Future minimum lease payments, including financing charges:			
Due within one year	¥ 5,024	¥ 3,904	$ 42,768
Due after one year	29,744	28,306	253,205
	¥34,768	¥32,210	$295,973

Allowance for impairment loss on leased property of ¥1,034 million (US$8,802 thousand) as of March 31, 2006 is not included in obligations under finance leases.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(2) Original lease obligation, payments made, accumulated impairment loss and remaining balance:			
Original lease obligation	¥44,873	¥40,079	$381,996
Payments made	11,674	8,708	99,379
Accumulated impairment loss	1,095	–	9,322
Remaining balance	¥32,104	¥31,371	$273,295
(3) Lease payments for the year	¥ 5,377	¥ 4,971	$ 45,773

If the above finance leases had been capitalized, depreciation of ¥4,512 million (US$38,410 thousand), impairment loss of ¥1,100 million (US$9,364 thousand), reversal of allowance for impairment loss on leased property of ¥66 million (US$562 thousand), and interest of ¥975 million (US$8,300 thousand) would have been recorded for the year ended March 31, 2006.

Information relating to finance leases of the Companies, as lessor, as of March 31, 2006 and 2005, and for the years then ended is shown below:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(1) Future minimum lease receipts, including financing charges:			
Due within one year	¥ 562	¥ 545	$ 4,784
Due after one year	1,494	1,396	12,718
	¥2,056	¥1,941	$17,502
(2) Acquisition cost, accumulated depreciation and book value of leased properties:			
Acquisition cost	¥2,949	¥2,882	$25,104
Accumulated depreciation	1,615	1,614	13,748
Book value	¥1,334	¥1,268	$11,356
(3) Lease receipts	¥ 545	¥ 560	$ 4,639
(4) Depreciation	¥ 378	¥ 392	$ 3,218

18 Operating leases

Obligations under non-cancelable operating leases at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 224	¥ 251	$ 1,907
Due after one year	2,499	1,287	21,273
	¥2,723	¥1,538	$23,180

19 Employees' severance and pension benefits

The liabilities for employees' severance and pension benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥27,585	¥25,658	$234,826
Prepaid pension costs	1,890	1,410	16,089
Unrecognized prior service costs	3,194	2,829	27,190
Unrecognized actuarial differences	(8,100)	(9,874)	(68,954)
Less fair value of pension assets	(16,934)	(14,215)	(144,156)
Liability for severance and pension benefits	¥ 7,635	¥ 5,808	$ 64,995

Included in the consolidated statements of income for the years ended March 31, 2006 and 2005 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs - benefits earned during the year	¥1,421	¥1,434	$12,097
Interest costs on projected benefit obligation	546	528	4,648
Expected return on plan assets	(383)	(263)	(3,261)
Amortization of net transition obligation	–	1,358	–
Amortization of actuarial differences	1,098	1,049	9,347
Amortization of prior service costs	(307)	(268)	(2,613)
Severance and retirement benefit expenses	¥2,375	¥3,838	$20,218

Additional early retirement benefits are not included above.

The discount rate and the rate of expected return on plan assets used by the Companies are approximately 2.5% (2.5% in 2005) and mainly 2.5% (2.5% in 2005), respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are principally recognized in the income statement using the straight-line method over approximately 12 years (12 years in 2005).

Prior service cost is recognized in the income statement using the straight-line method over 12 years.

20 Subsequent event

(1) Stock swap agreement with Air Water Emoto

On May 17, 2006, the Board of Directors of the Company and Air Water Emoto Inc. (AW Emoto), a member company of the Air Water group resolved at meetings to make AW Emoto a wholly-owned subsidiary of the Company through a stock swap and both parties signed a Stock Swap Agreement to that effect.

The stock swap is scheduled for August 10, 2006.

The stock swap ratio is follows.

	The Company	Air Water Emoto Inc. (Subsidiary Company)
Stock Swap Ratio	1.0	0.1

1) For 1 share of AW Emoto will be swapped for 0.1 share of the Company.

2) The company will issue 949,300 new ordinary shares and 450,000 treasury stock for the swap with the AW Emoto shareholders.

(2) Collaborating in bath business

On May 17, 2006, Matsushita Electric Works, Ltd. (Matsushita Electric Works) and the Company reached a general agreement on working together in the domestic bath business.

Under the agreement, 80% of the shares of AW Emoto, a member company of the Air Water group engaged in the domestic fittings and appliances business, and all the shares of bath systems and bath units manufacturer, Air Water Chemical Co, Ltd.(AW Chemical), will be transferred to Matsushita Electric Works Bath & Life Co., Ltd., a wholly-owned subsidiary of Matsushita Electric Works, on October 1, 2006. This will bring about the merger of domestic bath operations conducted by Matsushita Electric Works and by the Company as the two companies seek to consolidate and strengthen their manufacturing and sales organizations and to create a more effective supply structure.

The Company will continue to hold 20% of AW Emoto stock and through the restructuring resulting from its collaboration with Matsushita Electric Works will aim to grow the business. AW Emoto will continue its current collaborative ties.

Preceding the actual transfer, on August 10, 2006 the Company will acquire all AW Emoto's shares through a stock swap and become the full parent company.

(3) At the annual shareholders' meeting of the Company held on June 29, 2006, the following appropriations of retained earnings were approved:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,621	$13,799
Bonuses to directors and statutory auditors	92	783

Independent Auditors' Report

To the Board of Directors of AIR WATER INC.

We have audited the accompanying consolidated balance sheets of AIR WATER INC. and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIR WATER INC. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, AIR WATER INC. and consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets.
(2) As discussed in Note 20 to the consolidated financial statements, on May 17, 2006, AIR WATER INC. resolved to make Air Water Emoto Inc. a wholly-owned subsidiary of AIR WATER INC. through a stock swap and both parties signed a Stock Swap Agreement to that effect.
(3) As discussed in Note 20 to the consolidated financial statements, on May 17, 2006, AIR WATER INC. and Matsushita Electric Works, Ltd. reached a general agreement on working together in the domestic bath business.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 29, 2006

Corporate History

HOXAN Corporation

- **Sep. 1929** Hokkai Sanso Co., Ltd. is established in Sapporo.
- **Dec. 1955** Sales of LPG begin.
- **Sep. 1963** Sales and production of a bath room unit named "Bath-All" begin.
- **Aug. 1966** Company name changed to HOXAN Corporation.
- **Sep. 1979** The Company's stock is listed on the First Section of the Tokyo Stock Exchange.
- **Mar. 1981** Manufactured and sales of frozen food begin.

Daido Sanso K.K.

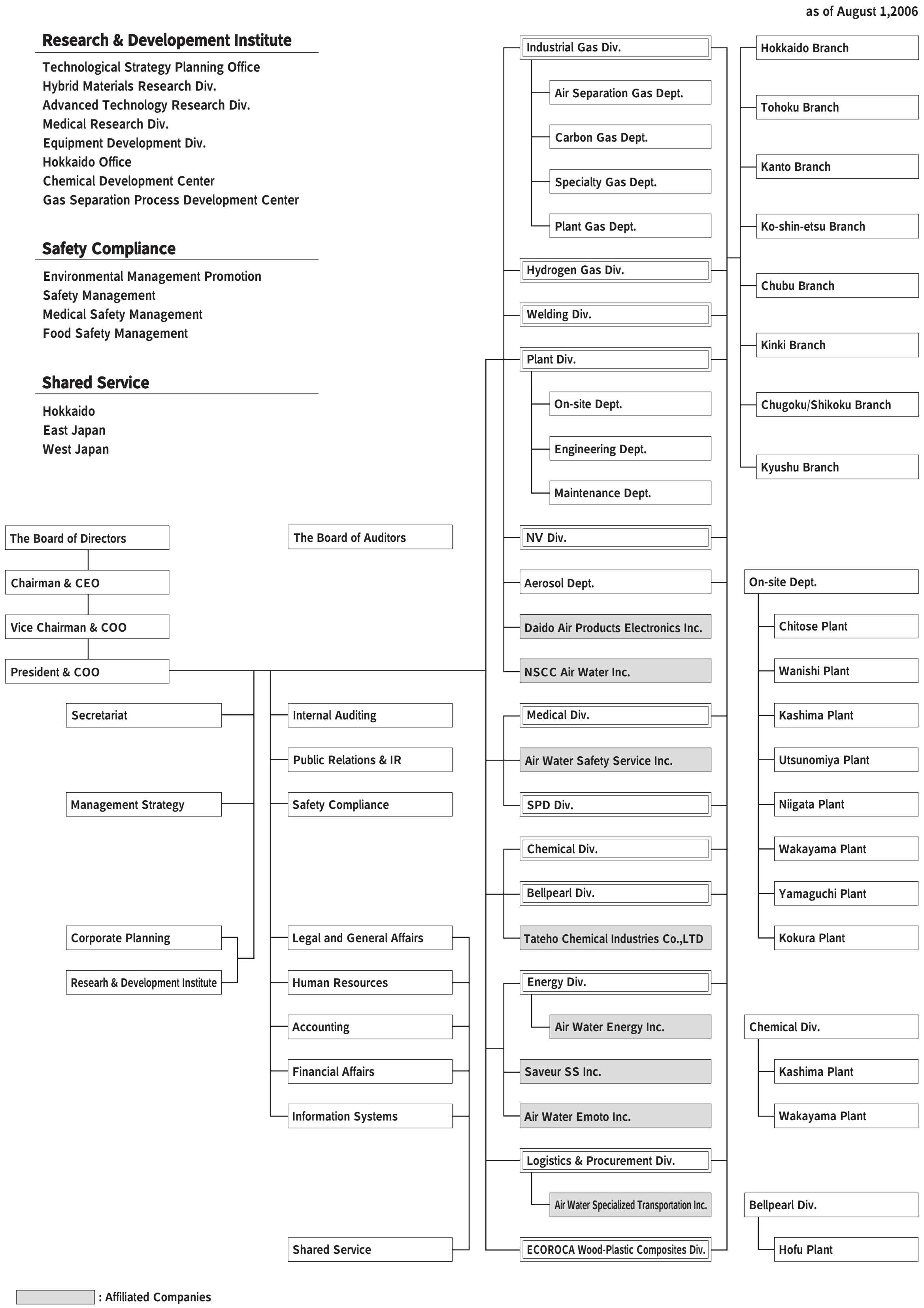
- **Mar. 1933** Daido Sanso K.K. established in Osaka.
- **Sep. 1961** The Company's stock is listed on the First Section of the Tokyo Stock Exchange.
- **Apr. 1970** Senboku Oxygen Co., Ltd. begins operation. The Kansai district's first on-site operation with the capability of generating gas and liquid gas begins.
- **Oct. 1983** Capital alliance with U.S.-based Air Products and Chemicals, Inc. is formed.
- **Aug. 1984** High-purity nitrogen generator "V1" is developed. Mini on-site operation for semiconductor equipment manufacturer begins.
- **Dec. 1992** Cryo-Air Co., Ltd., whitch has energy-saving type cryogenic air separation equipment utilizing LNG's cold energy, begins operation.

Kyodo Oxygen Co., Ltd.

- **Feb. 1962** Kyodo Oxygen Co., Ltd. is established in Wakayama.
- **Sep. 1979** Manufacture and sales of welding argon gas "Elnacks" begin.
- **Jan. 1996** The Company's stock is listed on the Second Section of the Osaka Securities Exchange.

- **Apr. 1993** Daido Hoxan Inc. is established.
- **May. 1996** Business alliance between Daido Hoxan and Kyodo Oxygen is formed.
- **Jan. 1997** Daido Air Products Electronics Inc. is established.
- **Apr. 1999** Manufacture and sales of LNG begin.
- **Apr. 2000** Air Water Inc. is established.
- **Feb. 2001** A three-year medium-term business plan is complied.
- **Mar. 2004** New medium-term business plan, "Target 3600", is complied.
- **Apr. 2004** Compact liquid nitrogen/oxygen co-production plant "VSU" begins operation.
- **Jul. 2004** NSCC Air Water Inc. is established.
- **Apr. 2006** Reorganization of chemical Business

Organizational Chart



Corporate Data

Corporate Outline (As of March 31, 2006)

Company Name	AIR WATER INC.
Head Office	20-16, Higashi-shinsaibashi 1-chome, Chuo-ku, Osaka 542-0083, Japan TEL (81) 6-6252-5411 FAX (81) 6-6252-3965
Home Office	2, Kita 3-jo, Nishi 1-chome, Chuo-ku, Sapporo 060-0003, Japan
Established	September 24, 1929
Paid-In Capital	¥16,663 million
Number of Employees	Number of Employees 6,662 (Consolidated)

Shareholder Information (As of March 31, 2006)

Stock Listings	Tokyo, Osaka and Sapporo stock exchanges
Fiscal Year-End	From April 1 to March 31
Annual General Meeting of Shareholders	June
Record Dates	Annual meeting March 31 Year-end dividend March 31 Interim dividend September 30
Manager of the Register of Shareholders	The Sumitomo Trust & Banking Co., Ltd. 5-33, Kitahama 4-chome, Chuo-ku, Osaka
Administrative Office of Transfer Agent	The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Department 4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Mailing Address and Inquiries	The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Department 1-10 Nikko-cho, Fuchu, Tokyo 183-8701, Japan
Telephone Numbers for Inquiries	TEL 0120-175-417 (toll-free in Japan) TEL 0120-176-417 (toll-free in Japan)

Board of Directors (As of June 29, 2006)

Chairman and Chief Executive Officer	Hiroshi Aoki
Vice Chairman and Chief Operating Officer	Masahiro Toyoda
President and Chief Operating Officer	Yoshisuke Misaka
Corporate Executive Vice Presidents	Akira Yoshino/Tadatsugu Mino/Masaharu Minamiya
Corporate Senior Managing Directors	Toshihiko Akatsu/Takao Sasayama/Hirohisa Hiramatsu
Corporate Managing Directors	Yoshio Fujiwara/Masahiro Kanazawa/Akira Fujita/Noboru Sumiya/Koichiro Nishikawa
Corporate Directors	Yukihiro Endo/Masaki Matsuomoto/Noriyuki Saeki/Yuu Karato Matao Kojima/Joseph John Kaminski
Standing Corporate Auditors	Tomohiro Katano/Yasuo Ito/Tadahiko Handa
Corporate Auditor	Taro Ishibashi

Principal Shareholders (As of March 31, 2006)

Company	Number of shares held (thousands)	Voting shares owend (%)
Sumitomo Metal Industries, Ltd.	10,000	6.15%
Japan Trustee Services Bank, Ltd. (trust accounts)	7,536	4.64%
The Sumitomo Trust & Banking Co., Ltd.	7,276	4.48%
Air Products and Chemicals, Inc.	5,911	3.64%
Sumitomo Mitsui Banking Corporation	5,596	3.44%
The Master Trust Bank of Japan, Ltd. (trust accounts)	4,876	3.00%
Air Water Customers' Stockholding	4,738	2.92%
North Pacific Bank, Ltd.	3,826	2.35%
Liquid Gas Co., Ltd.	3,786	2.33%
Mizuho Corporate Bank, Ltd.	3,678	2.26%