



2015

Environmental and Social Report

Management Philosophy



We dedicate ourselves and our resources backed by the entrepreneurial spirit and pride in creation and development of businesses linking air, water, the earth, and humans.

Our name embodies our mission: to create and conduct enterprises that effectively use our planet's air, water, and other irreplaceable assets, for the purpose of making a meaningful contribution to our fellow human beings across the globe.

As a Group, we continuously strive to increase our capabilities and our service to society, and we ceaselessly work to identify opportunities to develop new and significant businesses that can make a real difference to communities large and small. We remain devoted to developing synergies across all of our proliferating enterprises: industrial gas and chemical businesses serving our many industrial customers, and lifestyle businesses in medicine, energy, agriculture, and food-related products.

In all of our endeavors, we design environmentally responsible solutions that deliver a reliable flow of safe products and services to our customers.

This year's Environmental and Social Report introduces a number of our business initiatives, and explains how we are leveraging our unique vision as a Group to create and deliver significant value to society at large. As always, we hope that this year's Environmental and Social Report succeeds in deepening our communication with our many stakeholders.



About This Publication

Enterprises have been making various efforts to fulfill their Corporate Social Responsibility (CSR) over time. Air Water began publication of this annual *Environmental and Social Report* in 2002, as a way of informing our stakeholders about our commitment to CSR, and about the organization and content of our CSR activities throughout the many businesses we operate. With the goal of appealing to a wide range of readers, we have arranged this 2015 Report as follows.

- The Report covers the corporate activities of Air Water Inc. and its Group companies during fiscal 2014. It is divided into the following sections: To Our Stakeholders; Business Overview; Feature Stories; Topics; Management Report; Activity Reports; and Social and Environmental Reports.
- This report is based on data from April 1, 2014 to March 31, 2015. We also include some information about more recent initiatives.
- In editing this report, we have referred to the ISO26000 guidelines, to the *Environmental Reporting Guidelines* from Japan's Ministry of the Environment, and to other relevant guidelines.

- In the Business Overview section, we describe Air Water's management philosophy and management policy, as well as the relationship between our businesses and stakeholders, so that readers can have a better understanding of Air Water and its businesses in various fields.
- This year's feature stories highlight the activities of Nihonkaisui Company, Ltd., and Chushikoku Air Water Inc., as examples of how Air Water and its Group companies fulfill their social responsibility. These stories include outside voices, and explain how our operations are creating positive value for society as a whole.
- The environmental report section describes the environmental policies, targets, and achievements of Air Water and Group company businesses in the industrial gas sector, chemicals sector, agriculture and food sector, and additional sectors (seawater and logistics).
- The remaining sections of this report describe our basic approach to these obligations, and provide a candid assessment of our current status.

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Focus on ISO 26000

In writing this year's report, we have placed particular emphasis on the ISO 26000 social responsibility guidelines and their "seven core subjects." We have included markings throughout the report indicating the connection between our content and these seven subjects.

(Example)
ISO26000
6.2 Organizational Governance

ISO 26000 The Seven Core Subjects	Please refer to page(s)
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We continue striving to be an essential and positive presence, by developing and deploying our unique capabilities toward making a significant contribution to our society.

Message from the CEO



People throughout Japan are seeing the five-year run-up to the 2020 Tokyo Olympics as an opportunity to re-form and re-create our society. We are all thinking carefully about the type of future we wish to hand to our children.

The Air Water Group's 2010 vision statement set forth the goal of achieving major growth sufficient to reach annual sales revenues of 1 trillion yen by 2020. Consistent with this target, we wish to remain as essential to our society as the "air" and "water" that make up our name—and to fully accept and carry out our responsibilities to the world, and to our future. In line with our business philosophy of pursuing "businesses linking air, water, the earth, and humans," we are committed to making a steadfast effort as an evolving company—adopting to new needs as they arise—to leverage our various businesses toward achieving solutions for the numerous issues facing our society.

A key part of our strategy toward realizing this vision is to make distinctive contributions to each of Japan's different regions. To this end, we maintain nine regional business companies, each serving a particular part of the country. These companies pursue independent development focusing on each region's unique

features and on the specific needs of the region's industries and residents. Through this approach, we are working to establish ourselves as an essential and respected presence in each area of the country.

One of the feature stories in this report highlights a regional initiative carried out by our Nihonkaisui company through its plant in the city of Ako, where an effort is underway to migrate to wood biomass solutions when installing or upgrading off-grid electric generation systems. This solution benefits the region's forestry businesses while at the same time reducing CO₂ emissions. Air Water is planning to pursue similar off-grid generation solutions that take advantage of each region's characteristics, while bringing the benefits of independent generation to each region's customers.

Of course, high levels of technical expertise are essential to enable the development of these types of regional and ecology-focused solutions.

This type of expertise in industrial gas business, for example, is embodied in our large and environment-friendly cryogenic air separation plant at our Kashima Plant. It also appears in our innovative "VSU" facilities (compact, highly efficient liquid-nitrogen liquid-oxygen

cogeneration plants)—a solution that allows gases to be produced near their usage destination, reducing the CO₂ emissions that would otherwise be required for long-distance transport. These are just two examples of our constant effort to develop technical solutions focused on regional societies and ecologies.

As in previous years, our Group continues to utilize an "All-Weather Management System" and our "Order Rodentia Style of Business" to drive a continuous broadening of our business range. Our industrial gas and chemical operations serve a wide range of industrial clients, while our "lifestyle sectors" businesses generate consumer products in areas such as medicine, energy, agriculture, and foods. Recent years have seen particular acceleration in our lifestyle sector, together with an increasing awareness within our Group of the crucial role of corporate compliance. We enforce the highest ethical standards throughout all of our enterprises, and strive to maintain an environment where all employees feel pride and pleasure in their contribution. We also work diligently to promote employee health and to provide accident-free workplaces, and to foster a business culture that puts safety and trust first.

Our Group's wide range of businesses opens many opportunities to make important contributions to the communities we serve, and to the global environment we all live in. Because we play an important role in society as a provider of industrial gas which is an essential social infrastructure, and also as a company which conducts businesses in various fields. We believe that the key to staying "essential" is to continuously strive to ascertain and address societal issues and needs, and we shall continue along this road in the years ahead.

We hope that this report helps all of our stakeholders gain a deeper understanding of our Group's activities and orientation, and we look forward to your continued support.

Masahiro Toyoda
Representative Director, Chairman of the Board,
Chief Executive Officer
Air Water Inc.

We continue to develop businesses based on our management philosophy.

The Air Water Group balances two major types of business: industry-oriented enterprises in areas such as industrial gas and chemicals, and health and lifestyle enterprises in medicine, nursing care, agriculture, food, and more. In addition, we have two management policies. One is an "All-Weather Management System" that maintains a clear focus regardless of management changes and business climate, and another is our "Order Rodentia Style of Business," in which our mid-size Group companies are continually taking full advantage of synergies, opening up new areas of business, and building the strength of the entire Group.

Moving forward, we shall steadily pursue the measures and policies established in the medium-term business plan Version 2, which will help us reach our vision for a company with annual sales of 1 trillion yen by fiscal 2020. For our industrial businesses, our focus shall be on restructuring and strengthening profitability. In our lifestyle sectors, we shall work to drive high growth. Across all sectors, of course, we shall pursue our mission of making a positive contribution to the regions we operate in to our society, and to the lifestyles of the people we serve.

We are committed to earning your trust, and to providing services that all stakeholders recognize as useful and necessary.

Businesses and Stakeholders of Air Water



We work on the promotion of ethical behaviors, including ensuring compliance and fair business transactions according to social norms, etc.

Related information ▶ P.24



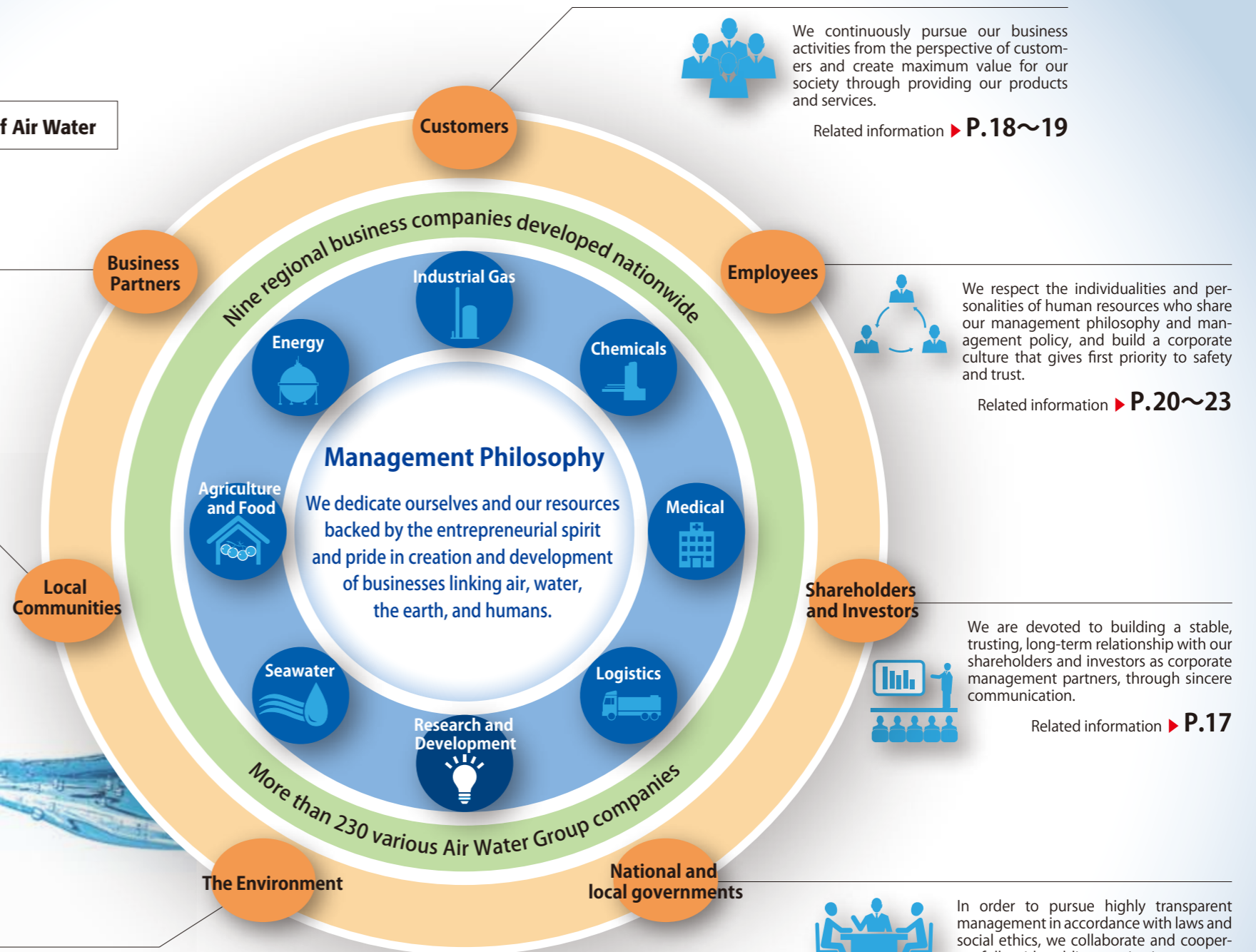
Our businesses are closely tied to local communities. We will get actively involved with local communities for their development and revitalization, and continue to make progress with the aim of growing together with them.

Related information ▶ P.25



We can continue to engage in our businesses by carefully using the limited resources of the earth. We make every possible effort to preserve the global environment.

Related information ▶ P.26~31



We continuously pursue our business activities from the perspective of customers and create maximum value for our society through providing our products and services.

Related information ▶ P.18~19



We respect the individualities and personalities of human resources who share our management philosophy and management policy, and build a corporate culture that gives first priority to safety and trust.

Related information ▶ P.20~23



We are devoted to building a stable, trusting, long-term relationship with our shareholders and investors as corporate management partners, through sincere communication.

Related information ▶ P.17



In order to pursue highly transparent management in accordance with laws and social ethics, we collaborate and cooperate fully with public organizations.

Related information ▶ P.16~17, 24

Management Policy

All-Weather Management System

A business strategy that forms appropriate business portfolios for industrial and lifestyle sectors and aims to constantly earn stable profits, in order to establish a system that maintains a clear focus regardless of management changes and business climate

Order Rodentia Style of Business

A growth strategy that seeks sustainable business growth by continuously fostering and creating mid-size companies that respond rapidly to environmental change, like Order Rodentia, and have the vitality to flexibly develop new businesses and areas of business

We develop various businesses that all stakeholders recognize as useful and necessary.



Industrial Gas We meet manufacturing and living needs as a provider of a wide variety of industrial gases.

Having sophisticated gas technologies such as gas manufacturing, plant engineering, transport, and storage, we offer safe and reliable delivery of a wide variety of industrial gases, including oxygen, nitrogen, argon, CO₂, hydrogen, and helium. Delivery methods are adjusted to meet each user's specific requirements.



Large scale on-site plant



Compact, high-efficiency liquid nitrogen/oxygen co-production plant "VSU"



Chemicals We offer chemical products required in every scene in society.

We contribute to our society and daily lives through the coal chemical business to manufacture and sell high-value-added chemical products made from coke oven gas and coal tar for iron plants, and the fine chemical business, using synthetic chemistry techniques developed over many years, to manufacture and sell products made from organic compounds and tar distillation products such as pharmaceutical and agricultural intermediates and electronic materials, both in Japan and abroad.



Gas purification plant



Fine chemical plant (China)



Medical We offer a wide variety of comprehensive solutions such as supply of medical gases, equipment, and devices and provision of medical services to support the ever-evolving medical field.

Air Water develops a wide variety of one-stop businesses to support the medical field. Through our nationwide network, we stably supply medical gases that protect patients' lives to institutions throughout the country. We also perform design and construction of hospital facilities, import and sell medical devices, offer medical services including contract sterilization, SPD, and maintenance, and provide for home care and nursing care.



Operation room (showroom)



Home oxygen concentrator



Energy We develop lifestyle solution business for local communities, including delivery of LP gas.

We deliver LP gas, kerosene, and other fuels to households and industrial facilities in Hokkaido and prefectures in eastern and central Japan, which are known as the Hello Gas brand. We also offer a variety of other energy solutions based on our own original technologies, including LNG transport equipment and containers, LP-gas-type mobile power source car, and power generation through mixed combustion of biomass and coal.



Hello Gas spherical tanks (secondary station)



The Hybrid Hot Water Supply and Heating System "VIVIDO"



Agriculture and Food We create the sixth industry through our high-value-added agricultural and food businesses, including production, distribution, processing, and marketing of vegetables.

Our innovative high-value-added agricultural and food businesses deliver safe, reliable, high-quality goods to a wide range of customers throughout the country. These businesses include production, distribution, processing, and marketing of upscale (mainly domestic) ham, delicatessen, high-quality and extremely fresh frozen foods, and agricultural products.



Sunlight utilization vegetable plant



Beverage producing line



Other Businesses (seawater, logistics, etc.) The Air Water Group expands its businesses through the development of unique products and technologies that support our "Order Rodentia Style of Business."

While most of our enterprises are in the five sectors described above, we are also engaged in seawater businesses, logistics business, and other specialized businesses whose unique technologies, products, and services increase the overall strength of the entire Group.



Household salt products



Chassis transport



Research and Development We promote a technology-driven company for supporting the future of the entire Group.

In our wide range of business fields, such as industrial gas, electronics material, fine chemical, medical, resin material, carbon material, and agricultural and food products, we have a wide variety of original technologies. We use such pioneering technologies to work on research activities towards the creation of our unique new technologies through synergy effects generated by the synthesis of cross-sectional technologies beyond the business scope.



3C-SiC on Si heteroepitaxial wafer



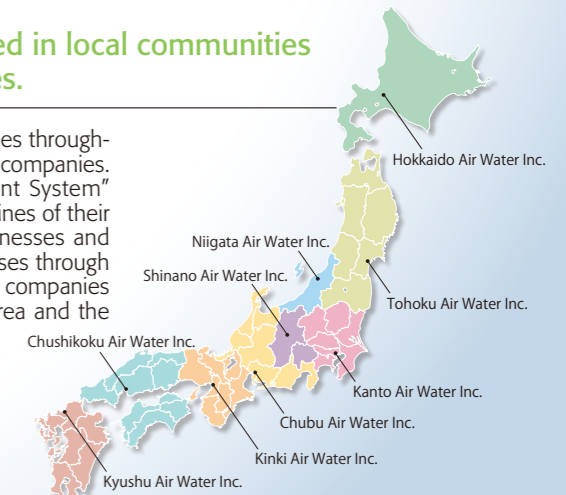
Vertical centrifugal pump



Through regional business companies and diverse Air Water Group companies

We develop businesses that are rooted in local communities for further evolution of our businesses.

The Air Water Group has regional business companies throughout the country and more than 230 various Group companies. The companies practice "All-Weather Management System" and "Order Rodentia Style of Business" in the front lines of their industries. They autonomously create original businesses and discover businesses based on their existing businesses through taking full advantage of the synergies between the companies according to the characteristics of the respective area and the business structure.



Feature Story



Solving Social Issues through Businesses

Contribution to Livelihoods and the Industry Utilizing Seawater Resources

Nihon Kaisui is one of the Group companies that is engaged in a range of businesses based on the earth's precious seawater resources. Throughout the ages, the company has supported the production of salt, which is a staple of the human diet, together with the region. Nihon Kaisui is not only responsible for maintaining a stable supply of salt, but also tries to solve issues in the regions where it has manufacturing bases and contributes to the local people's livelihood. In addition to its core salt-making business, Nihon Kaisui, Japan's top manufacturer of table salt, is also developing other seawater- and salt production-based businesses through synergies with other Group companies. This report, from the city's Ako plant in Hyogo prefecture, looks at how the company's various activities are helping to support local industry and community well-being.

Maintaining and Developing A Deeply Rooted Regional Industry of Salt-Making

Ako has been a salt manufacturing center since well before the famous 47-ronin incident occurred in the city of Edo in 1703. Situated on the coast of the Inland Sea, in a region with low rainfall and year-round sunlight, the city is set in an ideal location for extracting salt from seawater. During the Edo period this region's salt industry continued expanding until it was supplying about 90% of the salt consumed throughout Japan.

The area's traditional salt-making techniques included the burning of seaweed, and both manual spraying (the "Agehama method") and channeled transport (the "Irihama method") of seawater onto seaside terraces—where salts deposited on the terrace sand were then re-dissolved into a concentrate that was then re-evaporated. More modern methods were introduced during the Showa period (1926–89)—including the pumping of water to the top of successive sloped terraces over which it flowed down and onto an evaporation rack (the Ryuka method); and the use of electrodialysis. All of these methods share the same final step, unchanged throughout the ages—the evaporation of a concentrated brine to retrieve the granular salt.

Nihon Kaisui, which has long continued this tradition, joined the Air Water Group in 2007. Today the company is a

major and growing salt-making concern, manufacturing and marketing about half of the table salt consumed in the country. In addition to its Ako facility, the company also runs major salt production operations at its Sanuki plant (in Sakaide, Kagawa), its Onahama plant (in Iwaki, Fukushima), and its Kumamoto plant (in Tamana, Kumamoto). All of these facilities are involved in the company's core salt-making business as well as other various businesses, and provide jobs and stimulate the economies of the communities in which they are located.

Pioneering the Seawater Industry & Following the AWG Philosophy

Life originated in the sea, and today's oceans remain extremely rich in resources—both used and unused. While Nihon Kaisui remains rooted in its salt-making operations, it is also working to develop other potential seawater enterprises by leveraging synergies with other Group companies. We talked to president Masahiro Kanazawa about his vision for his company.

"We are seeking to leverage all of the Group's business assets as we pursue our salt operations and environmental efforts, and as we move into newer initiatives in electrical power, food, agriculture, and bottled water. We are working to establish ourselves as a pioneer in the seawater industry,



Masahiro Kanazawa
President & Representative Director
Nihon Kaisui Co., Ltd.

based on the concept of "harnessing sea-related technologies to deliver food, health, and better lifestyles to our communities." This broad term *seawater industry*, which we embrace, was proposed by Hiroshi Aoki, Air Water's honorary chairman. We also embrace the Air Water philosophy: "Contributing to our communities, while aiming for continuous growth through our "All-Weather Management System" and "Order Rodentia Style of Business."

Better and Broader Salt Production

Nihon Kaisui has developed and deployed a world-first electrodialysis tank system that improves salt production while retaining the country's traditional approach of extracting salt through evaporation of brine. The new system eliminates particulate impurities as small as 1×10^{-6} mm, significantly improving both quality and safety. And the entire production process has earned important institutional approvals—including ISO 9001 certification for its quality management system, ISO 14001 certification for its environmental management system, and halal approval. As the leading company in the field, Nihon Kaisui is committed to fulfilling its environmental responsibilities while maintaining superlative quality and reliable supply.

Meanwhile, the company is continually working to develop new products, and currently offers a wide lineup that includes low-sodium salt, sticky salt, easy-flow salt, mild-tasting salt, and roasted salt. Another well-known product is SEALIFE, an artificial seawater launched in 1990 and now the industry standard for use in aquariums and aquaculture.



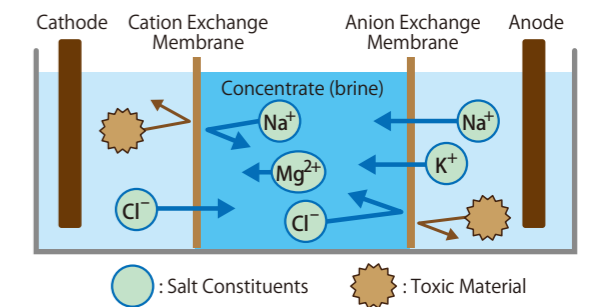
Ako Power Station

Potassium chloride, major constituent in fertilizer, produced from bittern (following crystallization and extraction of table salt)



Table salt products

Producing Salt in Electrodialysis Tank



Ako (left) and Sanuki (right) Salt Production Plants, alongside the Inland Sea

Ako city and the Inland Sea viewed from the city's hilly area

Feature Story

Social Solutions through Environmental Business

Nihon Kaisui is currently leveraging its seawater resources, original salt-production technologies, and other capabilities toward development of a number of new eco-supporting initiatives. One example is the company's production of magnesium hydroxide, manufactured from the magnesium obtained as a byproduct of salt production. Following removal of other salt constituents from the concentrated brine, the remaining magnesium is converted into a magnesium hydroxide slurry that can be used at thermal power plants, oil refineries, and industrial waste processing plants for purposes such as desulfurization of gas and neutralization of acidic wastewater.

Another example is the company's READ (rare-earth-adsorbent) system for removing environmental pollutants such as arsenic, fluorine, and boron from water. Developed from technology originally used for extracting boron, the system works by removing pollutants from seawater as it passes over the adsorbent.

READ is already in wide use, for example, in the processing of natural spring water, factory wastewater, and power-plant desulfurization wastewater. And as part of Nihon Kaisui's continued effort to contribute more broadly to global environmental sustainability, the company is now further developing the technology for extension into other areas—such as for on-site processing of polluted earth excavated during tunnel construction.



R & D



READ (Rare Earth Adsorbent)

Local Power Generation Benefits the Environment

During the salt-making process, considerable quantities of electricity and steam are consumed as large volumes of seawater are pumped and concentrated, and as the resulting salt remnants are converted into products. Up to now, Nihon Kaisui's Ako and Sanuki plants have operated their own internal electric generating facilities, while the Onahama plant has received its power from another Group company: Summit Onahama S Power Corporation.

Seiji Shiozaki, plant manager of the Ako plant, explained the environmentally responsible approach the company pursued when upgrading the plant's outworn power facilities in 2015. "We decided that we needed to install a forward-looking environmentally friendly system, and so we installed a cogeneration system consisting of two different generators: a biomass-powered generator and a natural-gas-powered gas turbine."

This Ako plant power solution was designed not just to



Seiji Shiozaki
Executive Officer and Plant
Manager of Ako
Nihon Kaisui Co., Ltd.

Masahiro Ishikawa
Executive Officer and Head of
Power Operations
Nihon Kaisui Co., Ltd.

supply the facility's own power, but also to earn an additional return by selling power back into the grid. Masahiro Ishikawa, head of Power Operations, explains.

"We take advantage of the FIT system (feed-in tariff system: fixed-price purchasing of renewable energy) to sell to the power utility all the excess power we produce. The power we generate is equivalent to about twice the power consumed by all the households in the city. And since the Kansai area is prone to power shortages, the extra supply is particularly helpful."

Because the plant's power system uses biomass fuel, it has also resulted in a 4% reduction in the city's CO₂ emissions; and because the biomass comes largely from wood obtained from forest thinning operation, the system is also helping support the local forestry and lumber businesses. Seiji Shiozaki comments: "When the mountains thrive, so do the seas. Since our operations are seawater intensive, we are delighted that our power system also helps support the environmental health of the mountains."

Developing New Seawater Businesses

Nihon Kaisui continues expanding its range of activities, with emerging businesses in the foods, agriculture, and bottled water. In the food sector, the company handles the century-old Urashima Nori brand of seaweed products, and Italian foods from Group company Japan Salt.

In agriculture, Nihon Kaisui has started active production and marketing of sweet potatoes and Italian vegetables, following trial cultivation at the company's Sanuki test farm.



"AW-Water" Production Line



Italian Food Pilot Store

The company is also producing "AW-Water" bottled water—produced by purifying steam taken from its Sanuki plant's manufacturing process and adding in minerals sourced from the sea. The result is a safe and reliable supply of potable water—unaffected by precipitation levels—that proves particularly useful during the water shortages that occasionally occur in the Shikoku and Inland Sea regions.

Committed to Reliable Product Supply and Community Support

As Japan's top table-salt maker, Nihon Kaisui sees its primary mission as maintaining a stable supply of salt. The Great East Japan Earthquake and the Fukushima Daiichi Power Plant Disaster in 2011 was a major challenge for the company—causing long-term closure of the company's Onahama plant in the city of Iwaki, in Fukushima prefecture. This plant had a vital role in the company's strategy, as it was company's most productive facility and its only one within Eastern Japan.

In response, the company recommitted to its mission to fulfill its responsibility to serve society. Its first step was to strengthen and expand the productive capabilities of its Ako and Sanuki facilities. It also resorted to imports to meet customer needs—bringing in electrodiagnostically produced salt

from Taiwan and South Korea, and sun-dried salt from Australia. Going forward, the company shall continue an outward-looking approach to minimizing supply risks and maintaining stable supplies.

As a good corporate citizen, the company is also assertively working to further develop businesses that contribute to the various regions it serves.

Meanwhile, the company maintains its deep connection to the Ako and Sanuki areas and their long history of salt production. The company's Ako and Sanuki plants continue to contribute meaningfully to their local economies and local employment.

For many years the Ako plant has regularly presented exhibits—such as a "salt statue," a "salt pool," and a "salt pillar"—at salt-related events sponsored by the Ako Chamber of Commerce and Industry. This type of outreach has earned the affection of local citizenry, who refer to the company by the pet name "Kaisui-san." Similarly, the Sanuki plant (in Sakaide city) operates a booth at the city's salt festival, where it demonstrates aspects of salt-making to the many locals and visitors who attend.

Nihon Kaisui's long history of business in these areas reflects the company's continuing commitment to contributing to the people and communities it serves.

Successful Business Means Successful Community



Motohide Akashi
Mayor, City of Ako

Nihon Kaisui and the city of Ako share a long history in salt production. We spoke with Motohide Akashi, born and raised in Ako and now its mayor, about how Nihon Kaisui is contributing to the solution of local problems and to the support of the local economy and community.

The city and its salt fields have developed together over many years, and the landscape along the coastline has changed with the times. As mayor and citizen, I'm grateful to my home town, and feel a strong sense of responsibility for its future. The city's motto, "a great place to live," seems fully justified by our beautiful natural setting, our excellent public facilities, a wonderful lifestyle environment, and the support we provide to attract newlyweds and couples with young children. Of course, employment opportunities are crucial to the city's health—and that's one reason we're so thankful to Nihon Kaisui and our other local businesses. Nihon Kaisui has deep ties with the community through its long association with the local salt industry, and we all recognize the company as part of our city's heritage.

We're also thankful for the Ako facility's recent deployment of its biomass-fueled power plant. Our city prides itself on environmental awareness, and so we're all delighted that this power plant has cut our CO₂ emissions by about 4%. This fact is really encouraging for other local businesses and our citizens, and the

plant is also helping support our local forestry industry through its use of wood-based fuel. We're all aware of the phrase for reforestation, "The forest is the lover of the sea,"* and we're very happy that Nihon Kaisui supports the health of both.

As mayor, I am well aware that local government cannot create prosperity and community wellbeing on its own. We need to join forces with local business as we seek mutual success. That's why we continue looking forward to our ongoing relationship with Nihon Kaisui.

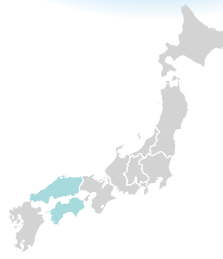


"Salt Country" at Ako Kaihin Park: a reconstruction of old salt-making grounds



*Written by Shigeatsu Hatakeyama, who ran a family business cultivating oysters and scallops in Miyagi Prefecture, as the byword of his effort to reverse environmental damage to Kesenuma Bay by instituting reforestation along the Ohkawa river and watershed area on adjoining Mt. Murone.

Feature Story



Social Solutions through Business

Chushikoku Air Water Delivers Locally Rooted Services and Solutions to Societal Concerns

Guided by our Group's "All-Weather Management System" and "Order Rodentia Style of Business," our nine regional Group companies are advancing community-based various businesses. One of these companies, Chushikoku Air Water (CAW), is serving nine prefectures adjoining Japan's Inland Sea, an area characterized by a high concentration of ship-building companies and petrochemical businesses, as a locally rooted company. CAW sells industrial gases throughout this area, and also works with other Group companies to provide products and services in the healthcare field and has made a number of achievements.

The company's VSU*, in the city of Hofu in Yamaguchi prefecture, generates a stable supply of gases serving both industry and healthcare. Because gas is produced in close proximity to its destination, transport distances are short—saving fuel and reducing CO₂ emissions.

We visited our nearby Yamaguchi Business Office to get a closer look at how the company is contributing to the region, and to hear feedback from important local customers.

*Compact high-efficiency liquid nitrogen/oxygen co-production plant

How CAW Serves Its Region

CAW does business throughout the region that surrounds Japan's lovely Inland Sea. The region's major industrial concerns, located mainly along the coast, include shipbuilders, petrochemical complexes, semiconductor makers, and automakers.

In the industrial gas field, CAW has established long-standing relationship with customers, and is relied upon to maintain stable gas supply 24 hours a day, every day of the year. The company also provides training in the use of high-pressure gas, and supports customer efforts to maintain safety. The company achieves synergies by working with other Group companies in the area, including Matsuyama Oxygen, San-ase, Matsumoto Sanki, and Okayama Oxygen.

In the healthcare arena, CAW—again enjoying synergies with other Group companies such as Air Water Safety Service and Air Water Medies—is supplying medical gases to hospitals as its principal business, installing hospital equipment, and handling hospital sterilization tasks. It is also supporting home users attentively with usage instruction, parts replacement, and more. CAW plays an important role in maintaining the health and well-being of its end users in the health field. And, just as with its industrial clients, CAW is available with support 24 hours a day, every day of the year, both at home and hospital.

CAW also operates the Mitajiri General Care Center, delivering publicly sponsored home nursing, day service, short-stay treatment, and similar services.

Moving forward, CAW shall continue expanding its locally rooted businesses serving industry, medicine, and publicly supported healthcare.



Yukio Suou (Left)
Head of Facility, Environment and Safety preservation
Bell Polyester Products, Inc.

Hirokazu Nishimura (Right)
President & Representative Director
Chushikoku Air Water Inc.

Hofu VSU Creates Social Value in Region

VSUs—compact high-efficiency liquid nitrogen/oxygen co-production plants—are an original Air Water technology. In September 2013, CAW installed a VSU and started the operation in the city of Hofu, adjacent to the company's Yamaguchi office. The VSU produces liquefied gas with an efficiency almost equivalent to that of larger generation equipment—an excellent solution for providing a stable gas supply to this region. With this VSU in place, CAW can now manufacture and supply both industrial and medical gases from this single facility, CAW President



Air Water's 11th VSU facility, in Hofu.
Enabling locally-sourced industrial gas distribution systems.

Hirokazu Nishimura describes the benefits of the Hofu VSU as follows.

"Because this production facility is situated in the center of Yamaguchi, we can deliver liquid oxygen rapidly to medical facilities throughout the prefecture—a capability that our customers are quite happy about. Also, since transport distances are considerably short, we save on transport costs and CO₂ emissions. In the past, customers in the western part of the prefecture were supplied by trucks coming across the Kanmon Straits from Kyushu—so there was a risk that a typhoon or other such event might interrupt the supply. And a stable and reliable supply is crucial—not only with medical gases, but with industrial gases too. So the proximity of our VSU has made our customers feel more at ease."

Solving Customers' Problems Bell Polyester Products, Inc.

Located adjacent to CAW's Yamaguchi office in the city of Hofu, Bell Polyester Products (BPP) is in the business of developing, manufacturing, and marketing synthetic (PET) resins. About ten years ago they approached their local Air Water representative to ask about how they might achieve more efficient operational control of their high-pressure gas equipment. Since that time they have been receiving nitrogen gas supplied from Air Water's CE (cold evaporator) tanks. We spoke with Yukio Suou, Head of Facility, Environment and Safety preservation at BPP, about how CAW has helped his company.

"While our company does make regular PET resins for beverage containers and the like, we also specialize in the manufacture of high-value-added copolymerized PET for use in medical supply containers and optical lenses. When producing the copolymerized resin, we need to use nitrogen to prevent oxidation and to propel the workpieces. Making nitrogen gas on our own wasn't efficient, so we approached Air Water for advice—which turned out to be the right thing to do. As a result, we were able to eliminate our own nitrogen production equipment, freeing up considerable space. We were also able to reassign four operators to other jobs. And we can now rely on Air Water to handle the requisite safety inspections of our high-pressure gas apparatus.

In other words, Air Water has helped us achieve numerous new efficiencies. We are very pleased with their meticulous

oversight of this part of our operations. And now, with the addition of their nearby VSU facility, we can rely on a second source of supply as well—further assuring that we can maintain stable production rates at all times."

Working With Customers to Support Our Communities

CAW gets together with other nearby Group and client companies—Air Water Bellpearl, BPP, Filwel, and Hofu Energy Service—for bimonthly meetings where they talk about regional development, exchange information on various topics, plan local sports meets, and more. The goal is to strengthen business ties by developing enduring personal relationships.

Participants are also working together to support the Science Academy held at Hofu's SOLAR Museum—a science museum for youth. BPP, CAW, and Air Water Bellpearl, for example, hold well-received hands-on exhibits each year such as the "Gas to Liquid?" exhibit giving youth hands-on experience with the super-cold (−196°C) world of liquefied nitrogen. These events also play a part in social education for local children.

Activities such as these allow CAW to interact closely with the community, and to strengthen its local profile as a contributor to regional well-being.



Fascinating experiences at the Science Academy encourage interest in science.

CAW remains committed to developing region-based solutions. For example, it is currently using its connections with local electric companies to develop proposals for new energy-related products and services to benefit local businesses. It is also offering stable gas deliveries from liquid nitrogen/oxygen supply trucks sourced from the Hofu VSU. Through these and other efforts, CAW is spreading roots and developing a strong business profile in the communities it serves.

The various enterprises of the Air Water Group are all engaged in working to resolve social problems. In this section we introduce one construction solution that makes effective use of neglected and locally discarded resources, and another air-separation solution that reduces energy footprints.

Air Water's Business Supporting Regional Economies and Ecologies

The ECOROCA solution—new material uses locally-sourced neglected resources for environmental protection and regional contribution

Our new-generation ECOROCA wood/plastic compound—produced and marketed by Air Water Ecoroca Inc.—is manufactured from recycled and neglected resources. Offering the advantages of both wood and plastic, the product is ideal for outdoor decks, louvers, indoor walls, and more. Safe, durable, and maintenance-free, ECOROCA is now serving as a substitute for natural wood, particularly in construction of schools and other public facilities.

ECOROCA was recently used, for example, in the construction of the Shizuura Combined (elementary/middle) Public School in Numazu city, Shizuoka prefecture, which opened in April 2014. The ECOROCA in this pioneering case in the region was made from plastic and locally discarded wood. The local contractor in charge of the design praised this groundbreaking effort and the superlative characteristics of the ECOROCA product.

With ECOROCA having achieved certification as a “recycled material” by prefectures and cities throughout Japan, major designers now plan for its use at the earliest design stages. Another successful use of the product as a neglected resource outside Shizuoka prefecture was a deck construction project for Kumamoto prefectural office building in 2014.

Because ECOROCA makes use of otherwise wasted wood and plastic, it fully supports effective resource utilization, recycling, and reduction of wasteloads. And because this waste material is locally sourced, it contributes to the creation of local resource recycling systems.



ECOROCA Used in Shizuura Combined Public School



ECOROCA (Wood/Plastic Compound)



Air Water Ecoroca Contributing to Society in and around Nagano Prefecture

Air Water Ecoroca is helping resolve social issues in Nagano and surrounding areas

Air Water Ecoroca currently uses about 120 tons annually of otherwise neglected locally sourced Nagano-area wood, most of it retrieved from forest thinning operations and supplied by the Nagano Forestry Association. The company is also using about 1,000 tons annually of Nagano- and the surrounding area-waste wood—such as wood retrieved from demolished buildings. It also uses discarded plastics which are generated in the process of manufacturing convenience-store lunch containers and other products.

Air Water Ecoroca operations in Nagano are creating jobs in local factories, and contracting out assembly to local social-welfare institutions such as the COCO workshop and Nagano City's Kuritaen facility for the handicapped.

In recent years, the company has also been sourcing assembly work to shop classes in nearby junior high schools—providing local students with valuable experience both with hands-on work and with the real world of commerce.

Air Water Ecoroca looks forward to continuing and expanding its support for local solutions to local issues.



Assembling Deck Components at the COCO Workshop



Recent Results in Research and Development

Efficient Use of Energy— System for Stable Oxygen Supply to Meet Demand Fluctuation

Air Water has developed an on-site cryogenic air separation system that can efficiently supply oxygen to factories with large demand fluctuations. These systems are currently operating at the Daio VSUA Center in Hirakata city, Osaka Prefecture, and at Air Water Vietnam.

Large quantities of oxygen are required to feed electric furnaces that manufacture iron from scrap. Manufacturers that use these furnaces, however, tend to run them mostly at night and on weekends—so that oxygen demand is much lower during weekdays. And even during normal furnace operation, the demand rate varies over the full range, from 0 to 100 percent of capacity.



System for stable oxygen supply to meet demand fluctuation (at Air Water Vietnam)

Conventional cryogenic air separation systems designed for highly efficient oxygen supply typically operate well only where demand is relatively stable; they are not designed for frequent on/off cycling or for operations characterized by large and rapid variations in work rate.

When cryogenic air separation systems have been used to supply oxygen in these scenarios, they typically release excess oxygen into the atmosphere during non-peak operation—essentially wasting the energy used to produce it. And because these systems are electrically powered, energy wastage can be significant.

Air Water has addressed this problem by developing a system that liquefies the excess oxygen during low demand, and then re-gasifies and supplies it when demand picks up.

Of course, the liquefaction process also consumes electric energy. So the challenge was to design the system so that it uses energy efficiently enough to make the process worthwhile.

Air Water is now looking forward to marketing this system in other foreign countries, and to proposing it as a suitable replacement in Japanese facilities where it can help reduce environmental footprints and electric costs.

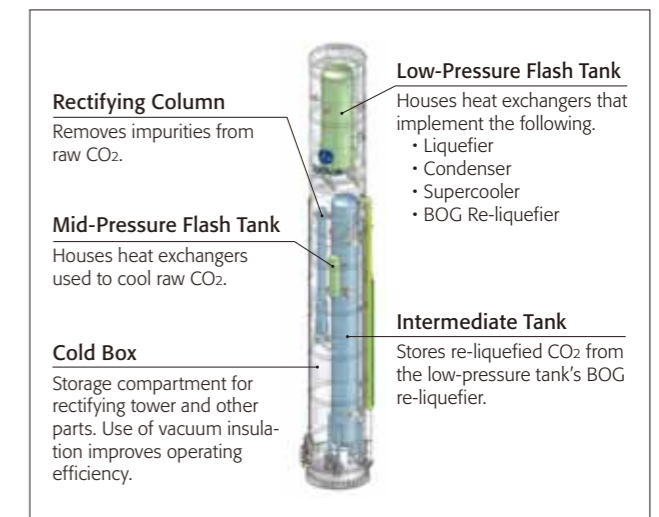
Small, low-energy CO₂ liquefaction and purification facility

When Air Water Carbonic, Inc., opened its Muroran facility, Air Water installed an original CO₂ liquefaction and purification system built around technologies developed for our V-series Air Separation Systems.

The Muroran system incorporates numerous technologies pioneered by Air Water when developing cryogenic air separation systems for oxygen and nitrogen supply. Previously, we procured equipment for producing liquefied CO₂ from outside manufacturers. But with the new Muroran system, we have successfully achieved both better performance and lower facility costs.

This system uses a vacuum-insulated cold box to reduce heat penetration, so that less energy is required for operation. And the use of more efficient heat exchangers delivers additional energy and space savings. Space is also saved by placing numerous tanks inside the cold box—allowing for a more modular design that also reduces the time and costs required for on-site construction.

In recent years our clients in Southeast Asia have expressed considerable interest in these systems; and we look forward to deploying these systems to meet needs in other parts of the world as well.



CO₂ Liquefaction and Purification Facility



Approach to Organizational Governance

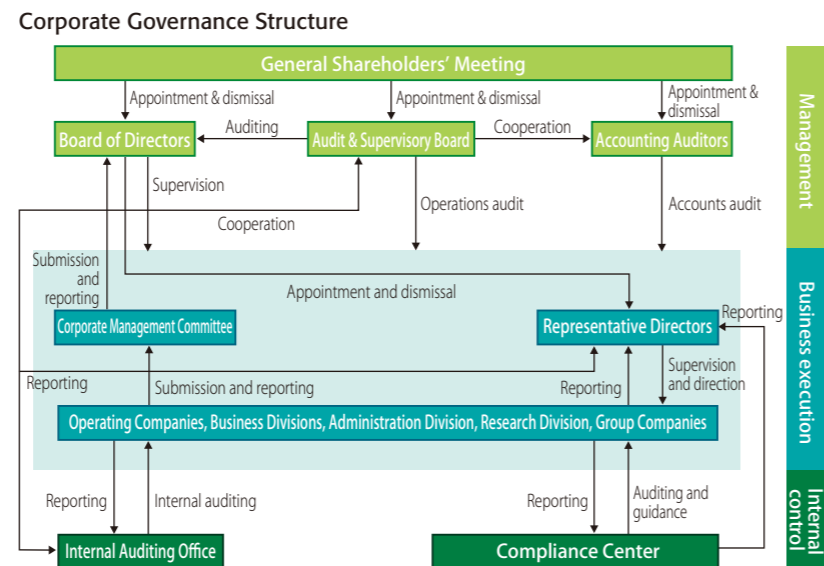
ISO26000
6.2 Organizational Governance

Air Water believes that gaining trust from all stakeholders is essential for continuous growth. For this reason, Air Water and its Group companies are committed to achieving a highly transparent governance structure.

Corporate Governance Structure

Basic Approach to Corporate Governance

The Air Water Group believes that conducting fair business activities while observing social common sense and gaining trust from shareholders, customers, local communities, employees, and all other stakeholders is essential for continuous business growth and the maximizing of enterprise value. We view comprehensive corporate governance including an internal control system as the most important management issue for gaining stakeholder trust and fulfilling corporate social responsibility. Air Water is working to strengthen its corporate governance by constructing a fully functioning management structure for appropriate management decision-making and the proper and swift execution of business based thereon, with supervision and monitoring, while securing management transparency through wide-ranging information disclosure.



Compliance

Compliance Framework

As the foundation of its compliance structure, Air Water has established the "Air Water Group Code of Ethical Conduct" as an action guideline so that directors and employees of the Company and its Group companies comply with the law and practice behavior respecting social ethics. Air Water conducts education in the spirit of observing social ethics and the law, and works to ensure conformance to rules regarding legal compliance.

Internal Audits

Internal audits are conducted periodically by the Internal Auditing Office, which is the Company's internal auditing unit, to audit the Air Water Group's compliance with laws and internal regulations, as well as the propriety and appropriateness of its business processes. The Internal Auditing Office also supervises and monitors the construction and administration of internal control systems to secure the reliability and propriety of financial reports, and evaluates their validity as the division in charge under the responsibility and direction of the representative directors.

In addition to the Internal Auditing Office, Air Water has also established a Compliance Center as an exclusive unit for the management and control of compliance, safety, and disaster prevention, environmental preservation, and quality assurance across the Air Water Group.

Under our management structure, the Internal Auditing Office and Compliance Center report to the audit & supervisory board members and to the representative directors as appropriate when their internal audits confirm facts that might have a material effect on Air Water's management.

Compliance Committee

Air Water has established the Compliance Committee as a consultative body in which relevant divisions get together and discuss compliance issues. The Committee considers specific measures concerning the policies and instructions on compliance given by representative directors, and other issues, and also discusses ways to deal with compliance violations when they occur.

Internal Reporting System

Air Water has established an internal reporting system in order to manage its business while meeting compliance requirements. Anyone who becomes aware of violations of laws and various internal rules, or any acts which may violate them, can make a report.

Points of contact for reporting have been established both inside and outside of the Company, and there is a provision ensuring that the person who reports will not suffer any disadvantage.

Risk Management

Risk Management Structure

The Compliance Center, which is under the direct control of the representative directors, manages, as the supervisory division for the entire Air Water Group, the risks recognized as particularly important for business activities of Air Water and its Group companies; namely the risks concerning compliance, safety, disaster prevention, environmental preservation, and quality assurance.

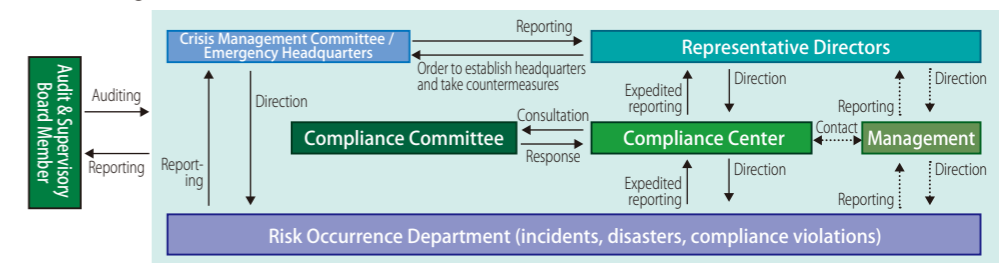
Individual risks concerning information security, quality control, intellectual properties and business contracts are managed through prior inspection and authorization procedures. In addition, by enacting internal regulations and creating manuals, education and training at the level of each responsible division are carried out.

With the Compliance Center serving as the secretariat, the Risk Management Committee has been held regularly, through

which the status of risk management framework in each division and Group company is assessed, and the risk management framework in the Air Water Group overall is bolstered.

If a risk having significant impact on business activities is realized, a Crisis Management Committee will be established immediately in accordance with the Risk Management Regulations, and a framework for dealing with the realized risk promptly and appropriately will be put in place.

Risk Management Framework



Implementation of a drill in preparation for a major disaster (setting up the Emergency Headquarters)

Based on the assumption that a wide-area disaster has occurred due to Nankai Trough Earthquake and inundation is caused in the coastal areas due to tsunami, Air Water implemented a drill in preparation for a major disaster under the initiative of the members of the Emergency Headquarters. According to the "Emergency response rules in case of a large-scale and major disaster," the members of the Emergency Headquarters and the Regional Emergency Headquarters conducted an emergency contact and communication drill based on the information set in the scenario. The contents of the drill were: (1) Collection of initial information, (2) Setting up the Emergency Headquarters and Regional Emergency Headquarters, (3) Confirmation of the status of production facilities and Air Water Group companies, (4) Safety confirmation (using the Safety Confirmation System), and (5) Support for people who are unable to return home after the disaster (confirmation of emergency supplies, etc.).

For the purpose of improving initial response abilities and judgment of the members of the Emergency Headquarters, we also

invited an outside instructor and conducted a "drill to experience and simulate a major disaster" in preparation for providing initial response at the time of a large-scale earthquake under the assumption that they are the members of the Emergency Headquarters at a simulated company.

We improved our imaginations for situations that may be caused in case of crisis and enriched our understanding of activities necessary for providing quick response.



Keeping Our Shareholders and Investors Informed

Communication with Shareholders and Investors

Air Water is devoted to building a stable, trusting, long-term relationship with our shareholders and investors. Accordingly, one of our roles is to help promote understanding of our unique business strategy and model, which is based on a multi-business structure characterized by continuous growth and change. To this end, we maintain positive communication, disseminating appropriate information at the right time through our website and publications, and through IR activities both in Japan and abroad.

We prepare a report for our shareholders twice a year so that our businesses and performance can be clearly understood by our shareholders. For institutional investors and analysts, we offer field trips to Group facilities in Hokkaido, Kansai, and other locations. In addition, we hold a conference call about our financial results and arrange for various special meetings once a quarter, in order to make them deepen their understanding of Air Water.



A scene from a field trip



Report to shareholders



Involvement with Customers

(Offering safe and secure products and services)

ISO26000
6.7 Consumer Issues

Air Water is working every day to offer products and services that meet our customers' high expectations and earn their trust. The entire Group is pursuing efforts toward further improvement of quality, focusing on safety and security.

Company-Wide Policy on Quality

Air Water has established the Company-Wide Policy on Quality, which is a common policy applied to each division and Group company, as follows.

Company-Wide Policy on Quality

Offering products, goods, and services with quality appreciated by our customers with a word of thanks.

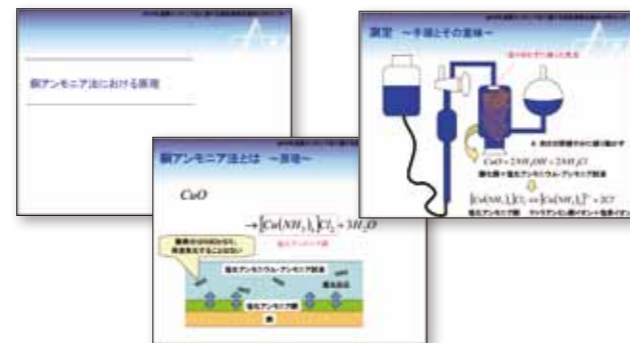
Measures for Quality Control of Medical Gases

Air Water maintains quality of medical gases and always supplies safe and secure medical gases. We make our production plants and filling plants of medical gases pursue production and quality control in compliance with the voluntary standards of the sector.

We are making efforts to improve the analysis level and unify the analysis techniques of examiners in the medical gas production plants. In fiscal 2014, training was implemented in September under the instruction of a specialist of the Analysis Center of the Industrial Company. Persons in charge of analysis from 15 production plants of medical oxygen production contractors participated in the training and learned the test principle and operation procedures of the "Cuprammonium process," one of the test items required for securing quality of medical oxygen. They also used testing devices to reconfirm the test procedures applied in their daily operations.

In addition, in order to improve the product quality of medical gases (oxygen, nitrogen, CO₂, etc.) and the analysis techniques, training is held every year targeting persons in charge of analysis with a theme set according to the type of gas and the test item.

Concerning medical equipment, we are pursuing the introduction of the quality management system (QMS) required for the manufacture and sales of the equipment, in accordance with the revised Pharmaceutical and Medical Device Act.



Training text provided to medical oxygen production contractors (Cuprammonium process)

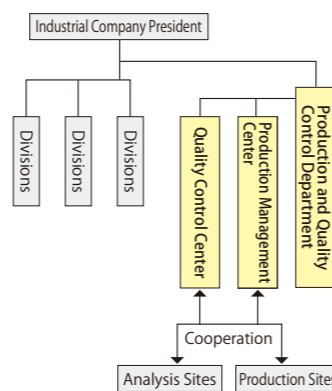
Measures for Quality Control of Industrial Gases

Air Water is making new efforts to stably supply industrial gases more than ever so that our customers can use industrial gases without anxiety. The Production and Quality Control Department of the Industrial Company strengthens management of facilities in production sites throughout the country and quality control of product gases.

The Production Management Center manages production technologies, including selection of facilities meeting demands of our production facilities throughout the country and maintenance of the facilities after installation.

Meanwhile, the Quality Control Center certifies analysis techniques that ensure quality of product gases and controls quality through the use of product information and certificate of analysis issued at the respective site.

Through these activities, the entire Group maintains production facilities and product gases in an integrated manner and will ensure stable supply to our customers, applying the "Air Water Quality."



Quality Control Structure of Industrial Gases



Certification of Gas Analysis Technique

Measures for Quality Assurance

Efforts on Quality Management Systems

In the Air Water Group, each Group company has acquired the ISO9001 quality management system certification.

In fiscal 2014, courses to train internal auditors were organized by Air Water in five locations, and employees of the Air Water Group participated in the training.

Air Water provided support to Shinano Eisan Co., Ltd. and Shinano Air Water Inc. which acquired the ISO9001 certification in February 2015.

Sharing Information on Quality Assurance

Air Water distributes *Quality Assurance Information* company-wide to share information on quality assurance with persons responsible for and persons in charge of quality assurance in the departments of the Company and the Air Water Group companies. Four issues were published in fiscal 2014, featuring information on the revision of the regulations related to the rules on quality assurance, schedule of workshops on quality assurance, and other topics.



Quality Assurance Information

Workshop on Quality Assurance

Air Water holds quality assurance workshops with an aim to raise awareness on quality assurance and to share information and technologies within the Air Water Group. In fiscal 2014, two workshops were implemented.

One was "Quality control seminar" held at three venues throughout the country to learn the basic knowledge on quality control, targeting young technical staff in the Group companies.

The other was a workshop to share information and technologies within the Group companies and to learn points and methods for problem solution, targeting persons responsible for and persons in charge of quality assurance in the Group companies. The workshop included introduction of cases of the Air Water Group related to quality assurance, a lecture by an outside lecturer with the theme "Techniques to visualize problems" —become aware of a problem, think about solutions, and take an action—, and a group practice.

We will continue to hold quality assurance workshops in a systematic manner, to raise awareness on quality assurance and to promote the sharing of information and technologies within the Group.



Workshop on quality assurance

Measures for Food Safety

Food Safety System

Air Water makes efforts to ensure quality of food products through the introduction of food safety management systems, including ISO22000 and FSSC22000.

In addition, with the aim of improving food safety of the entire Group, "Staff committee on quality and safety" has been held every month since October 2014 focusing on the improvement of quality control and quality assurance systems and the elimination of complaints.

The committee discusses the strengthening of food defense* measures and methods for foreign substances management that is of major concern to consumers. By sharing information on specific practical measures and know-how developed by the AWI group companies over the years, persons in charge of quality visit five plants of the Group companies to conduct an inspection from multiple perspectives toward improvement of quality control and quality assurance.

* Activity to prevent intentional contamination of food products



Strengthening of abilities to respond to food accidents by class

Staff Workshop Efforts on Food Safety

Air Water implements staff workshops on food safety for the purposes of sharing information and technologies on agricultural and food businesses, improving knowledge and awareness of "Food safety and security," and preventing food accidents.

In fiscal 2014, a workshop was held in November. Participants in the workshop consisted of staff members from the divisions involved in food products and staff members in charge of quality control and quality assurance from the Group companies. "Measures for foreign substances" was selected as the theme, and a lecture and activity reports of the companies were provided. Measures for foreign substances management and anti-food-terrorism have been a big issue in food manufacturing sites in recent years. We will continue to make efforts to improve quality control and quality assurance.



Staff workshop on food safety



Relationship with Employees

(Toward Creating a Workplace Environment in Which Employees Can Work with a Sense of Security)

ISO26000
6.4 Labor Practice

Air Water believes that ensuring safety is a basic premise of its corporate activities, and that the Company will not survive, nor will it grow, without the safety and security of its employees. Under the Safety and Health Basic Policy, information related to safety is shared and efforts are being made toward the goal of zero work-related accidents. The health of employees is our first priority, and we strive to create a workplace where employees can find job satisfaction.

Safety and Health Basic Policy

Air Water has established the "Safety and Health Basic Policy" as the basics for measures concerning safety activities, and is working on the activities.

Air Water Group Safety and Health Basic Policy

1. We aim to achieve zero work-related accidents, and advance comprehensive and systematic safety measures.
2. We promote the formation of a comfortable workplace environment, while securing employee safety and health.
3. We comply with all related laws, and create workplaces with clear lines of responsibility concerning occupational safety, traffic safety, occupational health, as well as safety and disaster prevention.

Under the above Basic Policy, we strive to increase each employee's awareness of the "Safety and Health First" rule and create an appropriate work culture through safety and health education.

Safety and Health Structure

Air Water has established a Central Safety and Health Committee structure to secure workplace safety and health. The Central Safety and Health Committee meets on a regular basis under the Safety and Health Management Headquarters Director, with the participation of the committee member responsible for safety, the committee member responsible for health, 25 chairpersons of the Health and Safety Committees, and officials from the Air Water labor union. The minutes of Central Safety and Health Committee meetings are disclosed internally using corporate networks for information sharing.



Safety and Health Structure Chart

To Achieve Zero Work-Related Accidents

Training on Safety

Air Water conducts various types of training concerning safety. In fiscal 2014, training programs titled "Staff Training on Safety" with the participation of staff members responsible for safety and health issues within the Group, and "Training for Technical Staff Members Responsible for the Safety of High Pressure Gas" with the participation of staff members who handle high pressure gas were implemented. In addition, we implement the following workshops: "Training to Experience Safety" targeting new employees, young employees, and the employees working on-site; and "Training on Risk Assessment" for staff members responsible for safety and health, leaders of workplaces, and employees working on-site within the Group.



Staff Training on Safety

Training to Experience Safety

The Staff Training on Safety is implemented with the aim of sharing information on work-related accidents and traffic accidents, and to spread the efforts concerning safety to the entire Group. The Training to Experience Safety, on the other hand, is implemented aiming at helping to prevent accidents by deepening knowledge of "risk" and "safety," as well as through understanding potential risks around oneself that exist in a workplace by sensing them.

Consciousness on safety is raised in the entire Group through the interaction among our staff members during these workshops.

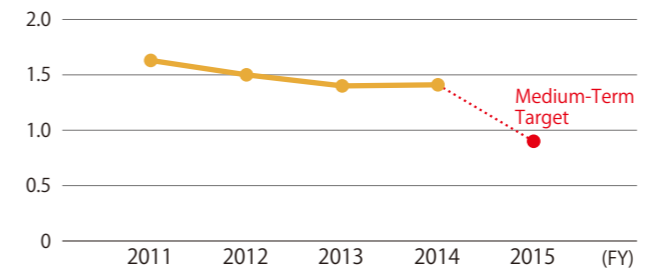
The Training for Technical Staff Members Responsible for the Safety of High Pressure Gas was implemented with the participation of a staff member responsible for safety issues from Ellenbarrie Industrial Gases Limited in India, which joined the Air Water Group in October 2013. We exchanged information through a presentation on the capacity of air separation systems, an outline of filling facilities, and safety measures in India, and group discussions on various themes among the participants. The training gave participants a new perspective and improved their knowledge and abilities in the safety of high-pressure gas.

Industrial Accident Statistics

In fiscal 2014, 43 cases with days away from work were reported within the Air Water Group. The number increased from 36 cases in fiscal 2013. Meanwhile, the frequency rate of accidents*1 for the cases with days away from work in fiscal 2014 was 1.41, and remained flat.

When looking at the causes of accidents in fiscal 2014, "cases of falls and stumbling" and "cases of crash and falling down" together accounted for about 40%. When "cases of getting a finger, hand, arm, or foot caught in machinery" and "cases of cuts and grazes" are included, they together accounted for about 60%.

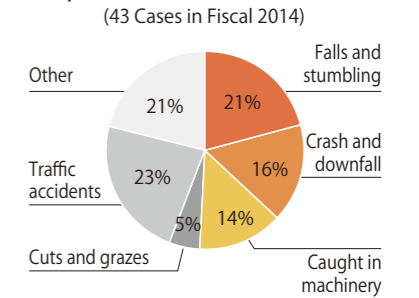
Frequency Rate of Accidents for the Cases with Days Away from Work



*1 Frequency rate of accidents for the cases with days away from work is an indicator for the frequency of industrial accidents. It is a rate expressed by the number of people encountering an accident per one million total working hours.

Taking into consideration the types of business as well as the number and composition of employees, the Air Water Group has set the medium-term target of the frequency rate of accidents for the cases with days away from work as 0.90 or below, for the period fiscal 2013 to fiscal 2015.

Breakdown of the Cases with Days Away From Work



Range: Air Water Inc., consolidated subsidiaries, equity-method subsidiaries, equity method affiliates, non-consolidated subsidiaries

Efforts for Reduction of Industrial Accidents

In order to reduce industrial accidents within the Group, we decided to carry out "Activities to eliminate fall accidents" as priority measures against industrial accidents in fiscal 2015.

"Falls and stumbling" and "Crash and falling down," which accounted for about 40% of the causes of industrial accidents in fiscal 2014, may occur in all workplaces. Accordingly, the aim of the activities is to reduce industrial accidents while employees working in their workplaces are aware of the danger of falls, find the causes, and take appropriate measures.

The activities include displaying a "Fall accident prevention poster" in areas in workplaces where fall accidents may occur, workplace patrol using "Fall accident prevention check sheet," and activities to introduce 4S (tidiness, orderliness, cleanliness and standardization), promotion of visualization of areas where fall accidents may occur, and other activities. We are making efforts to spread these activities to workplaces.



Fall accident prevention poster



Fall accident prevention check sheet

Safety Slogans

On the occasion of "National Safety Week," which is held every July, Air Water solicits "safety slogan" proposals from all employees, including employees at Group companies, in order to raise awareness of safety.

This contest provides a good opportunity for employees to think about safety at work and at home, and in fiscal 2014, there were 3,994 proposals.

An award is given for the best entry, and the slogan is displayed on posters in each workplace. In addition, the company with the highest entry rate and the company that provided the largest number of proposals are given awards for company excellence in safety and health in the Group, with the aim to recommend company-wide positive activities.



Safety slogan poster (FY2014)

Sharing Safety Information

Air Water distributes *Safety Information*, which includes information such as on the accidents that occurred within the Group and to promote activities for occupational safety and health at each workplace, through the corporate network.

Information on industrial safety and health, including causes of accidents, measures to prevent recurrence, activities to raise awareness of workplace environment improvement, and other information is shared within the Group, so that the information spreads in worksites.



Safety Information



Relationship with Employees (Making the Best Use of Diverse Human Resources, and the Efforts concerning Human Rights)

ISO26000
6.3 Human Rights

The Air Water Group is composed of more than 230 diverse Group companies. The Group is making efforts to protect human rights of diverse human resources and respect individualities and personalities so as to create a workplace where individual employees can work lively.

Efforts concerning Healthcare

For the thorough health management of employees, Air Water is working to increase the ratio of employees who have received medical examination. In addition to the provision of information on medical examination, employees who are on the list of persons who have not received medical examination, which is created by the corporate health insurance society, are informed to take a medical examination via each business establishment.

For employees who for which re-examination or observation is found necessary as a result of medical examination, individual health consultations are provided on a regular basis. In particular, health consultation including that provided by an outsourcing company is provided to employees who need to take specific health guidance due to metabolic syndrome. In addition, health-care seminars are held for employees who are diagnosed as suffering obesity or preliminary obesity.

We carry out these activities so that our employees can work while being in good mental and physical health through rapidly finding their health problems and having symptom improvement in the mild stage.

Ratio of employees who have received medical examination



For Creating a Workplace Where Employees Can Find Job Satisfaction

Air Water establishes a career application system and implements the system every two years for the purpose of employees voluntarily considering their career formations and the Company effectively using human resources through understanding intended careers and skills of all its employees.

Through the career application system, matching between the direction of the Company and intentions of individual employees is performed. In addition, organizational cultures are checked, and at the same time, the employees' intentions are reflected in the personnel system. Concerning the allocation of human resources, the contents applied are always confirmed and taken into consideration.

As an effort to improve skills of employees, the personnel training system has been established. The aims of the system are to provide places to increase knowledge, improve techniques, and raise awareness of employees according to job classification, and to boost consciousness of participants. Interaction among employees of the Group companies and opportunities to practice "Cross-sectional discussion and activities," one of our action

guidelines, are created through training. In fiscal 2014, six training programs were implemented targeting employees within the Air Water Group, including new employee training, second year follow-up training, worksite supervisor training, and managerial class training.

A correspondence education system has also been established to support capacity development of employees. The purpose of the system is to make employees consider the direction of their careers for their growth.



Website for applying correspondence education

Relationship with the Labor Union

Air Water believes that relationship between labor and management is like the wheels of a vehicle. We strive to establish a firm collaborative relationship through exchanging frank opinions, working toward the same direction while maintaining a certain distance.

In fiscal 2014, we discussed promotion of appropriate management of working hours, efforts on safety and health, and career development of employees engaging in manufacturing (review of appointment of senior team leaders) at the monthly joint management council. At the central round-table conference between labor and management held at the time of the regular meeting of the labor union, the current profitability and priority management policy were explained by the Company, and at the same time, appropriate labor management, safety and health, global response, utilization of female workforce, and other topics were discussed.

In addition, at the central joint labor-management conference held twice a year, safety and health and appropriate management of working hours were discussed.

Aside from the above, we hold the wage committee six times a year as an advisory body for employees' wages. At this committee, discussion and examination about employees' wages are undertaken by representatives of labor and management in an objective manner and from the position of the company as a whole. In fiscal 2014, the committee performed an analysis of public trends jointly with the labor union based on national surveys, and suggested revision of young employees' wages.

Labor and management will continue to work together and strive to create a corporate culture that becomes the foundation of our future growth.

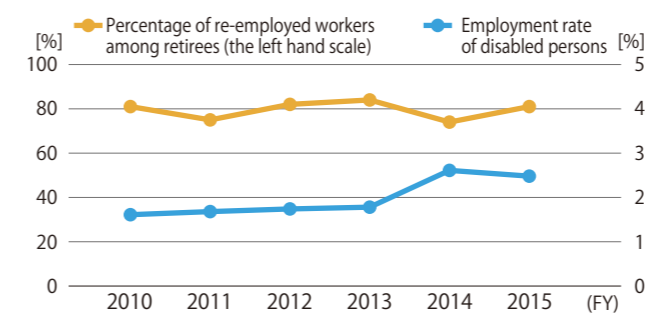
Toward Creating a Workplace Where Diverse People Can Work Lively

Air Water is working to create a workplace full of energy where diverse people can work lively.

We have established rules for re-employing retired employees to accommodate senior employees who wish to be reemployed after retirement. We reemploy senior employees who wish to be reemployed until they become 65 years old without applying a period of grace for the Law Concerning the Stabilization of Employment of Older Persons. In recent years, around 80% of retired workers have been re-employed, and we are making the most of the technical know-how that employees have accumulated over the years.

Concerning employment of disabled persons, the rate has exceeded 2% since fiscal 2014. We will try to maintain an employment rate exceeding that designated by law (2.0% since April 2013).

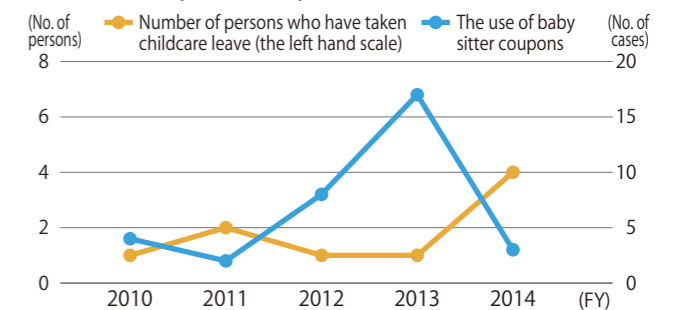
Re-Employment Rate of Senior Employees and Employment Rate of Disabled Persons



We have established a child-care leave system to accommodate employees who wish to take leave in order to take care of their children. We have also set up a childcare time system and a sick/injured child care leave system to support employees who wish to continue working while raising their children. At the same time, we have set up a system to support childcare through the use of babysitters, and discount coupons are provided at the time of using babysitters.

In addition to the above, we have established a nursing care holiday system, a nursing care leave system, and other systems to accommodate employees who are taking care of their spouse, father, mother, children, or other family members.

Number of Persons Who Have Taken Childcare Leave, the Use of Baby Sitter Coupons



Efforts on Human Right Issues

Air Water has established the "Air Water Group Code of Ethical Conduct" in which the code of conduct concerning workplace environment is stipulated as follows.

- Unwelcomed words or actions of a sexual nature in the workplace are not tolerated. Sexual harassment should never be accepted.
- Individual human rights are respected. Discrimination on the basis of gender, nationality, beliefs, race, age, social status, disability, or any other irrational reason unrelated to performance of duties is prohibited and should never be accepted. Training participants consider and summarize the relationship

of these matters with their duties and create reports before taking personnel training. At the training, they participate in group discussions based on their reports.

The importance of respect for basic human rights and discrimination issues is communicated and informed in "Labor law and personnel and labor management (introduction and enlightenment)" posted on the internal network. In "Guidelines for prevention of sexual harassment" posted on the same network, the definition of sexual harassment and rules to be observed by employees are stipulated to prevent sexual harassment in workplaces.

Making the Best Use of Non-Japanese (Global) Personnel

Inoueki Co., Ltd.*, a company of the Air Water Group, is a chemical trading company having its base in Kyushu, 20 domestic offices, and 9 overseas offices in Asian countries. Mr. Soo Yilum from Malaysia is an employee of the company who works at the headquarters in Fukuoka City as a salesperson of export business to the Philippines. He mainly handles raw materials used during the manufacturing process of electronic devices, and commercial materials for resin molding and metal surface treatment plants.

He says, "The working environment and customs in Japan are different from those in foreign countries. The way of thinking about things and working procedures are also different. In addition, in foreign countries, there are many regulations that have not been set in Japan. Therefore, it is necessary to conduct negotiations and conclude contracts with domestic manufacturers so that import and sale of items can be performed in foreign countries. It is challenging for me to coordinate schedules and opinions of concerned domestic and overseas parties."

"The most satisfying moment in my work is when I can make concerned domestic and overseas parties understand and close a deal. I joined the company three years ago and do not have much experience. However, I try to absorb as much specialized knowledge as possible in Japan, and in the future, I would like to work at an overseas affiliated company as an employee on temporary assignment."

*Inoueki Co., Ltd. will merge with Abe Denzai Co., Ltd., also a company of the Air Water Group, in October 2015 and become Air Water Material Inc.



Soo Yilum
Second Sales Section, International Business Division
Inoueki Co., Ltd.



Promotion of Fair Business Practices

ISO26000
6.6 Fair Operating Practices

For the continued growth of its business, Air Water strives not only to comply with laws and observe agreements with our customers and suppliers as well as with other arrangements, but also to maintain and improve trusting relationship with our stakeholders. The Company promotes fair business practices and would like to grow together with its stakeholders.

Purchasing Approach

Air Water has established its purchasing approach in the purchasing management regulations as follows.

- Air Water always conducts its purchasing activities in a proactive manner, thereby contributing to the development of the Company's business.
- Air Water builds long-term relationships of trust with its business partners on the basis of free competition, equality, and mutual trust so that as good partners, each party can exercise its capabilities to a higher degree in pursuit of mutual prosperity.

- Air Water selects its suppliers based on a comprehensive evaluation of the economic rationality of their goods and services. Selection is made without regard to nationality, location, or size of business, and new entrants are always given a fair and impartial opportunity to participate.
- In conducting its purchasing activities, Air Water considers conservation of resources and environmental protection in order to achieve harmony with the environment. In addition, the Company ensures that related laws as well as the "regulations" and "circulars" of the Company are fully understood. The Company is obligated to comply with the same.

Fair Dealings

The Air Water Group has identified thorough compliance with laws and regulations as one of the priority management issues and conducts fair dealings with our customers. In particular, as prices of products or services we supply are set independently, it is ensured that concerned persons understand that they must not perform any act substantially restraining fair competition or any act falling under an unfair trade practice, for any reason.

Compliance to the Antimonopoly Act

After receiving a cease and desist order from the Japan Fair Trade Commission in May 2011, Air Water has been receiving advice on compliance to the Antimonopoly Act from outside experts on a regular basis and continuing to provide education to its officers and employees. Thorough control of contact with other companies within the same industry is maintained and our Compliance Center regularly monitors conditions of the entire Group concerning the operation and observation of internal regulations on compliance to the Antimonopoly Act.

Site visits are conducted so as to target companies that have newly joined the Air Water Group. During the visits, the companies' compliance systems are checked and it is ensured that the rules of the Air Water Group and other related matters, including those concerning the compliance to the Antimonopoly Act, are communicated and understood. In addition, efforts are made to ensure that the points to be noted and matters to be complied with in daily business activities are known and that quick response can be provided for inquiries about the Antimonopoly Act from salespersons.

Proper Price Pass-through Associated with the Rise in the Consumption Tax

According to the rise in the consumption tax in April 2014, the entire Group has taken appropriate measures, such as methods for price pass-through, price indication, etc., under the spirit of the "Act on Special Measures for Shift of Consumption Tax" toward smooth and proper price pass-through.



Court Decision on Violation of the Antimonopoly Act

The Company requested for a trial against an administrative monetary penalty payment order from the Japan Fair Trade Commission, claiming dissatisfaction with the standard for calculating the administrative monetary penalty. In September 2014, the court ruled that the trial decision was cancelled. Since the Japan Fair Trade Commission did not appeal against the court ruling, the court found in favor of the Company in October 2014.

The Company is committed to ensure compliance based on lessons learned from the reception of a cease and desist order under the Antimonopoly Act.



Making Progress and Growing Together with Local Communities

ISO26000
6.8 Community Involvement and Development

Local Communities and Air Water

The Air Water Group has nine Regional Business Companies throughout the country and more than 230 various Group companies. It is essential for these companies to be trusted by local people, in order to be closely tied to local communities and pursue businesses rooted in local communities. Each company is striving to become a trusted presence as a member of the local community.

This section presents efforts of Tateho Chemical Industries Co., Ltd., one of the leading companies in the seawater industry that

supplies magnesia products using bittern as a raw material generated from seawater and other products to various industries, on its interaction with local people in the Kinki district, and efforts of Saver SS Inc., one of the leading companies in our agricultural and food products businesses and manufactures and sells ham, delicatessen, frozen foods, and other food products, on food education activities and holding of plant tours targeting local elementary school students in the Hokkaido and Tohoku districts.

Efforts in Kinki District: Planting of Peach Trees in Toyofuku, Sayo Town, Hyogo

Tateho Chemical Industries Co., Ltd. was established and has been conducting its business in Ako City. The company has carried out various activities to interact with local people around six times a year since February 2013 for the revitalization of rural areas in Sayo Town in the Nishiharima district where the company is located. The activities include planting of peach trees and sweet corn seedlings, sweet potato digging, grass cutting, participation in a summer festival, and other activities.

These activities provide individual employees a chance to look at themselves in terms of what they can do to become a trusted presence as a member of the local community, which leads to vitalization and capacity building of the employees. The company will always value interaction with people and continue to carry out these activities, having a concept "Mutual prosperity among employees, families, and local communities."



Planting of peach trees

Efforts in Hokkaido and Tohoku Districts: Food Education and Holding of Workshop on Food Safety

Hayakita Plant of Saver SS Inc. held a tour for elementary school students in the region to observe the manufacturing process of the plant as part of educational activities. In addition, Shirakawa Plant of the company holds a workshop on food safety targeting children and their parents to enrich understanding of food safety, food sanitation, and food poisoning through experiencing making sausages.

Plant Tour for Local elementary School Students

In fiscal 2014, a plant tour was held where students of Abira Municipal Abira Elementary School were invited. The students changed into white coats and experienced sanitary measures, such as removal of dust on their clothes using a roller, careful hand-washing, etc. After observing the manufacturing process of ham and sausages, they ate ham and sausages hot from the oven. At a later date, the plant received a heartwarming book from the school in return for the invitation which contained the student's illustrations and messages, for example, "I learned that people working in the plant give the highest priority to safety." and "I enjoyed ham and sausages!" The plant will always value interaction with local people and continue to educate children on the importance of food safety and sanitation.



Scene from the plant tour and the message book in return

Holding of Food Safety Workshop

In cooperation with Fukushima South Healthcare Center, "Food safety workshop" has been held every year during summer vacation since 1998 where local elementary school students and their parents are invited. After they take an air shower at the entrance of the work site, children try to make sausages together with their parents. Since food poisoning tends to occur in summer, the importance of heating time during cooking is explained. After making sausages, they enjoy eating "The one and only original sausage in the world." The plant will continue to carry out educational activities on food safety and activities to experience the fun of manufacturing for local people, together with Shirakawa City, Fukushima.



Food safety workshop



To Continue Protecting Our Precious Earth

ISO26000
6.3 The Environment

The Air Water Group is engaged in a business that uses resources of the earth, including air and water. As such, the Group believes that activities to preserve the global environment are essential for the sustainable growth of its business.

Environmental Management

The entire Air Water Group is pursuing environmental management under the Environmental Basic Policy.

Environmental Basic Policy

Air Water has established the Environmental Basic Policy as the basics for measures on environmental activities, and is promoting the activities.

Basic Philosophy

Air and water—we are stewards of the great gifts of nature, and must consider ways of manufacturing products that are best for nature while also best for industry and life. We will allow air and water to return to nature after being used by human beings—to regain their pure, original state. We deeply believe that this is our responsibility to the future. We seek to be a company grounded in the providence of nature and the cycle of life. We aim to recycle the earth's precious resources.

Basic Policy

1. We work to conserve resources, conserve energy, recycle, and reduce waste products in all our business activities from research and development to production, sales, distribution and service.
2. We research and examine the impact on the environment from our business activities, establish technically and economically feasible goals for reducing environmental impact, and continuously work to achieve them.
3. We comply with environmental laws and regulations, establish voluntary standards as necessary, and work for environmental conservation.
4. We select resources (facilities, raw materials, subsidiary materials, components, etc.) required for business activities that satisfy technological and economic demands, but which also have a small environmental impact and little negative affect on local residents and employees.
5. Our research and development work gives consideration to the environment, safety and quality, and provides products, goods and technology development that contribute to the environment.
6. We promote acquisition of the ISO 14001 international standards for environmental management systems, and arrange structures for implementing our Environmental Basic Policy.
7. We use internal publicity and other activities to boost all employees' understanding and awareness of the Air Water Group Environmental Basic Policy. We disclose this Environmental Basic Policy to the general public.

Environmental Management Structure

The entire Air Water Group is working on environmental activities with our Chairman of the Board as the chief executive responsible.

The central role is played by the Environmental Management Promotion Department of the Compliance Center, which provides guidance on compliance with environmental laws and regulations at workplaces and Group companies, and promotes activities to reduce environmental load.

Efforts on Environmental Management Systems

In accordance with the Environmental Basic Policy, the Air Water Group promotes acquisition of ISO 14001 environmental management system certification, especially at manufacturing plants inside the Group which have a high environmental impact. Certification has now been obtained for 29 business establishments, including Group company plants.

In fiscal 2014, the Group held an information liaison conference of ISO environmental management systems concerning the amendment of the standards in 2015 with the participation of the business establishments obtaining the certification, for the purpose of sharing the information.

Environmental Risk Management

Risk Response Manuals

Air Water has established "Rules on Environmental Management" in order to comply with environmental laws and regulations and other requirements, to promote activities including contamination prevention, resource saving, energy conservation, and reduction of waste and chemical substances.

In addition, other rules and regulations, including the "Rules to Comply with Environmental Laws and Regulations," the "Regulation on Activities to Reduce Environmental Impact," the "Energy Management Procedures," the "Industrial Waste Treatment Procedures," and the "Response Manual for Environmental Pollution Accident," have also been established and thoroughly informed to Group companies to promote environmental activities.

Publication of Environmental Information

Air Water publishes *Environmental Information* to provide information such as information on amendments to environmental laws and regulations and environmental conservation efforts by other companies to workplaces and Group companies with the aim of reducing environmental risk. Seven issues were published in fiscal 2014, featuring information on the amendment to the Act Concerning the Recovery and Destruction of Fluorocarbons and other topics.



Environmental Information

Environmental Audits

Air Water develops an audit plan based on the level of environmental impact, the status of ISO 14001 acquisition, results of environmental audits in the past, and other aspects concerning the plants and business establishments of the Group, and conducts environmental audits periodically in order to guide their environmental preservation activities as well as their compliance of environmental laws and regulations.

In fiscal 2014, environmental audits were conducted in 37 business establishments. In addition, one audit was conducted for a business establishment having a license to collect and transport industrial waste.

Appropriate corrections have been made on the points raised during these audits, and the level of environmental management has been improved.



Environmental Audits

Education and Human Resources Development

Environment and Energy Management Staff Training Sessions

Air Water holds workshops for educating personnel at workplaces and Group companies about environmental activities and so on.

In fiscal 2014, "Responsibilities of waste discharging companies" was selected as the theme, targeting persons in charge of environmental promotion or persons in charge of waste management from the plants of the Air Water Group with high industrial waste risks. The workshop included a lecture on "Basic training for waste management" by an outside lecturer and a field trip to a waste treatment facility in Sakai City, Osaka. Participants improved their knowledge on industrial waste risks and learned how to make on-site conformation with the industrial waste treatment contractor. Through these workshops, we are working to make the plants properly carry out waste treatment and provide appropriate directions to their contractors.



Environment and energy management staff training session

Internal Environmental Auditors Training Sessions

Every year, Air Water holds training workshops for the internal environmental auditors at sites that have obtained ISO 14001 certification. Participants learn about ISO standard requirements and internal audit methods through text-based seminars, etc.

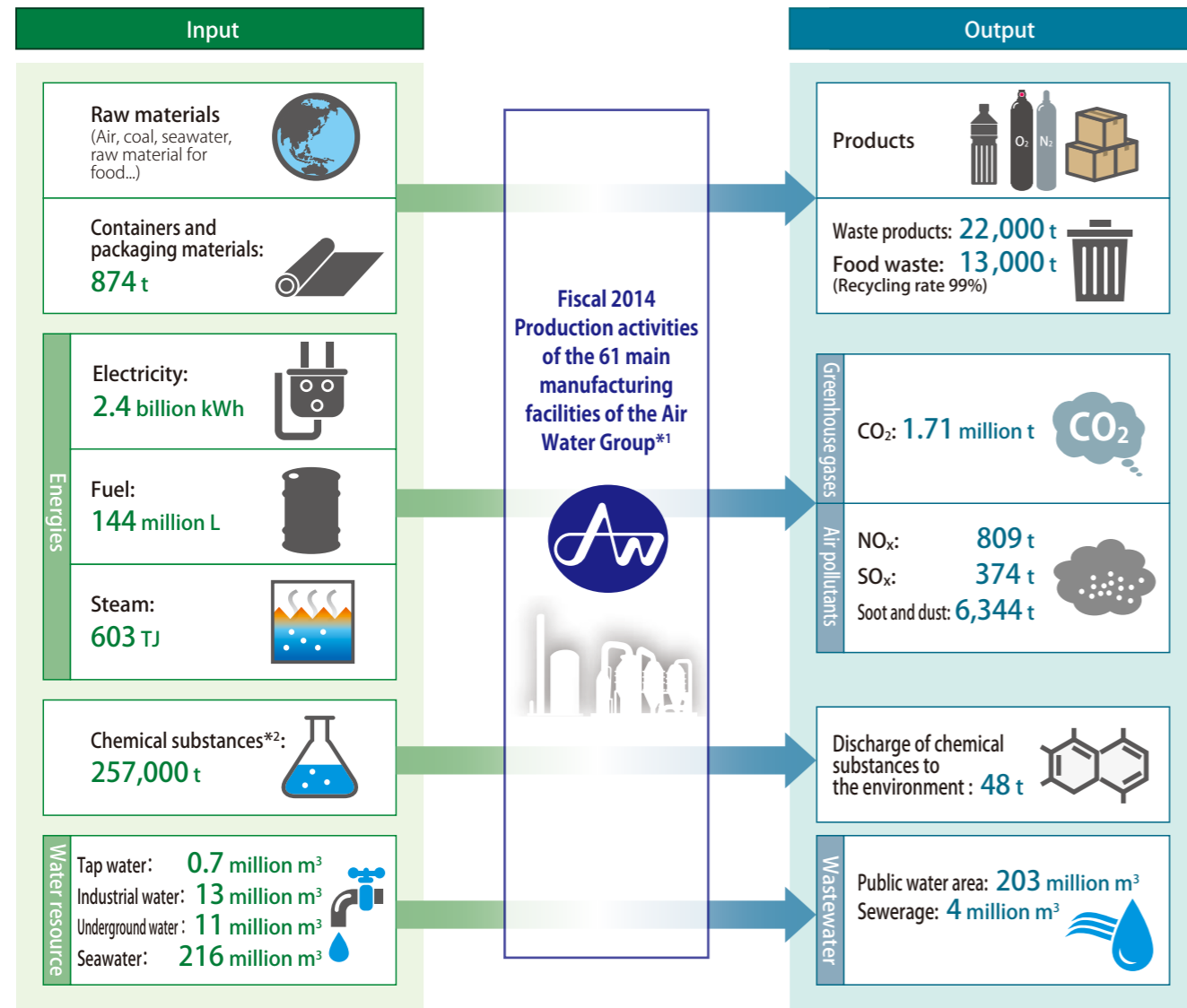
In fiscal 2014, training workshops were held in three regions nationwide (Hokkaido, Tokyo and Osaka) and 47 internal environmental auditors received training for the first time.



Internal environmental auditors training session

Materials Balance (Overall Picture of the Environmental Impact)

Providing customers with safe and secure products created from the earth's resources such as air and water, and returning them to nature after they have been used—Air Water's business activities can be said to be doing work involved with the earth. Air Water accurately tracks the resources, energy, and other inputs to its production activities, as well as the manufactured products, waste products, and other outputs, and works to reduce its overall environmental impact.



*¹ Scope (Energy Conservation Act: Designated energy management factories, Pollutant Release and Transfer Register Act: Factories that release and transfer 1 ton or more of Class I Designated Chemical Substances to the environment, Waste Management and Public Cleansing Law: Businesses discharging a vast quantity of waste, Law Concerning the Improvement of Pollution Prevention Systems in Specific Factories: Specific factories)
 • Industrial Gas Business : Air Water Inc. (Chitose, Wanishi, Kashima, Utsunomiya, Wakayama, Kobe, Hofu, Kokura, Uozu, Tonami), Daido Air Products Electronics, Inc. (Mie, Hiroshima, Nagasaki), NCSS Air Water Inc. (Hikari, Kumamoto), Chushikoku Air Water Inc. (Kudamatsu), Tomakomai Oxygen Co., Ltd., Fukushima Ekisan Co., Ltd., Niigata Ekisan Co., Ltd., Sagami-hara Ekisan Co., Ltd., Shinano Ekisan Co., Ltd., Shizuoka Ekisan Co., Ltd., Tokai Ekisan Co., Ltd., Matsuyama Oxygen, Inc., Daio, Inc. (VSUA Center), Shinko airTech Ltd. (Yokaichi), Air Water Carbonic Inc. (Ichihara, Osaka, Omuta, Sanyo-Onoda, Muroran), Air Water Bellpearl Inc. (Hofu)
 • Chemical Business: Air Water Inc. (Kashima, Wakayama), SUN CHEMICAL Co., Ltd.
 • Medical Business: Air Water Safety Service Inc. (Head Office), Saito Medical Industries Inc.
 • Agriculture and Food Product Business : Saveur SS Inc. (Hayakita, Shirakawa, Otaru), Air Water Farm Agricultural Production Corporation (Chitose, Azumiko), Gold Pak Co., Ltd. (Azumino, Matsumoto, Niwa, Aomori), Tomiichi Co., Ltd. (Head Office, Ebetsu)
 • Other Business : Air Water NV Inc. (Amagasaki, Gunma), Air Water SOL Inc. (Ibaraki, Gunma, Gifu), Air Water MACH Inc. (Nagano, Niigata), Nihonkaisui Co., Ltd. (Onahama, Aka, Sanuki), Tateho Chemical Industries Co., Ltd. (Head Office, Une, Hibikinada)
 *² Class I designated chemical substances under the PRTR Act



Measures to Address Global Warming

Air Water uses a great deal of energy for its business activities. As a Specified Business Operator under the Energy Conservation Act, the Company is working to track energy use accurately and conserve energy in all its operations, including not only plants, but also offices and research facilities.

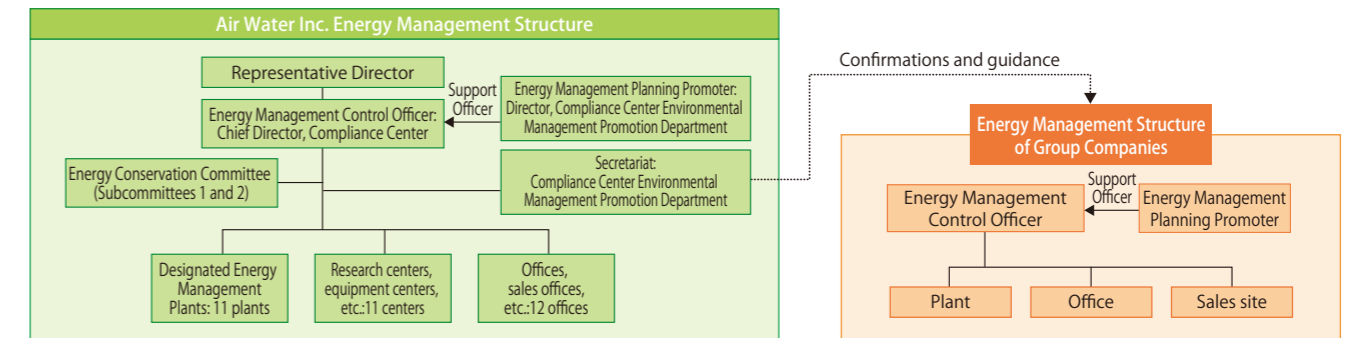
Energy Management Structure

As a Specified Business Operator under the Energy Conservation Act, Air Water has established an environmental management structure with the Compliance Center Manager acting as the Energy Management Control Officer. "Energy Conservation Committee Subcommittee 1" is held with the participation of the Energy Management Control Officer, the Energy Management Planning Promoter, and the officers responsible for energy management at the designated energy management plants, and "Energy Conservation Committee Subcommittee 2" is held with the participation of plants and business establishments whose energy

consumption is relatively small. The Committees study various aspects concerning conformance to the Energy Conservation Act, exchange information on energy conservation, and consider specific business practices such as those related to data and reports in accordance with the Energy Conservation Act.

The Environmental Management Promotion Department of the Compliance Center also confirms the energy management structures of each Air Water Group company through environmental audits and other measures, and provides guidance.

Energy Management Structure



Award for Excellent in Energy Conservation

Since fiscal 2013, the Air Water Group has awarded companies that have been designated as Specified Business Operators under the Energy Conservation Act and have exhibited excellent performance as companies excellent in energy conservation.

Best cases of energy conservation efforts are reported and introduced in the Environment and Energy Management Staff Training Sessions.

In fiscal 2014, Tateho Chemical Industries Co., Ltd. and Sagami-hara Ekisan Co., Ltd. received the award.

Through widely reporting and announcing best cases, further efforts are made to promote and expand energy conservation and to increase motivations of the Air Water Group companies.



Award for Excellent in Energy Conservation



Reports on cases of companies receiving the Award for Excellent in Energy Conservation



Proper Management of Chemical Substances and Waste

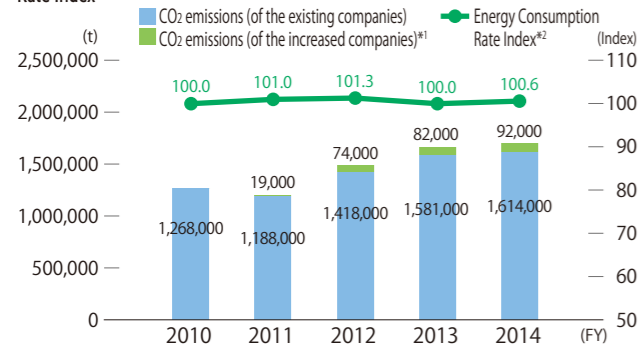
Air Water makes efforts on pollution prevention through proper management of the quantities of chemical substances manufactured, imported, and released. The Company is working to reduce the amount of waste discharge through the practice of 3R (reduce, reuse, and recycle) and to ensure compliance with the law.

Efforts by Plants and Offices

In the Air Water Group, presently 22 companies are designated as Specified Business Operators. The entire Group is working to conserve energy.

Note: CO₂ emissions of the electricity purchased are calculated using the CO₂ emission factors of electricity utilities, and the figures since fiscal 2012 are affected by the increase of emission factors due to suspension of nuclear power plants and other factors.

Air Water Group
Changes in CO₂ Emissions regarding Energy Consumption and Energy Consumption Rate Index



*1 The base year is 2010 and the scope is companies increased due to M&A and designation of Specified Business Operators.
*2 2010 energy consumption rate set at 100.

* Scope: (Specified Business Operators under the Energy Conservation Act) Air Water Inc., Daido Air Products Electronics, Inc., NCSS Air Water Inc., Chushikoku Air Water Inc. (Kudamatsu), Tomakomai Oxygen Co., Ltd., Fukushima Ekisan Co., Ltd., Niigata Ekisan Co., Ltd., Sagami-hara Ekisan Co., Ltd., Shinano Ekisan Co., Ltd., Shizuoka Ekisan Co., Ltd., Tokai Ekisan Co., Ltd., Matsuyama Oxygen, Inc., Daio, Inc., Shinko airTech Ltd., Air Water Carbonic Inc., Nihonkaisui Co., Ltd., Tateho Chemical Industries Co., Ltd., Saveur SS Inc., Air Water Farm Agricultural Production Corporation, Gold Pak Co., Ltd., Tomiichi Co., Ltd., Air Water NV Inc.

Mid- to Long-term Goals of Addressing Global Warming (energy conservation)

Goal	FY2010-2014 Results	Evaluation	Causes of the Differences
Reduce energy consumption rate by an average rate of at least 1% per year over the mid- to long-term (over the past five fiscal years)	Annual average increase of 0.2% over the past 5 fiscal years	○	<ul style="list-style-type: none"> Long-term suspension of operation of high-efficiency industrial gas production facilities due to the Great East Japan Earthquake Long-term suspension of operation of energy conservation equipment in chemical-related facilities Inefficient operation of industrial gas production plants due to a decrease in demand

Fiscal Year Goals of Addressing Global Warming (energy conservation)

Goal	FY2014 Results	Evaluation	Causes of the Differences
Reduce energy consumption rate compared with the previous fiscal year	Increase of 0.6% compared with the previous year	○	<ul style="list-style-type: none"> Deterioration in operation efficiency of industrial gas production facilities in plants where gas demand decreased significantly Occurrence of a problem in an industrial gas plant Due to an increase in the number of industrial gas production facilities in operation from two to three in a plant whose production increased, the production volume per facility decreased and operation efficiency deteriorated

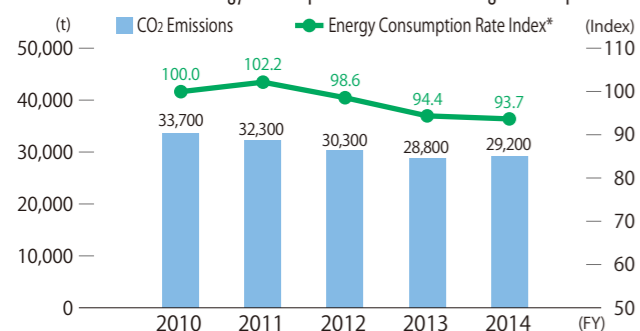
Evaluation: ✓ Goal achieved ○ Close to goal × Far from goal

Transportation Field Effort

Efforts as a Freight Consigner

As a freight consigner, the Air Water Group promotes energy conservation in collaboration with transportation companies.

CO₂ Emissions from and Energy Consumption Rate Index in Consigned Transportation

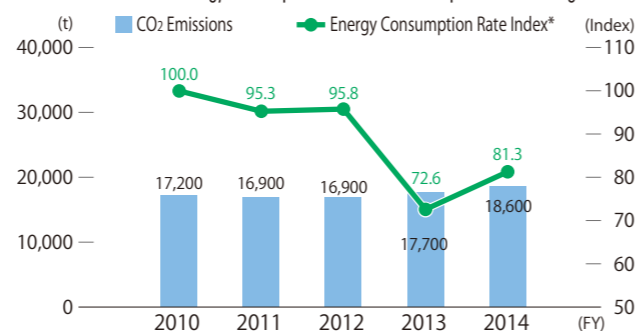


Scope: (Specified Consigners under the Energy Conservation Act) Air Water Inc., Nihonkaisui Co., Ltd.
* 2010 energy consumption rate set at 100.

Initiatives Befitting an Innovative Transportation Business

Air Water Specialized Transportation Inc., which manages transportation in the Hokkaido area, promotes energy conservation as a freight carrier.

CO₂ Emissions from and Energy Consumption Rate Index for Transportation as a Freight Carrier



Scope: (Special freight carrier under the Energy Conservation Act) Air Water Specialized Transportation Inc.
* 2010 energy consumption rate set at 100.

Mid- to Long-term Goals of Addressing Global Warming (energy conservation)

Goal	Results	Evaluation	Causes of the Differences
Reduce energy consumption rate by an average rate of at least 1% per year over the mid- to long-term (over the past five fiscal years)	Annual average reduction of 1.6% over the past 5 fiscal years	✓	Efficient delivery by constructing new VSU plants

Fiscal Year Goals of Addressing Global Warming (energy conservation)

Goal	Results	Evaluation	Causes of the Differences
Reduce energy consumption rate compared with the previous fiscal year	Reduction of 0.8% compared with FY2013	✓	Modal shift from the use of land transport to marine transport, and increase in the size and the loading rate of trucks

Evaluation: ✓ Goal achieved ○ Close to goal × Far from goal

Mid- to Long-term Goals of Addressing Global Warming (energy conservation)

Goal	Results	Evaluation	Causes of the Differences
Reduce the energy consumption rate by an average rate of at least 1% per year over the mid- to long-term (over a period of the previous five fiscal years)	Annual average reduction of 5% over the past 5 fiscal years	✓	Increase in the energy consumption rate due to increase in loading of large-sized vehicles and improvement of efficiency

Fiscal Year Goals of Addressing Global Warming (energy conservation)

Goal	Results	Evaluation	Causes of the Differences
Reduce the energy consumption rate compared with the previous fiscal year	Increase of 12% compared with fiscal 2013	×	Increase in the number of vehicles due to disapproval of borrowing of vehicles under the tightened laws and regulations, which caused deterioration of loading efficiency

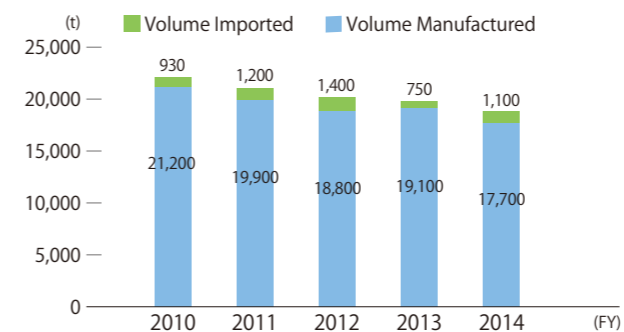
Evaluation: ✓ Goal achieved ○ Close to goal × Far from goal

Manufacturing and Import of Chemical Substances

In accordance with the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. (Chemical Substances Control Law), the Air Water Group makes appropriate notifications of general chemical substances concerning manufacturing and import of chemical substances.*

* Chemical compounds created by causing chemical reactions to occur with elements or compounds. (As defined under the Chemical Substances Control Law)

Amount of General Chemical Substances Imported and Manufactured



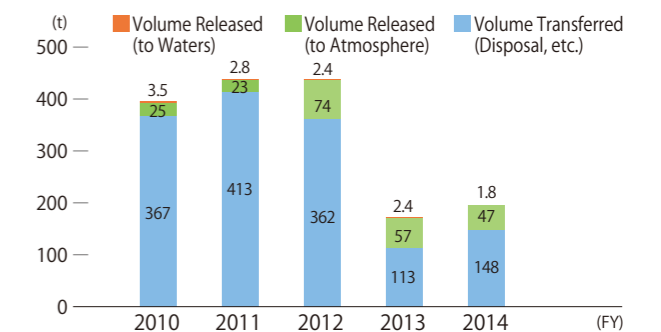
Scope: (Companies subject to the Chemical Substances Control Law) Air Water Inc., Daido Air Products Electronics, Inc., SUN CHEMICAL Co., Ltd.

The Amount of Chemical Substances Released to and Transferred in the Environment

The Air Water Group closely tracks the amounts of chemical substances handled, released to and transferred in the environment.

In accordance with the Pollutant Release and Transfer Register Act, the businesses subject to the law that handle 1 ton or more of Class 1 designated chemical substances (or 0.5 ton or more of specific substances) notify the national government of the amounts released and transferred. SUN CHEMICAL Co., Ltd., which is involved in the chemical business, has recycled solvents and reduced the amount of chemical substances transferred since fiscal 2013.

Amount of PRTR Substances Released to and Transferred in the Environment

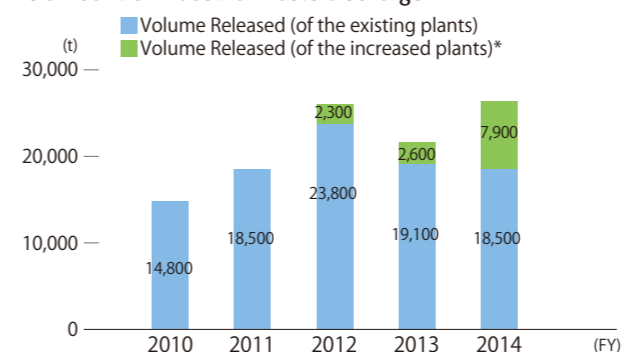


Scope: Same as the scope of "Materials Balance" on page 28.

Waste Management

The Air Water Group promotes environmental conservation and effective use of resources by reducing the amount of waste discharge through the practice of 3R (reduce, reuse, and recycle).

The amount of industrial waste discharge



Scope: Same as the scope of "Materials Balance" on page 28.
* The base year is 2010 and the scope is plants increased due to M&A, etc.

Introduction of the Management System for Compliance with the Waste Management Law

Under the condition where responsibilities of businesses discharging waste have been strengthened year by year under the Waste Management and Public Cleansing Law, Air Water introduced the Management System for Compliance with the Waste Management Law in order to prevent human errors, such as entry mistake/omission of the manifest at a discharging site, expiration of the contract, certificate, manifest, and the date of on-site confirmation, etc., and to exercise waste management without relying solely on individual knowledge and experience. The Company introduced the system in its manufacturing plants in fiscal 2014 and is scheduled to introduce it in its major business establishments in fiscal 2015.

Management System for Compliance with the Waste Management Law



Corporate Profile (as of March 31, 2015)

Company name:	Air Water Inc.	Paid-in Capital:	¥32,263 Million
Head Office Address:	12-8 Minami-Semba, 2-chome, Chuo-ku, Osaka, 542-0081, Japan	Number of Employees:	10,147 (Consolidated)
Established:	September 24, 1929	Number of AWI group companies:	232 (including 81 consolidated subsidiaries)
Representative:	Masahiro Toyoda Representative Director, Chairman of the Board, Chief Executive Officer <small>(as of June 26, 2015)</small>		

Percentage of Sales by Segment (%) and Major Business Items

Other 17.0%

Salt, magnesium compounds, aerosols, rubber O-rings, logistics services, construction materials, and metal surface treatment (NV)

Agriculture and Food 10.8%

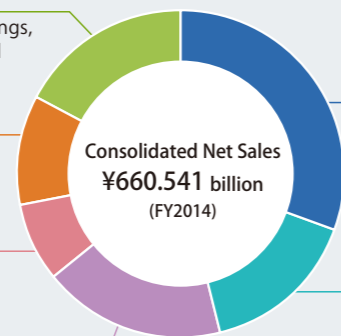
Ham, delicatessen, frozen foods, beverages, agricultural products, and agricultural processed products

Energy 8.0%

LP gas, kerosene, natural gas, LP gas equipment, and LNG equipment

Medical 17.9%

Medical gases, hospital facility construction, medical services, medical equipment, and home care



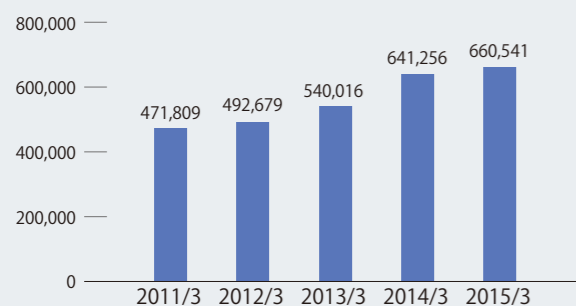
Industrial Gas 30.8%

Industrial gases, gas production apparatus, gas application apparatus, industrial hardware, and information and electronics materials

Chemical 15.5%

Basic chemicals, carbon materials, products from tar distillation, and fine chemicals

Net Sales (millions of yen)



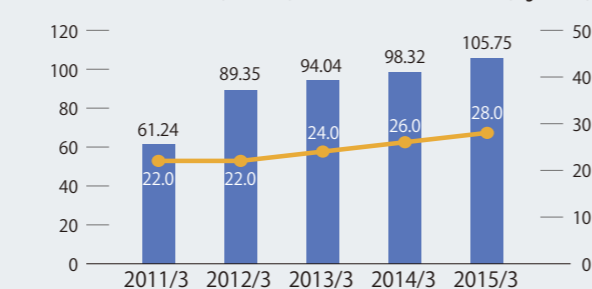
Ordinary Income (millions of yen)



Net Income (millions of yen)



Net Income per Share (yen) (Left scale) and Dividends per Share (yen) (Right scale)



Third-Party Opinion



Masatoshi Ikari

Manager, Senior Consultant
Environmental Risk Section
Consulting Department 1
InterRisk Research Institute & Consulting, Inc.
Part-time Teacher, Seikei University

After reading Air Water "Environmental and Social Report 2015"

Commendable Points

- Feature Story 1 "Pioneering the Seawater Industry" is very well worth reading. It can be said that not only continuation of the salt manufacturing business but also developments of the environmental business using byproducts, and FIT, biomass power-generation businesses, food, agricultural, and mineral water businesses as new businesses, are excellent examples unique to Air Water that solve social issues through these businesses. The comment of the mayor of Ako City shows that the efforts of the Company aiming to establish relationships of mutual prosperity between local communities and the company are objectively commended.
- By reference to last year's opinion, a table showing the relationship between ISO26000 and the structure of this report is added, and a mark is put on the pages of concern. In addition, disclosure of the data on the rate of employees taking medical check-up is also commendable. By the efforts of the Company to ensure taking medical check-up, the rate has been steadily increasing.

Points Where Further Improvements Are Expected

- As for CSR information, not all the information is positive. This report includes negative information, such as information of

industrial accidents and reception of a cease and desist order under the Antimonopoly Act. An attitude to disclose such negative information tends to be commended in recent years. If there is other negative information, for example, any serious product or quality complaint or problem in complaints handling, even if they are not serious, etc., it is desirable to disclose it with corrective measures and improvement plans.

- In this report, executives of the company appear often. However, I have an impression that "pictures" and "comments" of employees of the company, who are among the important stakeholders, do not appear often. A structure of a report that introduces young employees who will become leaders of the company in the future and mid-career employees who support work and operation of the plants is expected.

For the Next Fiscal Year

- In September 2015, the ISO 14001 international standards for environmental management systems was significantly revised and issued. In addition to "Pollution prevention" included in the existing environmental policy, "Use of sustainable resources," "Mitigation of and adaptation to climate change," and "Conservation of biodiversity and ecosystem" are necessary to be included according to the type and category of business under the new standards. In addition, I recommend consideration of the revision of the environmental basic policy of the entire Group with a view to business development in the future.
- It is understood that the increase in CO₂ emissions was unavoidable due to the increase in sales caused by M&A, etc., and the increase of emission factors. As described in Feature Story 1, the biomass power-generation business contributes to the reduction of a certain amount of CO₂ emissions. On the other hand, as the greenhouse gas reduction target, the government officially decided in July 2015 to reduce greenhouse gases by 26% by fiscal 2030 compared with fiscal 2013. I also recommend consideration of the strategy for "Mitigation of and adaptation to climate change" based on these internal and external latest trends.

* "Mitigation" is to take measures for the emission reduction and absorption of greenhouse gases. "Adaptation" is to prepare for the prevention and reduction of impact by climate change and to use new climate conditions.

In Response to the Third-Party Opinion

Kazuhiko Hatano

Corporate Director
Corporate CSR Officer
General Manager, Compliance Center
Air Water Inc.

This is the fourth year for us to request a third-party opinion on our "Environmental and Social Report" from Mr. Ikari. First of all, I would like to express our gratitude for the comments and suggestions that have been made.

We highly appreciate that Mr. Ikari commended Feature Story 1 of this report and our efforts based on last year's opinion. We will take serious note of the points raised in this report, and will try to reflect the "Points Where Further Improvements Are Expected" in

the next issue of the "Environmental and Social Report." Concerning the revision of the environmental basic policy of the entire Group pointed in "For the Next Fiscal Year," we will examine the necessity based on the revision of the ISO 14001 international standards for environmental management systems and the development of our businesses in the future. Concerning the government's greenhouse gas reduction target, it is considered that regulations will be set and various actions will be taken within the country in association with the official decision. We will strategically promote greenhouse gas reduction while paying close attention to the future trends.

We will continue to take serious note of objective opinions from Mr. Ikari and other persons outside the Company and try to enhance our environmental and social activities and information disclosure.

 **AIR WATER INC.**

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This report is available on Air Water's website.
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This report uses FSC-certified paper made out of wood from properly managed forests.



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Since 2009, Air Water has been supporting the "Morino Chonai-Kai" (Forest Neighborhood Association) activities, which is sponsored by the "Office Chonai-Kai," an environmental non-profit organization, through the paper used for the Environmental and Social Report. By donating 15 yen per 1 kg of paper, the Company is supporting forest thinning and contributing to nurture healthy forests in Iwate. Last year's Environmental and Social Report 2014 helped to facilitate the thinning of forest with an area of 0.14 ha.