AIR WATER INC.

Environmental and Social Report 2013

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 are continually working to identify opportunities to develop new and significant businesses that can make a real difference to communities large and small. In general, we focus on businesses that concern the human: medicine, nursing care, agriculture, food products, and mineral water.

We are proud of our unique capabilities and ideas, and we apply these in full force when taking up the challenge of each new business, regardless of scale. In all of our endeavors, we design environmentally responsible solutions that deliver a reliable flow of safe products and services to our customers.

To reflect the importance we place on our pride in our work and on the humans throughout the world who give our work meaning, we have added the words *pride* and *humans* to our management philosophy statement.

This year's Environmental and Social Report introduces a number of our business initiatives, and explains how we are leveraging our unique capabilities 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.

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.

Contents

Editorial Policy

This twelfth edition of the *Air Water Environmental and Social Report* is intended to provide a balanced view of our commitment to Corporate Social Responsibility (CSR) as it is practiced throughout our Group and in the many different businesses we operate. As editors, our goal has been to produce a report that will be interesting to a wide range of readers.

- The 2013 Report begins with commitments from the top. This is followed by a business overview, two feature stories, a governance & compliance overview, an environmental report section, and a social report section. The report covers the corporate activities of Air Water Inc. and its Group companies during fiscal 2012.
- This report is based on data from April 1, 2012 to March 31, 2013. We also include some information about more recent initiatives.
- This report complies with the *Environmental Reporting Guidelines* from Japan's Ministry of the Environment, and with other relevant guidelines. Please note, however, that we are unable to provide quantitative results in certain areas—such as green procurement and environmental accounting—where initiatives have not yet been fully implemented.
- Our feature stories showcase two on-the-ground examples of our commitment to social responsibility: Daio's VSUA plant and Air Water's LP-gas power generator truck. We include comments from outside associates to help clarify the social value of these facilities.
- 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 governance & compliance section, and the social report section, describe our basic approach to these obligations, and provide a candid assessment of our current status.

Serving the Earth, Its Humans, and Our Future. Making Our Contribution through Businesses That Create True Value.

Manufacturing enterprises in Japan have faced a difficult environment over the past three to four years. While the Great East Japan Earthquake of March, 2011 struck a massive blow, the country was already mired in long-term economic stagnation. Meanwhile, the prolonged overvaluation of the yen has stifled exports, driven manufacturing offshore, and hollowed out our domestic industries.

Nevertheless, the Air Water Group managed to achieve sustained growth during this period by adhering to our All-Weather Management System and our Order Rodentia Style of Business™—an approach that allowed us to respond rapidly and vigorously to changes in the business environment. While our industrial gas and chemical businesses endured some difficulties resulting from the drop-off in Japan's core industrial activity, our "businesses linking humans" took up the slack and drove the growth of the entire Group. This success was achieved by rapidly assessing and responding to emerging societal needs.

Indeed, one of our core management goals is to expand our lifestyle and wellbeing enterprises—in medicine, nursing care, agriculture, food products, and mineral water. These "businesses linking humans" bring us closer to the publics we serve and enhance our standing in the regions where we operate. While we are well known for our industry-oriented enterprises including industrial gas and chemical businesses, we are devoted to making our presence in these lifestyle areas an equally essential part of our image.

To emphasize our commitment to integrating these new businesses into our Group identity, we have amended our management philosophy as follows:

> 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.

In particular, we added the word "pride" to emphasize our commitment to the unique business model we have established, and to signify the spirit we bring to our mission of creating new businesses. And we added the word "humans" to underline our determination to pursue new businesses that deeply connect with individuals and lifestyles. This revision expresses our determination to fulfill our corporate social responsibility through "businesses linking the earth" to contribute to the future of the earth and its environment, and through "businesses linking humans" to contribute to human lifestyle and wellbeing.

Meanwhile, our corporate responsibility in "businesses linking the earth" has grown especially demanding insofar as the nuclear power plant disaster in Fukushima guarantees that Japan will remain dependent on thermal power generation for many years to come—and will therefore confront rising energy costs, increased CO_2 emissions, and related economic and environmental issues. One way we can help to

Commitments from the

counter global warming and reduce CO_2 emissions is by continuing to expand our network of VSU (compact high-efficiency liquid nitrogen/oxygen co-production) plants. And we are also looking toward development of regional electric-generation businesses powered by renewable energy. In general, we shall continue to build frameworks capable of flexibly responding to emerging energy and environmental issues.

As we proceed to implement our new management philosophy, *safety* will become an increasingly important element of our corporate responsibility. As we continue building comprehensive and systematic safety measures, we shall also raise consciousness about safety throughout the organization, and promote personal safety awareness among all of our employees.

The Air Water Group fully understands that the purpose of our business activity is to make a positive contribution to society. The entire Group is dedicated to working together to create innovative value-generating businesses that benefit everyone we serve.

We look forward to the support and understanding of all our stakeholders.

Hiroshi Aoki
Representative Director, Chairman of the Board,
Chief Executive Officer
Air Water Inc.

H. Aoki

Top

Business Overview

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 products, mineral water, and more. The entire Group practices an "All Weather Management System" that maintains a clear focus regardless of management changes and business climate.

Driven by our Order Rodentia Style of Business™, our mid-size Group companies are continually opening up new areas of business, providing mutual support, and building the strength of the entire Group.

This year—fiscal 2013—sees the implementation of a new mid-term business plan, NEXT-2020 Version 2, that will help us reach our goal of 1 trillion yen in annual sales revenue by fiscal 2020. The new plan establishes three basic concepts.

Basic Concepts

Motto: Growth and Reform

Three Basic Concepts

1. Exertion of comprehensive strength through the pursuit of synergies. Use synergy to drive growth and reform.
2. Expansion of business involving people. Push growth into a new direction.
3. Acceleration of structural reform. Rebuild core businesses.

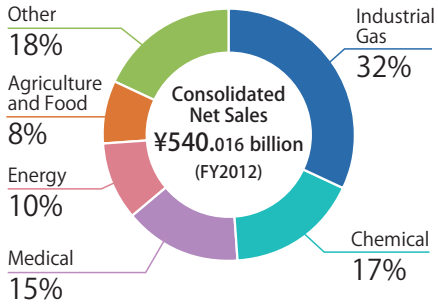
Moving forward, we shall establish execution strategies based on these basic concepts, and in accordance with our three-year business environment projections. In particular, we will restructure our industrial enterprises to achieve greater earnings power, and we will look to our lifestyle and wellbeing businesses to drive high growth.

In all of our endeavors, we remain dedicated to making a meaningful contribution to global society, to the regions we do business in, and to the people we serve. We are committed to earning your trust, and to providing services that all stakeholders recognize as useful and necessary.

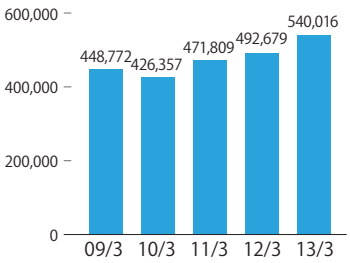
Paid-in Capital: ¥32,263 million

Number of Employees: 8,937 (consolidated)

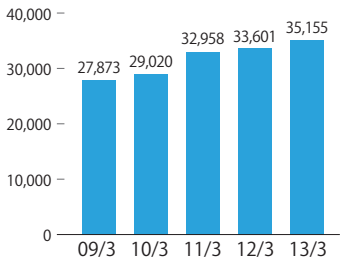
■ Percentage of sales by Segment (%)



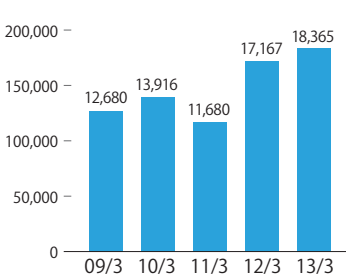
■ Net Sales (millions of yen)



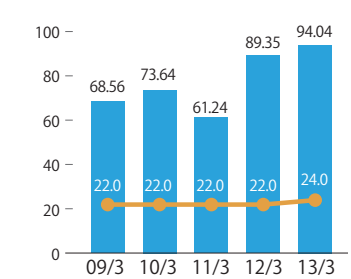
■ Ordinary Income (millions of yen)



■ Net Income (millions of yen)



■ Net Income per Share (yen)
Dividends per Share (yen)



Industrial Gas

As a full-service industrial gas supplier with deep expertise in production, storage, and transport technologies, we produce and deliver a safe and stable supply of gases mainly to manufacturing concerns but to other industries as well. In each case our methods and services meet the specific needs of the user. We provide a full range of services: cryogenic, PSA, and membrane air separation; cold evaporators (CEs), mobile LG containers, and gas cylinders; transport via tank trucks; and design, development, construction, and maintenance of gas plants.

Large cryogenic air separation system

CO_2 plant

Chemicals

We manufacture and sell a variety of coal-derived chemical products: coke-oven gas (a byproduct generated when producing coke to fuel blast furnaces); purified gases obtained by separating out and purifying the active constituents of coal tar; and crude benzene, BTX, products from carbon materials, and products from tar distillation. We also use synthetic organic chemistry techniques to produce fine chemicals—such as medical and agricultural chemical intermediates and electronic materials—for customers both in Japan and abroad.

Gas purification plant

Fine chemical plant (China)

Medical

As Japan's leading supplier of medical gases, Air Water keeps the country's medical institutions reliably stocked with medical oxygen and many other medical gases. We also serve hospitals by supplying medical instruments, gas tubing, and other medical equipment; by designing and building operation rooms and ICUs; by supplying consumables; and by providing for instrument sterilization. Outside the hospital, we provide for home medical care and nursing care. Our medical products and services are safe, reliable, and of very high quality.

Operation room, ICU showroom

Home oxygen concentrator

Energy

Under the Hello Gas brand, we deliver LP gas, kerosene, and other fuels to households and industrial facilities in Hokkaido, Eastern, and Central Japan. We also sell industrial-grade LNG; deliver piped natural gas; and manufacture and market LNG transport equipment and containers. We are also expanding our lifestyle solutions services—which now include home delivery of mineral water, and home improvement services—as we build closer ties with our communities.

Hello Gas spherical tanks

Hybrid hot water and heating system

Agriculture and Food

Our 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.

Syunsetsu Saveur products

Gold Pak products

Other Businesses

While most of our enterprises are in the five sectors described above, we are also engaged in seawater businesses, logistic business, and other specialized businesses whose technologies, products, and services contribute to the growth of the entire Group.

General household salts

Liquefied gas tank trucks

What is the Value of Air Water's Business to Society?

New VSU Strategies and the Emerging Role of the Daio VSUA Center

Satoshi Oda
Manager, Melt Shop
Production Department
Hirakata Division, Hirakata Works
Kyoei Steel Ltd.

The Air Water Group's new Daio VSUA Center—the Group's tenth VSU facility[1]—began operations in April 2012 in Hirakata City of Osaka. The final "A" was added to indicate that this plant, unlike the others, also produces liquefied argon.[2] Today, the Group's VSU strategy is entering a new phase, as remote monitoring becomes available for all VSU plants throughout Japan.

What is the value of Air Water's business to society as seen in the case of Daio VSUA Center? In this feature, we consider this question with relation to customers, gas manufacturing, design and development, and business strategy.

1. A compact high-efficiency liquid nitrogen/oxygen co-production plant designed on the concept of "local production for local consumption." This regional approach is designed to support local businesses, reduce distribution costs, and reduce overall CO_2 emissions. A VSU network that links various regions is considered an essential component of a BCP (business continuity plan) that can keep vital systems running in the event of a major disaster.
2. Nitrogen, oxygen, and argon—in that order—are the main constituents of air.

Note: Job titles and organization details were current at the time this feature was researched, in June 2013.

Customer Kyoei Steel, Ltd.

Working with Kyoei Steel for More Than Four Decades

Kyoei Steel is engaged in steel businesses and environmental recycling, principally in Japan's Kansai region. The company's electric furnace mill in Hirakata City, Osaka Prefecture, operating since 1971, has always received its oxygen, which it uses as a combustion improver, from Air Water.[3] At present, oxygen is piped over from the Group's Daio VSUA Center, located adjacent to Kyoei Steel's Hirakata Works. We spoke with Satoshi Oda, Manager of Hirakata Work's Production Department, about Daio's supply capabilities and responsiveness, and about expectations going forward.

"As electric furnace steelmakers, our approach is fundamentally different from that of conventional steelmakers working with blast furnaces and iron ore. Unlike them, we are in the recycling business. Today we're seeing a general trend away from original use of natural resources, in favor of reuse. This approach has great social value, and more emphasis should be placed on developing industries that operate on this basis.

"At the same time, those of us who are in management must also stay focused on profitability. In particular, over recent years we have been hit with a continuing rise in the costs of fuel and electric power. And so we've had to talk with Daio about somehow improving our cost effectiveness."

Before the VSUA Center came into being, Daio supplied oxygen from a PSA[4] system installed on the Kyoei premises. But with the PSA reaching the end of its service life, and with Daio getting set to build a plant of their own right next door, the conditions were right for establishing the new VSUA Center.

Working Together to Achieve Socially Beneficial Solutions

Manager Oda tells us more about the VSUA facility.

"Because the VSUA plant's oxygen output is very pure, we require less refining time, and the whole steelmaking processes is now more efficient. In addition, the closing of the PSA system has freed up extra electric power and water, and eliminated the need for daily maintenance checks. From a long-term perspective, the best thing about the VSUA system is that it offers better cost-performance than PSA." So while Daio's close relationship with Kyoei is of longstanding duration, it is becoming even stronger as a result of the

highly efficient gas production technologies that Daio brings to the scene.

Manager Oda concludes with the following observation. "I think that the Air Water Group's VSU technology has an important social function as well—for example, by supplying medical gas to hospitals. Users are happy because their nearby VSU facility is closely tied to their community and is ready to deliver just the right quantities at just the right time. In the event of a natural disaster, for example, Kyoei Steel would be essential for rebuilding the infrastructure, and Daio's reliability in maintaining oxygen supply would be of vital importance. We look forward to maintaining a strong relationship that will enable us both to fulfill our social mission."

3. The original 1971 supplier was Senboku Oxygen Co., Ltd, which today is part of the Air Water Group.
4. Pressure Swing Adsorption systems separate gas from air under high pressure by means of a selective adsorbent material. The Hirakata PSA system used nitrogen adsorption to produce oxygen.

Daio's VSUA Center

Gas Manufacturer **Daio, Inc.**

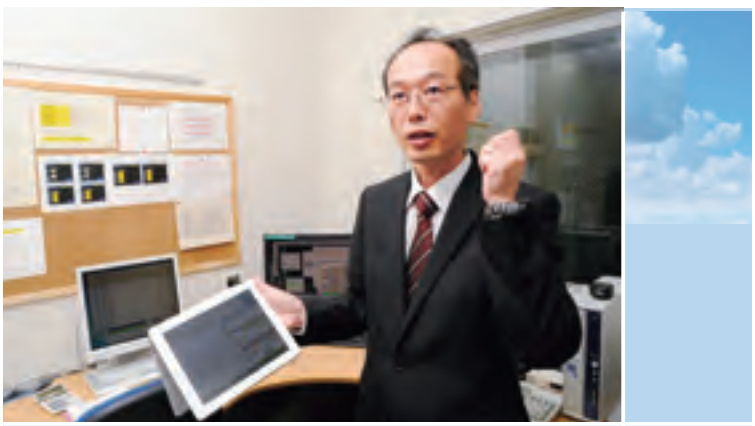
Finding Solutions for Our Customers

"The 20% jump in electric power costs that occurred in April 2013 was a significant blow to the gas production industry, since electric power accounts for more than half the cost of gas manufacture at the VSUA Center and at cryogenic air separation systems in general, it inevitably leads to a hike in the production cost," explains VSUA Center Director Hiroshi Fujimoto.

"Kyoei, in contrast, is slightly sheltered from the price jump: the stable supply and high purity of the VSUA-produced oxygen allows big users like Kyoei to achieve higher production efficiencies and lower electricity consumption."

Even so, Kyoei was also hit hard by price hikes, because—as an electric furnace steelmaker—it also uses large quantities of electric power to melt down scrap and refine and roll the resulting steel. The Daio VSUA Center is currently working to develop solutions to the power-price issues facing the two companies.

Hiroshi Fujimoto can view nationwide VSU data in real time on this iPad, which he carries with him at all times—always ready to respond to a crisis.



Hiroshi Fujimoto
Director, Production Headquarters,
VSUA Center, Daio, Inc.

Increasing the Potential of the VSUA Center

Daio has the capability to come up with various proposals toward resolving the customer's problems. Originally a seller of gas cylinders, Daio has now become a liquefied gas producer through the deployment of VSUA facilities. This evolution has given the company a broad ability to make proposals to its users over a wide range of issues, and to take effective steps to reduce its own costs of production.

"We handle the sales of all of the liquefied gas we produce. We conduct the sales promotion and we arrange the truck transport—with considerable attention to routing, load ratios, traffic-jam avoidance, and so on," Hiroshi Fujimoto explains. "We also concentrate on improving the skills of our operators, so that they know how to keep the system running, and can avoid costly shutdowns, even when experiencing strong wind and instantaneous voltage drops."

Because a VSUA facility also produces argon,

making its operation difficult, its operators are especially qualified. And the Daio VSAU Center has another technically important mission as well—it remotely monitors all the Air Water Group VSU facilities throughout Japan[5], and provides technical and operational support as needed.

"Our technical support improves operational efficiency at all of the VSU facilities in Japan. In addition, the provision of technical support by means of remote monitoring is a promising business in itself. We are currently thinking about including the monitoring system in operations we are starting up overseas—so that our Center would cover VSU plants both here and abroad."

This approach is especially helpful when installing facilities abroad—since Daio can diagnose problems and provide technical assistance without having to be on site. In this regard, Daio's continuing renovations at the VSUA Center will enable them to offer powerful solutions not only to Kyoei but to other customers as well.

"As a technologist," Director Fujimoto concludes, "I can tell you that what we really want is to use our technologies to reduce energy consumption and to rationalize our operations in a way that will benefit not only our customers, but our society as well."

Design Development **Air Water R&D Co., Ltd.**

Setting the Technological Sights on Argon

Air Water R&D Co., Ltd., develops both standalone and integrated technologies for all Group companies. Koji Tanaka, Managing Director of the Corporate Research Division, explains the development process that led up to the start of the VSUA facility.

"Air is about 78% nitrogen, 21% oxygen, 0.9% argon, and 0.1% other gases. While it is technically possible for a cryogenic air separation system to co-produce argon along with oxygen and nitrogen, in practice this has been economically feasible only with large systems—those with an oxygen extraction rate of at least 3,000 Nm^3/h. VSU cryogenic separation, however, currently has a maximum oxygen output of only 700 Nm^3/h—which would seem to rule out argon. But since argon has a high market price and can indeed be obtained through cryogenic separation, we wanted to add this capability to our VSU systems."

For these reasons, the company worked at designing for more efficient argon production, while searching for an opportunity and location suitable for an appropriately sized facility.

Technical development within the Air Water Group was also moving forward, and the opportunity arose at Kyoei Steel's Hirakata Works, when it came time to replace their PSA facility with a cryogenic separation system. The scale was considered appropriate for argon co-production, and serious work began.

"Electric furnace steelmakers run their operations at night, and they don't need oxygen gas during the day. But the VSU, like other cryogenic separation systems, usually runs continuously, and is economically practical only if ways are found to make use of the daytime product, which would otherwise have to be discharged. The solution was to liquefy the daytime oxygen. This approach also allowed the use of a much smaller oxygen setup, which helped bring down the investment cost."

With the downsizing of the plant, together with the possibility of selling the liquefied oxygen on the open market, it became feasible to also co-produce a stable supply of argon. In other words, VSU is not a one-design-fits-all approach; each system must be designed to meet the user's specific business needs.

Koji Tanaka
Managing Director, Corporate Research Division
Air Water R&D Co., Ltd.

The Continuing Goal of Cryogenic Air Separation Technology: Lower Electrical Consumption

Cryogenic air separation systems operate on an input that is completely free—air. But they also consume large quantities of electric power. Managing Director Tanaka and his fellow researchers have always found energy consumption to be their major development concern.

"These systems are energy hogs," he tells us. "We do everything we can to reduce their appetite, but we're coming up against the limit. One possible breakthrough is to use a hybrid facility that produces its own electricity—utilizing LNG, solar or wind power, or some other such source—and then use this to power the separation equipment. Excess electricity could be sold. I think there is at least some chance that this approach would work. In any case, our mission at Air Water R&D Co., Ltd. is to come up with new ideas, and to drive the technical capabilities of the entire Air Water Group."

Business Strategy | Industrial Gas Business Division, Industrial Company

Concepts: Support the Local Economy, Reduce CO_2 Emissions, and Promote Disaster Preparedness

Masaaki Sakamoto, Senior Executive Officer and General Manager of the Industrial Gas Business Division of the Industrial Company tells us how Air Water business strategies have worked with respect to Daio's VSUA facilities.

"Our original strategy with our VSU plants was to stimulate the local economy by the concept of "local production for local consumption," as opposed to building large plants with high-capacity output. This strategy is particularly appropriate today, since the industrial gas market seems to be hitting scale limitations, while there are still ample opportunities to meet local needs."

In addition, all of the Group's eleven VSU sites in Japan[5] (including the single VSUA facility, run by Daio) are mutually supportive. In the event of an emergency, they are ready to help each other out as needed, thereby reducing systemic risk. And they are also prepared to make prompt deliveries of medical gases to local medical centers. These capabilities proved their usefulness when the Great East Japan Earthquake struck in 2011.

"In Japan's Kinki region, before the VSUA plant was envisioned, we had one large plant to produce and supply liquefied gas, which we transported over considerable distances. We had high distribution costs due to long distance transportation; our high CO_2 emissions were becoming an environmental issue; and we were worried that we didn't have enough backup to withstand a natural disaster. So when Kyoei Steel, one of our major customers, decided to renovate their Hirakata Works, we decided that Daio would build a VSUA plant right on the site of their Hirakata headquarters. Now, by using a distributed system—with seaside facilities in Sakai and Kobe and our inland site in Hirakata—we have successfully resolved all of the issues I mentioned."

5. In Niigata, Kumamoto, Fukui, Aichi, Fukushima, Kanagawa, Ehime, Shizuoka, Nagano, Osaka, and Yamaguchi.

Masaaki Sakamoto
Senior Executive Officer, General Manager
Industrial Gas Business Division
Industrial Company, Air Water Inc.

Development of VSU Packaging

Masaaki Sakamoto concludes the story by telling us about the most recent developments in our VSU business.

"We're now developing VSU packages that be used to serve domestic regions that do not yet have VSU service, and also be shipped overseas."

With eleven VSU sites already in place, the Air Water Group is moving forward with the development of packages that include operational know-how, parts procurement, and repair methods. These packages simplify administration work, and facilities can be run successfully with very small staffs. Meanwhile, Daio's VSUA Center is ready to provide solutions and support in the event of any emergency.

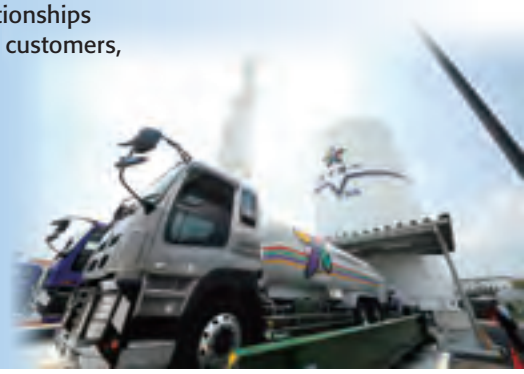
"Because argon separation requires special technical skills, our most experienced staff are stationed at Daio's VSUA plant. For this reason, we have also installed a remote monitoring system at the plant, from which the staff can monitor all of the VSU facilities in the country. They can help resolve emergencies, and dispense day-and-day advice that can improve operations and reduce costs. Of course, we plan to use this same system to monitor overseas VSU sites."

These new VSU solutions will offer stable operation at reduced costs. We believe that they will create value not only for customers but also for communities both here and overseas.

New Phase in VSU Strategy: Daio's VSUA Center

Mutual support among Air Water Group companies, and the close and trusting relationships we build with our customers, are the ultimate source of the value we create for our customers, communities, and society.

Our social contribution begins when we start solving the problems of the customers and communities that we face every day. Because our Group comprises many different and mutually supporting businesses, we have the opportunity to create considerable value for many communities. The VSUA Center's central role in the development of new VSU businesses has arisen from Daio's long and close relationships with its customers. Group affiliation and customer relationships: these are the true source of the social value we create for our customers, for our communities, for society, and for the world.



Earthquake Drills and Technology Development

The Mission of the LP-Gas Power Generator Truck

October 2011—six months after the Great East Japan Earthquake. The Life Solution & Energy Company and the Air Water Group's Hokkaido Body Company launch a joint project to develop Japan's first LP-gas* power generator truck. It is meant to be used as an emergency power supply for critical facilities. In this feature, the developers and other participants tell us how this socially important project was brought to completion, starting from an original idea proposed by Air Water.

* Liquefied petroleum gases offer promise as relatively clean life-supporting alternative fossil fuels with lower CO_2 emissions than petroleum and coal. LPG for home use is also known by the name of its main constituent, propane.

Note: Job titles and organization details were current at the time this feature was researched, in June 2013.

The Mobility of LP Gas Fuel and the Technical Expertise of the Designers Give Birth to New Electric Generator Vehicle

Air Water Specialized Transportation Inc., provides its customers with food storage and distribution services. When the massive earthquake struck on March 11, 2011, one of their customers called to request emergency delivery of food to stricken areas. Unfortunately, power outages at the company's automated warehouses made it impossible to meet this request. Unable to help victims waiting for relief, the staff at the company learned a powerful lesson in the importance of electrical backup. Naohiro Kodama, General Manager of the Energy Solutions Division at the Life Solution & Energy Company, relates what happened when his company heard about the outage and its results.

"We are developing LP gas businesses throughout the country. Since LP gas is easily distributed and is not bound to any fixed location, after the Great East Japan Earthquake we were awake that it could outperform town gas and electricity in the event of an earthquake or other disaster. In addition, a single compressed gas cylinder would be enough for a mobile supply. In a disaster, the most important thing is to get the lifelines back up. But we realized that we ourselves might have problems getting back up after a disaster. After all, our LP gas businesses rely on electricity to load gas into containers, and we had heard reports from other Air Water Group companies about the difficulties they sustained because of power outages. So that's when we thought that the mobility of LP gas might be very useful in an emergency. Maybe we could use the gas to power a mobile generator? So we contacted Hokkaido Body, one of the Air Water Group companies, and asked them whether they could develop a specialized emergency generator truck to supply electricity to buildings that had lost their power."

The First Attempt in Japan, and a Long Series of Trials and Errors. A Strong Sense of Mission.

"This was the first time to design such a thing in Japan," begins Toyoji Sugimura, President of Hokkaido Body Company. We do have experience delivering gas-turbine generator vehicles to power companies," he continues. "But this was our first time with LP gas. In addition, we had to use an imported LP-gas generator, since nobody in Japan was making them."

Many different issues had to be worked out. The generator truck had to be able to move and operate in disaster-stricken areas; the developers had to decide on the vehicle shape and weight and the method for mounting the generator; and the cost of production had to be considered. Also, the Life Solution & Energy Company was pushing to debut a prototype generator truck at the Air Water Group's Comprehensive Disaster-Prevention Drill scheduled for July 7, 2012. "In the final rush, our staff were working straight through weekends and holidays."

And thanks to the staff's professionalism and identification with the generator truck's social mission, the prototype was ready with time to spare.

Naohiro Kodama
General Manager
Energy Solution Division
Life Solution & Energy Company

Toyoji Sugimura
President
Hokkaido Body Co., Ltd.

Using a 100-kW Generator to Keep Weight Down and Usability Up

Naohiro Kodama tells us how things continued after the prototype was completed.

"We tried out all kinds of possibilities during the design stages, but finally we decided on a flatbed trailer, with the generator housed in a container. This simplified the task of removing the generator from the truck and setting it up on the ground. We also kept the weight to a minimum, so that if a disaster made roads impassable we could carry the container in by helicopter."

The prototype was built on the assumption that Air Water would be using the generator for its own facilities. So the capacity was set at 100 kW—the right size for running a gas loading facility.

Additional Needs Become Apparent at Demonstrations

To publicize the new generator truck, Air Water presented demonstrations, mainly in Hokkaido and the Tohoku area. Since this was Japan's very first LP-gas generator, it was essential to show people how it actually works.

"We held the demonstrations at regional disaster-prevention practice grounds, and at LP Gas Association events. Everyone was very surprised at how quiet the thing was when it was running. The audience understood that these generators would probably be set up near hospitals and evacuation facilities, so they liked that it was much quieter than a Diesel generator, and also that its exhaust gases are quite clean."

Naohiro Kodama also explains that visitors at the demonstration expressed additional needs. The most common request was for a more compact version—for example, with a capacity of about 10 kW, sufficient to power the pumps and lights at a gas station. Another request—which the developers were already working on—was for the addition of a stabilizer to ensure high-quality electric supply to hospitals.

The first shipment of completed generator trucks is expected before the end of fiscal 2013, with trucks to be sent to three secondary LP gas facilities in Hokkaido.

Air Water and Generator Trucks—Out in Front with New Technologies

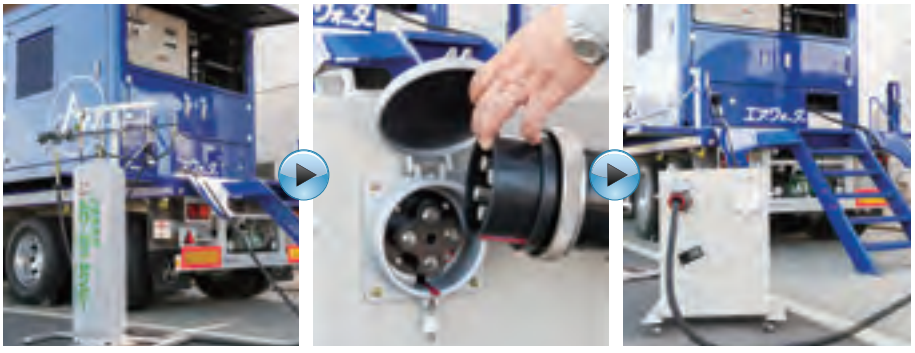
We spoke with Masamichi Sato, Executive Director of the Miyagi LPG Association, in the city of Sendai, who helped with publicity for the generator trucks.

"We asked to do a demonstration at the disaster-prevention practice grounds in the city of Kesennuma. After all, this was a new and original way of using LP gas, and the idea shows considerable foresight. We thought this was a very positive development for the LP gas industry."

Masamichi Sato
Executive Director
Miyagi LPG Association

Demonstrations of this type are extremely effective, because they don't simply display the trucks, but also show how they actually use LP gas to generate electricity. We conclude this feature with the following comment from Masamichi Sato.

"Why was Air Water the only one developing a new product like this LP-gas power generator truck here in this country with so many earthquakes? One of the reasons is simply that other companies weren't doing anything. So we have learned to look toward Air Water to initiate new activity in our industry."



A compressed gas cylinder supplies the generator truck with LP gas; and an easily plugged-in mobile distribution board makes the generated electricity available for use.

Toward Achieving Highly Transparent Management

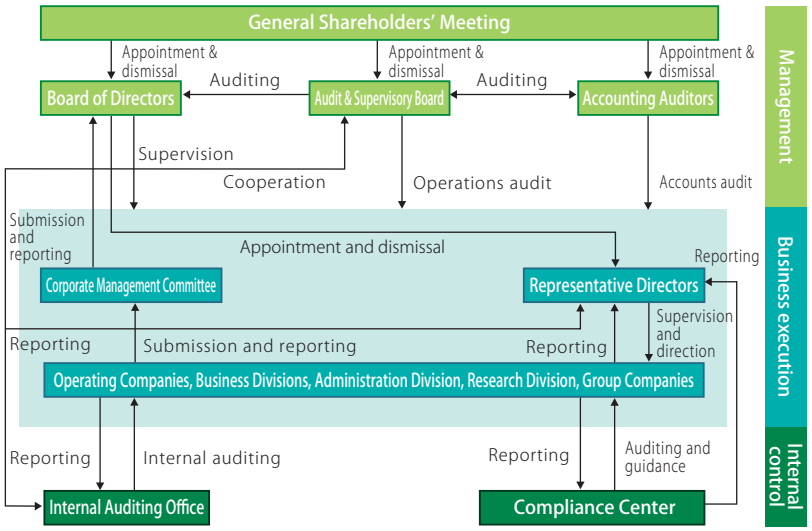
Air Water believes that gaining trust from all stakeholders is essential for continuous growth. Each business in the diverse business portfolio has the vitality to respond quickly to changes in the environment, and undertakes the "Order Rodentia Style of Business™," striving for trustful, highly transparent management.

Corporate Governance Structure

Basic Approach to Corporate Governance

The Air Water Group believes that conducting fair business activities 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.

Corporate Governance Structure



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 establishes rules regarding legal compliance.

Regarding compliance with the Antimonopoly Act, the Company receives periodic advice from outside specialists, and conducts ongoing education of directors and employees concerning the Antimonopoly Act. Furthermore, in addition to strictly regulating contacts with competitors, the Compliance Center maintains a system for periodic monitoring of the implementation of internal regulations and state of compliance concerning the Antimonopoly Act in each of Air Water's operating divisions as well as its Group companies.

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 member 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

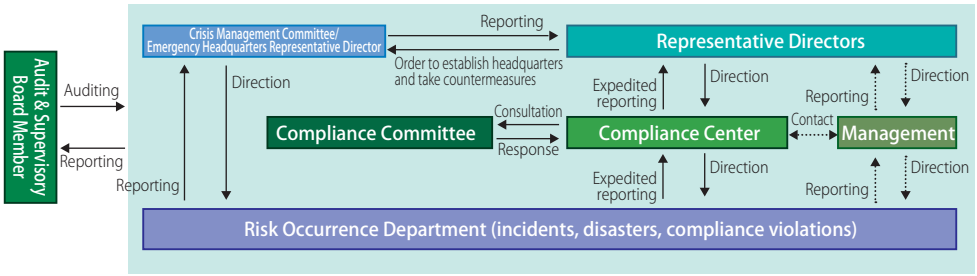
The Compliance Center, which is under the direct control of the representative directors, manages, as the supervisory division for the entire Air Water Group, the risks recognized as particularly important for business activities of Air Water and its Group companies, namely the risks concerning compliance, 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 (see below).

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



Risk Management Committee

Based on the response to the Great East Japan Earthquake that occurred on March 11, 2011, Air Water set up the Risk Management Committee in its head office, after assessing that further improvement of the risk management framework was necessary for Air Water as a Group. The Committee identified accident and disaster risks as well as compliance risks that must be addressed by each division in the Group, and reorganized the framework for risk response.

<Main Risk Responses>

- Furnished the Risk Management File (Emergency phone tree, various manuals, maps of business bases and other items are included).
- Posted response manuals for each risk on the corporate network.
- Introduced the "Safety Confirmation System" for employees at times of earthquake disaster.

Risk Management File

Response to Violation of the Antimonopoly Act and Prevention of Recurrence

In May 2011, Air Water received a cease and desist order and a payment order for surcharge from the Japan Fair Trade Commission for violating the Antimonopoly Act in connection with the sale of air separation gases (liquid oxygen, liquid nitrogen and liquid argon). Among these orders, Air Water has accepted the cease and desist order. In order to prevent similar situations in the future, the Company is continuing its effort in areas such as implementation of compliance education to all employees on the Antimonopoly Act on a regular basis, as well as improvement of the system for auditing the status of implementation of the Antimonopoly Act Compliance Manual and the status of compliance, while making efforts to ensure corporate ethics and to further enforce its compliance structure.

To Continue Protecting Our Precious Earth

The Air Water Group is engaged in a business that uses resources of the earth. As such, the Group believes that activities to preserve the global environment are essential for the sustainable growth of its business. The entire Group is pursuing environmental management under the Environmental Basic Policy.

Environmental Management

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 30 business establishments, including Group company plants.

* See our website for the status of ISO 14001 certification acquisition:
http://www.awi.co.jp/english/csr/

Environmental Risk Management

Establishing Risk Response Manuals

Air Water has established "Rules on Environmental Management" in order to comply with environmental laws and regulations and other requirements, to prevent pollution, conserve resources, conserve energy, and to reduce waste products and chemical substances. Other regulations and procedures such as the "Regulation on Activities to Reduce Environmental Impact" and the "Energy Management Procedures" have also been set to promote environmental activities of the Air Water Group.

In fiscal 2012, the "Industrial Waste Treatment Procedures" and the "Response Manual for Environmental Pollution Accident" were newly established and have been made known to all within the Group.

Publication of Environmental Information

Air Water distributes environmental information such as information on amendments to environmental laws and regulations to workplaces and Group companies with the aim of reducing environmental risk.

Environmental Information

Main Information Transmission Items (FY2012)

- Information about production and import of organic pigments containing byproduct PCBs
- Status report on the state of delivery of the control manifest for industrial waste, etc.
- Providing information on industrial waste

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 2012, environmental audits were conducted in 42 business establishments. Appropriate corrections have been made on the points raised during the 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 2012, a workshop was held on the theme of "waste management," to promote legal compliance and reduction of waste products within the Group. Forty-one employees, who are responsible for industrial waste management at each business establishment and Group company, participated in the workshop.

A lecture titled "Basic training on waste" was given by an external expert from AMITA Institute for Sustainable Economies Co., Ltd., and "Efforts toward zero emission" by the Printec Corporation was introduced as a case from the Air Water Group. Participants exchanged their views and information on waste, thereby improving the level of their capacity.

Staff workshop

Staff workshop (Group discussion)

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.

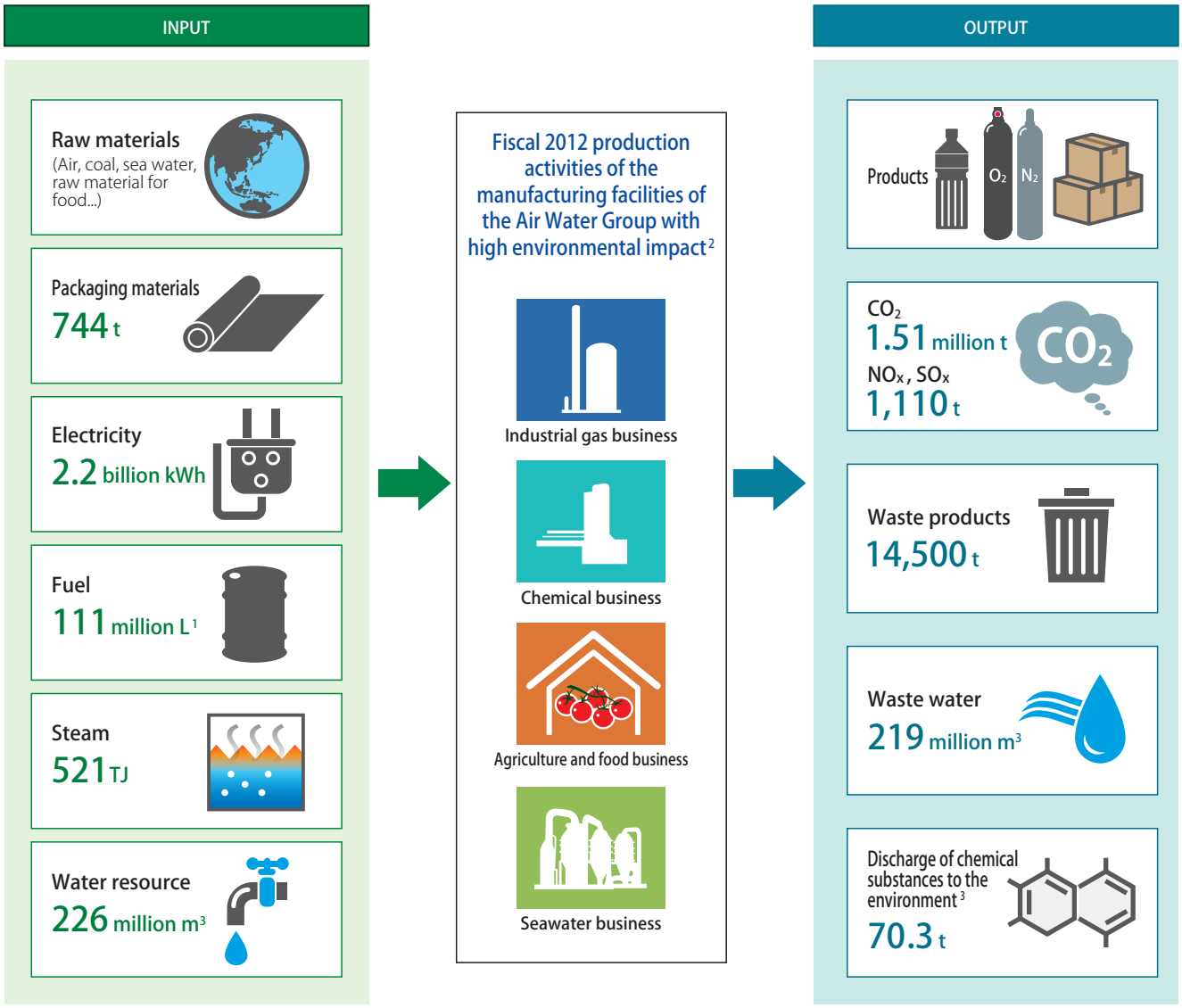
In fiscal 2012, training workshops were held in three regions nationwide (Hokkaido, Tokyo and Osaka) and 55 internal environmental auditors received training for the first time.

Internal environmental auditors training session

To Continue Protecting Our Precious Earth

Materials Balance (Overall Picture of the Environmental Impact)

Providing customers with safe and secure products created from air, water and the earth's resources, and returning them to nature after they have been used—Air Water's business activities can be said to be doing the earth's work. 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. Crude oil equivalent
2. Scope (manufacturing facilities with high environmental impact)
   - Industrial Gas Business : Air Water Inc. (Chitose, Wanishi, Kashima, Utsunomiya, Wakayama, Kobe, Kokura, Uozu, Tonami, Arai), 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., Sagamihara 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, Omuta), Kyodo Carbonic Inc., Air Water Bellpearl Inc. (Hofu)
   - Chemical Business : Air Water Inc. (Kashima, Wakayama)
   - Agriculture and Food Product Business : Saveur SS Inc. (Hayakita), Air Water Farm Agricultural Production Corporation (Chitose, Azumiko), Gold Pak Co., Ltd. (Azumino, Matsumoto)
   - Seawater Business : Nihonkaisui Co., Ltd. (Ako, Sanuki), Tateho Chemical Industries Co., Ltd. (Head Office, Une)
3. Class I designated chemical substances under the PRTR Act

* See our website for other data on environmental performance:
http://www.awi.co.jp/english/csr/

Measures to Address Global Warming

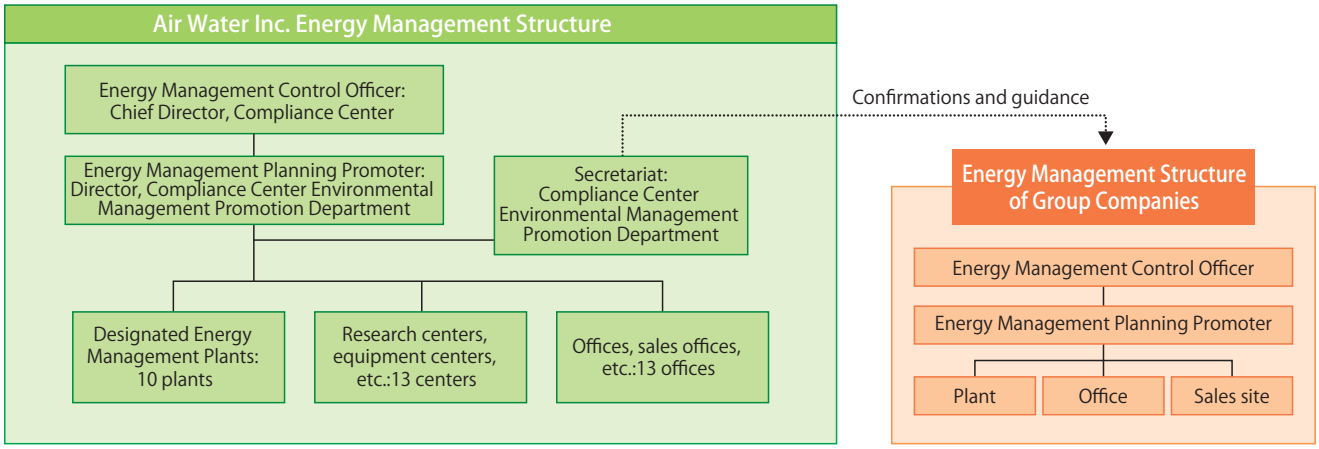
Air Water uses a great deal of energy in its business activities. As a Specified Business Operator under the Energy Conservation Act, the Company is working to track energy use accurately and conserve energy in all its operations, including not only plants, but also offices, business premises and research 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. The "Energy Conservation Promotion Committee" is held twice a year 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. The committee studies various aspects concerning conformance to the Energy Conservation Act, exchanges information on energy conservation, and considers specific business practices such as in 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 Group company through environmental audits and other measures, and provides guidance.

Energy Management Structure



Efforts on Electricity and Energy Conservation

Electricity Conservation Efforts

In response to the nationwide power shortages in the summer of 2012, the Air Water Group set up a Power Risk Countermeasures Committee comprising the BCP Subcommittees of the plants and the Power Saving Subcommittees of offices and other workplaces, and worked on saving electricity and on reducing peak power.

Power conservation action plans were prepared in offices and other workplaces to work on saving electricity. As a result, the total electricity used by approximately 300 business premises was reduced by 11% compared with 2010.

Energy Saving Diagnosis for Buildings and Plants

In fiscal 2012, the Air Water Group underwent an energy saving diagnosis conducted by the Energy Conservation Center, Japan for the Air Water R&D Co., Ltd. (Nagano) and for the ECOROCA® plant in Nagano.

Recommendations for improvement, such as improvement on air conditioning control, the use of inverters, temperature control of electric hot water supply systems, and shades on windows, have been actively introduced as energy conservation activities.

Energy Conservation for Personal Computers

Since June 2012, a power control application has been introduced in all personal computers used in the Air Water Group. This is a system whereby an idle condition of a computer (i.e., a condition in which the keyboard and the mouse is not operated) is monitored, and the power mode is shifted promptly and automatically to the most appropriate mode, resulting in a reduction of power consumption.

The use of electricity by personal computers has been reduced by 18% in fiscal 2012 through this measure.

Promoting the Introduction of Energy Conserving Lights

The Procurement Department of Air Water took the lead role in pursuing the change of the Air Water Group's lighting facilities in general, including lights in offices, plants, warehouses, and streetlights, all at once into energy conserving lights such as LEDs and electrodeless lamps.

In fiscal 2012, approximately 22,000 lights were changed to types of lights that conserve energy.

To Continue Protecting Our Precious Earth

Production Sector Efforts

Each plant of the Air Water Group is making efforts to reduce the use of energy in accordance with the Act on Promotion of Global Warming Countermeasures and the Energy Conservation Act.

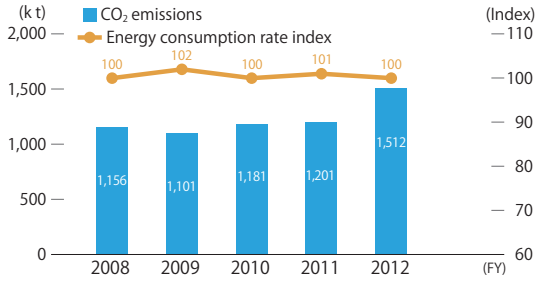
Energy consumption rates of the manufacturing facilities of the Air Water Group have remained almost flat during the past five fiscal years at an average annual reduction of 0.03%, with the fiscal 2012 figure showing a 1% reduction from the previous fiscal year.

CO_2 emissions amounted to 1.512 million tons, which was a 25% increase from the previous fiscal year.

This increase was mainly due to the effect of the CO_2 emission factor of electricity purchased after the nuclear power plants had been brought to a halt (161 k tons, which was a 13% increase from the previous fiscal year), and because of plants such as newly constructed plants and those of companies that newly joined the Air Water Group have been added to the scope (132 k tons, which was a 11% increase from the previous fiscal year).

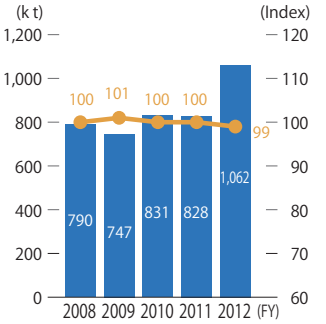
Air Water Group

Energy Consumption Rate Index* and CO_2 Emissions of Major Manufacturing Facilities

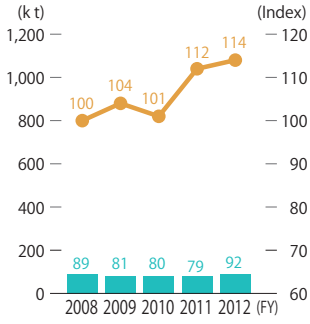


* 2008 energy consumption rate set at 100.
Scope: Same as the scope of "Materials Balance" on page 16.

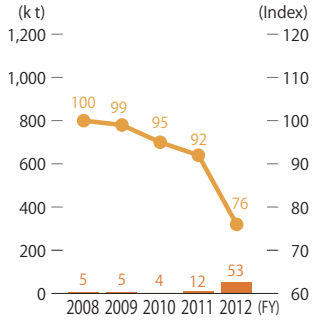
Industrial Gas Business



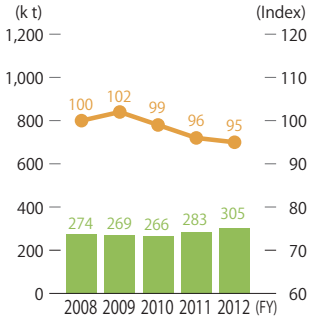
Chemical Business



Agriculture and Food Business



Seawater Business



CO_2 emissions Energy consumption rate index

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

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

Goal	Scope	FY2008-2012 Specific Efforts	2008-2012 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)	Industrial Gas Business	• Renewal to high-efficiency, large scale ASU plants • Construction of high-efficiency VSU plants • Renewal to high-efficiency equipment	Annual average reduction of 0.1% over the past 5 fiscal years	○	• Almost flat, due to reduced demand associated with the Lehman Shock and the impact of the Great East Japan Earthquake
	Chemical Business	• Improvement and renewal of facilities • Application of inverters in pumps, etc.	Annual average increase of 3% over the past 5 fiscal years	×	• Worsened due to reduced production of raw material gas associated with the fall in crude steel production at iron mills, and because some facilities stopped operation due to the Great East Japan Earthquake
	Agriculture and Food Business	• Improvement and renewal of facilities • Strengthened heat insulation of steam piping and valves	Annual average reduction of 7% over the past 5 fiscal years	✓	• Improved due to increase in production associated with the improvement in cultivation management technology
	Seawater Business	• Improvement and renewal of facilities • Rotation speed control of pumps and fans, and improvement of impeller efficiency	Annual average reduction of 1% over the past 5 fiscal years	✓	—
	Entire Group		Annual average reduction of 0.03% over the past 5 fiscal years	○	• Almost flat, due to reduced demand associated with the Lehman Shock and the impact of the Great East Japan Earthquake

Fiscal Year Goals of Addressing Global Warming (energy conservation)

Goal	Scope	FY2012 Specific Efforts	2012 Results	Evaluation	Causes of the Differences
Reduce energy consumption rate compared with the previous fiscal year	Industrial Gas Business	• Efficiency improvements through renewal of plant facilities • Change of equipment such as compressors to those with higher efficiency • Effective use of waste gas • Introduction of LED in lighting facilities • Reduction of losses during product filling	Reduction of 1% compared with the previous year	✓	—
	Chemical Business	• Reduction of electricity use by stopping reflux pumps • Reduction of electricity use by shutting down unnecessary facilities • Introduction of LED in lighting facilities	Increase of 1% compared with the previous year	×	• Worsened due to reduced production of raw material gas associated with the fall in crude steel production at iron mills, and because the facilities that stopped operation due to the Great East Japan Earthquake have not recovered
	Agriculture and Food Business	• Higher efficiency in air conditioning	Reduction of 18% compared with the previous year	✓	• Improved due to an increase in production associated with improvement in cultivation management technology
	Seawater Business	• Improvement of impeller efficiency for pumps and fans • Improvement of boiler combustion efficiency	Reduction of 1% compared with the previous year	✓	—
	Entire Group		Reduction of 1% compared with the previous year	✓	—

Transportation Sector Effort

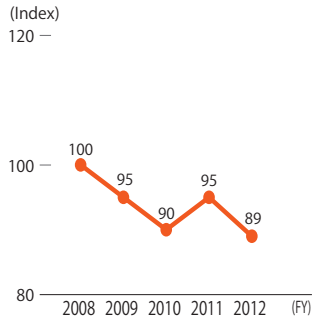
Efforts as a Freight Consigner

Air Water cooperates with transportation companies as a Specified Consigner under the Energy Conservation Act and promotes energy conservation in nationwide transportation.

After the Great East Japan Earthquake, long distance haulage increased mainly in the Tohoku and Kanto regions, and as a result, the energy consumption rate had worsened in fiscal 2011. However in fiscal 2012, the situation has mostly been resolved and the energy consumption rate has improved by 6% compared to the previous year.

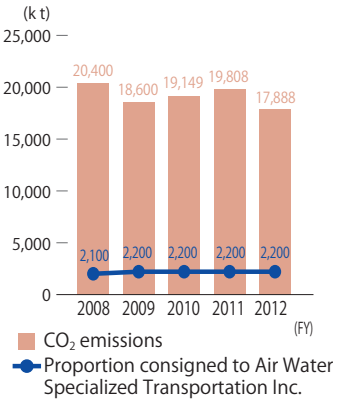
In the past five fiscal years, Air Water has used nationwide VSUs (compact high-efficiency liquid nitrogen/oxygen co-production plants) for efficient delivery of industrial gas to advance in reducing the amount of fuel used as well as CO_2 emissions. As a result, the energy consumption rate of contract haulage of Air Water as a whole has been reduced by an average rate of 2% over the five years.

Energy Consumption Rate Index in Consigned Transportation



* 2008 energy consumption rate (energy use/amount of transportation) set at 100.
Scope: Air Water Inc.

CO_2 Emissions from Consigned Transportation



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

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

Goal	FY2008-2012 Efforts	2008-2012 Results	Evaluation
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)	• Efficient delivery by constructing new VSUs (Kanagawa, Ehime, Shizuoka, Nagano, Osaka) • Pursuit of efficient delivery	Annual average reduction of 2% over the past 5 fiscal years	✓

Fiscal Year Goals of Addressing Global Warming (energy conservation)

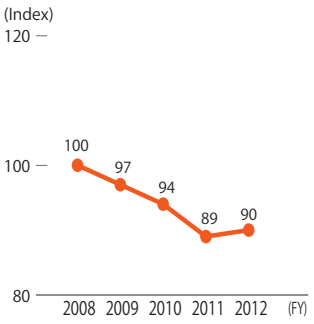
Goal	FY2012 Specific Efforts	2012 Results	Evaluation
Reduce energy consumption rate compared with the previous fiscal year	• Efficient delivery using VSUA in Hirakata City, Osaka • Reduced number of trips	Reduction of 6% compared with FY2011	✓

Initiatives Befitting an Innovative Transportation Business

Air Water Specialized Transportation Inc., which manages transportation in the Hokkaido area in the Air Water Group, is designated as a special freight carrier by Japan's national government under the Energy Saving Act. The company complies with the laws and regulations pertaining to transportation and works systematically on CO_2 emissions control and measures to prevent environmental pollution from vehicle exhaust.

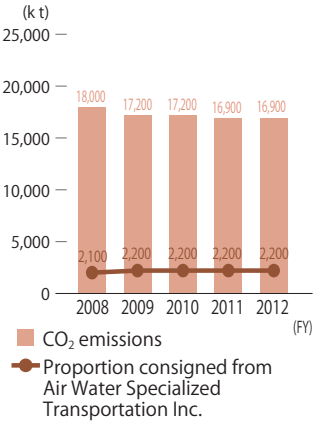
In 2012, road conditions were bad including an occurrence of traffic congestions due to heavy snow fall. As a result, efficiency of delivery remained low, and the consumption rate index worsened by 1% compared to the previous year. However, when looking at the past five fiscal years, the energy consumption rate has been reduced by an average rate of 2%, since digital tachographs have been used to manage economic efficiency in order to enable efficient use of transportation capacity, and transportation routes have been reset and guidance on eco-friendly driving has been given on practice.

Energy Consumption Rate Index for Transportation as a Freigh Carrier



* 2008 energy consumption rate (energy use/amount of transportation) set at 100.
Scope: Air Water Specialized Transportation Inc.

CO_2 Emissions from Transportation as a Freight Carrier



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

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

Goal	FY2008-2012 Efforts	2008-2012 Results	Evaluation
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)	• Replaced/newly introduced 115 fuel efficient vehicles • Instructed drivers in eco-friendly driving	Annual average reduction of 2% over the past 5 fiscal years	✓

Fiscal Year Goals of Addressing Global Warming (energy conservation)

Goal	FY2012 Specific Efforts	2012 Results	Evaluation
Reduce the energy consumption rate compared with the previous fiscal year	• Replaced/newly introduced 43 fuel efficient vehicles • Assessed energy consumption rate for each vehicle and instructed drivers in eco-friendly driving	Increase of 1% compared with FY2011	×

Products and Services of the Air Water Group That Contribute to the Environment

Air Water Group offers a wide variety of products, goods and services that contribute to the environment, in diverse fields such as industrial gas, electronics, medical, and food products, by combining fundamental technologies and pioneering technologies owned by the Group. Products, goods and services related to energy and resource issues are presented here.

SiC Substrate as a Promising Energy Saving Material

Air Water was the first in the world to successfully develop technology to mass-produce high quality, low cost SiC (silicon carbide) substrate and GaN (gallium nitride) substrate up to 8-inch in size. These are revolutionary products which can be used as a base substrate for GaN power devices and GaN-LEDs (light emitting diode) in high quality and with low cost.

Power device is a general term used for power conversion elements that perform functions such as conversion between alternating and direct current of electricity. It is heavily used in areas including automobiles, railways, communications and electricity transmission, and used in almost all electrical products around us.

Presently, power devices with Si (silicon) substrate are mainly used. However, these Si power devices lose a portion of electricity as heat during power conversion. For example, you could feel the heat when you touch an AC adapter of a laptop computer. This happens because of the power loss in the form of heat.

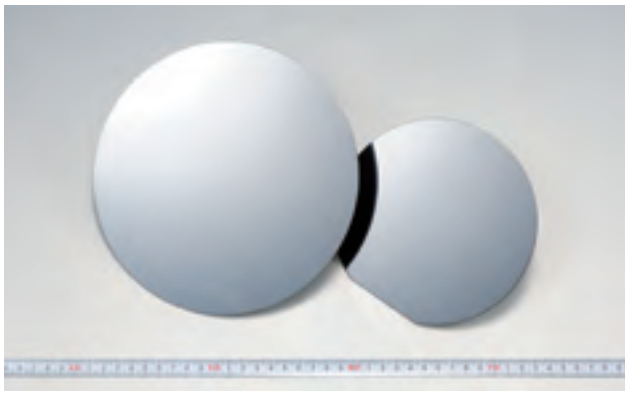
SiC substrate and GaN substrate are considered promising energy conservation materials that can drastically reduce such power loss. If power devices that use these substrates become widespread in Japan, it may be possible to save electricity worth several nuclear power plants.

However, production of SiC substrates and GaN substrates is far more difficult compared to Si substrates, and the high cost has been the bottleneck delaying their diffusion. To resolve this issue, we have developed a technology that uses a large diameter, low cost Si substrate over which a monocrystalline thin film of high quality SiC or a GaN thin film is formed. As a result, the diameter has increased and the cost has been reduced to levels which were not possible in the past.

Azumino Plant (Azumino City, Nagano)

Azumino Plant Production Capacity
Size
SiC substrate 2-inch to 8-inch GaN substrate 2-inch to 6-inch (can also accommodate 8-inch)
Maximum production capacity
6-inch to 8-inch 2,000 per month (16,000 per month for 2-inch)

SiC substrates (8-inch, 6-inch)



Through this, it has become possible to produce high quality GaN power devices and LEDs without great difficulty.

The new Azumino Plant has now been completed, and has started producing SiC substrates and GaN substrates. Air Water is looking for its SiC substrates and GaN substrates to contribute to the diffusion of power devices and LEDs, and help saving energy in the world.

Getting Over the Difficulties of Development

Air Water has traditionally been involved in technology development, production, and sales of equipment that produces crystal thin film for semiconductors (VCE: Vacuum Chemical Epitaxy), as part of gas applied technology.

The Company started developing a large-diameter SiC substrate using this technology. However, it was a process that involved continuous trial and error, as it was an attempt unprecedented throughout the whole world.

Initially, only low quality products with bumpy surface were produced, and it took a lot of effort to produce a smooth film with high specularity.

Given the situation, technical know-how and knowledge of the Air Water Group aside from the VCE technology, namely Atmospheric Pressure Plasma technology and NV Gas Nitriding Treatment technology were used to the fullest for the development.

While materials, including semiconductors, ceramic/resin, and metallic materials, are all different, technologies that focus on surface treatment and film growth are all linked with a common technology of "surface reaction control of materials."

Development was accelerated by merging the knowledge of these three technologies, and the discussion by each engineering team made significant contribution to the development and toward achieving mass production.

Vacuum Chemical Epitaxy (VCE)

AW-WATER Makes Effective Use of Fresh Water Resources

Air Water produces and sells mineral water named "AW-WATER." As one of the water sources, the Company uses distilled water produced at the salt manufacturing plant of Nihonkaisui Co., Ltd., an Air Water Group company.

Previously, the salt manufacturing plant was returning the steam, which was produced when seawater was boiled down, to the sea after it was cooled down in the form of water.

In order to utilize this valuable freshwater resource, minerals are added after filtration under the supervision of a water sommelier, and water is sold by delivery service to homes. The minerals used are also produced during the salt manufacturing process.

Air Water wishes to deliver safe and tasty water by using the Group's resource effectively.

Water bottle

S-type water cooler

Environment-friendly water cooler

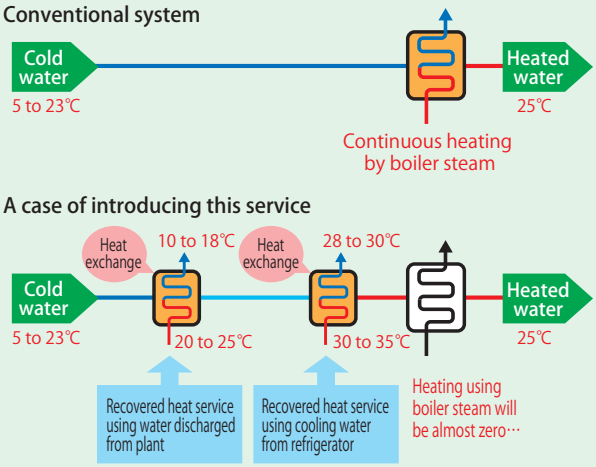
Service to Supply Recovered Heat

Today, we cannot avoid using a large amount of energy in our daily lives and in production activities. However, it is also true that not all of such energy is used effectively and some is being lost as waste heat.

Daido Air Products Electronics, Inc. (DAP), an Air Water Group company, has focused on waste heat produced from plants and facilities, and has commercialized thermal energy recovery from sources such as heated water and cold water as a "recovered heat supply service."

This service is contributing to CO_2 emission reduction, in addition to energy and cost savings of customers.

Overview of the Recovered Heat Supply Service



Overview of the system: Fuel used for boilers will be reduced by recovering and reusing thermal energy from sources including heated water and cold water from plants, facilities and other premises.

Woody Biomass Power Generation Business

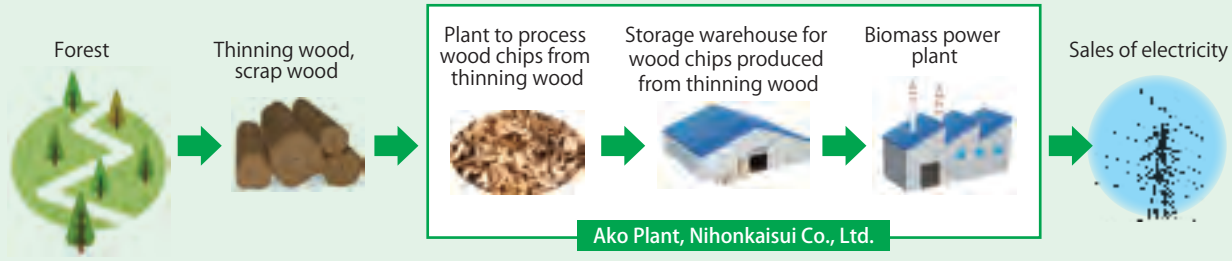
Nihonkaisui Co., Ltd., an Air Water Group company, uses a large amount of electricity in the salt manufacturing process, and therefore has its own power generating facility. Now as the power generating facility at the Ako Plant is going to be renewed due to aging of the facility, it has been decided to increase power generation capacity and to start sales of electricity.

Attaching importance to environmental aspects, fuel will be changed from coal (pulverized coal) to woody biomass when the facility is renewed. As a result, CO_2 emission from fossil fuel will become almost zero. It will also contribute significantly to environmental improvement including reduced emission of NO_X and SO_X. In addition, it will contribute in a small way to resolve electricity shortage of Japan by selling electricity.

Furthermore, by constantly procuring timber from forest-thinning in Hyogo and Okayama where such timber is in excess, the company will contribute to forestry in the region and to fostering timber industry.

Construction of the new power generating facility is planned to start in December 2012, and commercial operation is expected to start in January 2015.

Business Overview of Woody Biomass Power Generation



To Meet the High Expectations and to Earn the Trust

The entire Air Water Group is working on quality assurance and product safety. We are making various company-wide efforts to meet the high expectations of our customers and to earn their trust, and believe in the importance of making an effort every day.

Measures for Quality Assurance

Company-Wide Policy on Quality

Air Water has established the following policy on quality for each division and Group company (hereinafter referred to as "company-wide").

Company-Wide Policy on Quality

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

Quality Assurance Structure

Air Water complies with legal and regulatory requirements company-wide, continuously aims to improve its quality assurance activities, and makes efforts to boost employees' awareness on quality assurance.

Toward this end, we have established a company-wide quality assurance structure, and have assigned under the Compliance Center a person responsible for company-wide quality assurance to drive quality assurance activities forward. Efforts to drive company-wide quality assurance are handled by the Technology Management Department of the Compliance Center.

Efforts on Quality Management Systems

Air Water promotes acquisition of the ISO9001 quality management system company-wide, and as of end March 2013, 46 certifications have been acquired.

Toward this end, support is provided to Air Water and its Group companies for the acquisition of quality management system certification, and courses are held to train internal auditors. In fiscal 2012, support was provided to Air Water Philippines, Inc., a Group company, to acquire ISO9001. In addition, courses to train internal auditors of ISO9001 were held at Air Water NV Inc., Medical Service Division of the Medical Company, and in the Hokkaido area.

Textbook for the internal auditor training course

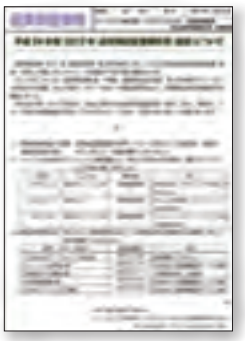
* See our website for the status of ISO9001 certification acquisition:
http://www.awi.co.jp/english/csr/

Sharing Information on Quality Assurance

Air Water distributes "Quality Assurance Information" company-wide to share information on quality assurance. Company-wide quality assurance activities are driven through this measure.

In fiscal 2012, the group-wide newsletter was also used to implement a broader awareness raising activity covering all employees.

Awareness raising activity through the group-wide newsletter



Quality Assurance Information

Quality Assurance Audit

At Air Water, individual visits are made for the whole company in accordance with a planned schedule, during which the status of establishing the quality assurance structure is checked and information on quality assurance is provided.

Measures for Food Safety

Food Safety Structure

Air Water has a history of over 30 years in the production and sale of frozen food, and in recent years in particular, its agriculture and food businesses have widely expanded. As food products affect the health of many people, we recognize that safety of food products is particularly important.

Accordingly, Air Water has established the Food Safety Promotion Department under the Compliance Center to promote efforts on food safety company-wide.

The Food Safety Promotion Department of the Compliance Center conducts activities such as proposing and developing plans, giving guidance, and providing training on company-wide measures on food safety in accordance with food safety management regulations. A system is also in place whereby committees, such as countermeasures committees, are established as needed when incidents, claims, nonconformities and other issues occur, and activities including investigation, finding of causes, and measures to prevent recurrence of similar situations are implemented.

Efforts on Food Safety Management

Air Water supports its Group companies in acquiring food safety management system certifications. The system certifications acquired by the Group include: international standards such as ISO22000 and FSSC22000; the Comprehensive Sanitation Management and Production Process; and HACCP of each local government.

In fiscal 2012, HACCP certification was acquired for potable water at Hassamu AW-Water Plant and Yoshikawa AW-Water Plant, and for grated *daikon* (Japanese radish, small packs) at Factory No. 1 of Tomiichi Co., Ltd.

HACCP Certificate

* See our website for the status of acquisition of food management system certifications, etc.:
http://www.awi.co.jp/english/csr/

Food Safety Audit

Air Water implements planned food safety audits, through which it checks the compliance with relevant laws, implementation status of food safety management activities, and the status of implementing traceability. Incidences, claims and nonconformities are prevented and instructions are given through the audit as well.

Efforts on Medical Safety

Medical Safety Structure

Air Water is the top supplier of medical gas in Japan, and is widely expanding its medical business in fields including medical equipment, medical services, and hospital facility construction. As medical safety affects people's lives, we recognize its particular importance.

Accordingly, in order to ensure the quality, effectiveness and safety of pharmaceutical products and medical equipment produced and sold, the Quality And Safety Division of the Medical Company implements quality assurance activities for the Company's own plants and for producers within and outside of Japan, as well as safety management activities for the market. In addition, the Medical Safety Promotion Department of the Compliance Center gives instructions and provides support concerning compliance with laws and voluntary industry standards.

Checking Legal Compliance and Ensuring Medical Safety

Air Water checks the status of compliance with various relevant laws, including how they are addressed on site, regarding quality and safety management operations of medical gas and medical equipment.

In fiscal 2012, compliance status was checked for items concerning gas analysis associated with the enforcement of the amended Japanese Pharmacopoeia, and the status was checked concerning conformity against the voluntary standards set by the industrial association. In addition, more specific internal guidelines have been established in line with the voluntary industry standards, to make the latest information available to all and for company-wide standardization.

Aside from this, instructions and guidance are given to sales offices licensed for sales and leasing of medical equipment that require advanced management, regarding the compliance requirements under the law, thereby making efforts to ensure medical safety and product quality.

Audits of Facilities Related to Medical Business

Air Water conducts audits of plants of the Group, as well as those of others, to check the status of ensuring the quality of medical gas.

Aside from this, Air Water Group companies have acquired ISO13485 for medical equipment, and are making their own efforts on safety and quality management.

ISO13485 Certificate

* See our website for the status of ISO13485 certification acquisition:
http://www.awi.co.jp/english/csr/

Toward Ensuring Absolute Safety

Air Water believes that ensuring safety is the 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 vigorous efforts are being made on safety and health activities.

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 a Headquarters committee member, the committee member responsible for safety, the committee member responsible for health, 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

Training on Safety

Air Water implements training on risk assessment mainly for persons in charge of safety and health in the Air Water Group, and training to experience safety (education to improve risk sensitivity) targeting employees working on-site.

Deepening knowledge of "risk" and "safety," as well as understanding potential risks around oneself that exist in a workplace by sensing them, can help prevent accidents.

Risk assessment training

Training to experience safety

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 affiliates, 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 2012, there were 2,886 proposals. An award is given for the best entry, and the slogan is displayed on posters in each workplace.

In fiscal year 2013, there were 3,139 proposals. The best entry was from Mr. Yuji Hanasaki of the Ako Plant, Nihonkaisui Co., Ltd., and the slogan read "Risks are hidden in our haste; Let's have a little rest to foresee the risks; A safe workplace is created by all."

Safety slogan poster (FY2012)

Industrial Accident Statistics and Recurrence Prevention Measures

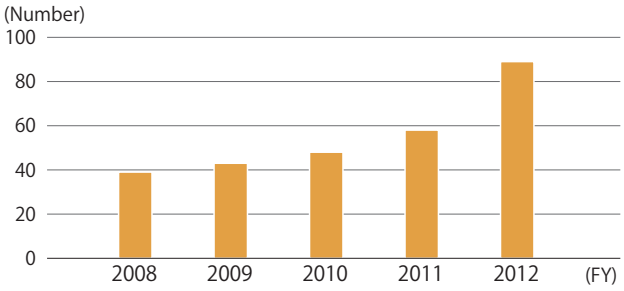
In fiscal 2012, there were 89 cases of work-related accidents within the Air Water Group. Among them, 36 were cases with days away from work, while 53 were cases without lost workdays. Numbers have substantially increased from those in fiscal 2011, which were 27 for cases with days away from work, and 31 for cases without lost workdays. This may be partially due to increased number of reported cases as a result of enforcing reporting standards within the Group. However, when looking at the causes of cases with days away from work that occurred in fiscal 2012, there were 12 cases of falls, 5 cases of getting a finger, hand, arm, or foot caught in machinery, and 4 cases of cuts and grazes. This indicates that similar types of accidents have occurred frequently, which is due to inability to spread recurrence prevention measures for accidents within the Group.

In order to address this situation, Air Water is sending out information on accidents in the "Safety Information," and is working through the Central Safety and Health Committee, Regional Health and Safety Committee, Safety and Health Committees in each workplace, and other channels, to ensure that causes of accidents are known and recurrence prevention measures are spread in worksites.

In addition, training workshops are held and guidance is given to spread risk assessment (i.e., identification of operations in workplaces that involve risks and implementation of countermeasures) to the entire Group, and safety audits are conducted to enforce guidance on safety.

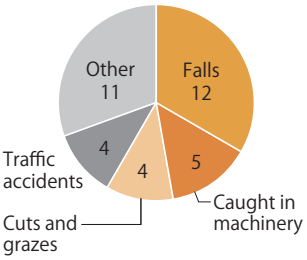
Ensuring safety of its employees is the foundation of corporate management, and hence, the entire Group will work toward creating safe and secure workplaces.

Number of Work-Related Accidents within the Air Water Group (including traffic accidents)



Summarized by fiscal year
Range: Air Water Inc., consolidated subsidiaries, equity-method subsidiaries, equity method affiliates, non-consolidated subsidiaries

Breakdown of the Cases with Days Away from Work (36 Cases in Fiscal 2012)



Distribution of Safety Information

Special Safety Audit for Hazardous Materials

Air Water carried out a "general risk inspection of Air Water and its Group companies" in April 2012. Out of 114 sites that store hazardous materials, 30 sites (excluding facilities that store fuel such as kerosene and diesel oil) were subject to the implementation of the "Special Safety Audit for Hazardous Materials." Third-party inspections were conducted with the cooperation of the Hazardous Materials Safety Techniques Association, through which safety was reconfirmed and problems were identified. In view of the results, the Company is undertaking the following improvements and measures.

(1) Ensuring adherence to work procedure manuals.
(2) Ensuring that emergency exits are secured in two directions in areas where hazardous materials are handled.
(3) Review of facility maintenance and management standards.
(4) Preparation of response manuals for abnormal circumstances and emergencies, and conducting drills assuming that such events occurred.

Information Sharing

A "website exclusive for the Compliance Center" has been launched on the corporate network. Information on various accidents is disclosed promptly covering a wide area, so that awareness on eliminating accidents and disasters are raised among each and one of our employees.

Information sharing through the corporate network

Report on the Fire at the Kashima Plant of the Chemical Company

Air Water deeply regrets the distress caused by the fire that occurred at the product warehouse in the Kashima Plant of the Chemical Company on March 19, 2012.

Causes of the accident have been tracked down by establishing the investigative committee and receiving guidance from Professor Emeritus Dr. Masamitsu Tamura of the University of Tokyo and other experts. There is a high probability that the fire occurred due to ignition caused by blow and friction of the vibrating screen. However, it cannot be denied that there is a possibility that static electricity had caused ignition or that existence of materials which increase sensitivity to ignition, such as iron rust, had an influence. Results of the investigation on causes of the accident have been reported to the police, fire department, and other relevant authorities.

As a recurrence prevention measure of this accident, the Company has implemented countermeasures against recurrence for all potential causes identified through the investigation on causes of the accident. Furthermore, in order to prevent recurrence of man-made disasters and accidents, the "Special Safety Audit for Hazardous Materials" adding third-party inspection has been conducted for the entire Air Water Group including its chemical divisions, in the 30 sites that store large quantities of hazardous materials as described above.

The entire Company and the Group will make every effort to enforce safety measures and to create safe workplaces, so that incidents like this would never occur again.

To Work Lively with Strong Ties

"Order Rodentia Style of Business" is a management strategy in which each business, although small in scale, develops new fields and strives for sustainable growth, just like mice, which have high adaptability to the environment and the power to prosper. In order to realize this management strategy, the Air Water Group is working on the flexible use of human resources that goes beyond the Group boundary.

Kousuke Koumura, Corporate Officer and General Manager of the Human Resources Department, talks about the kind of human resources measures required to support the "Order Rodentia Style of Business" and how such measures are being implemented.

Kousuke Koumura
Corporate Officer, General Manager,
Human Resources Department

Linking Talents of Human Resources Beyond the Group Boundary

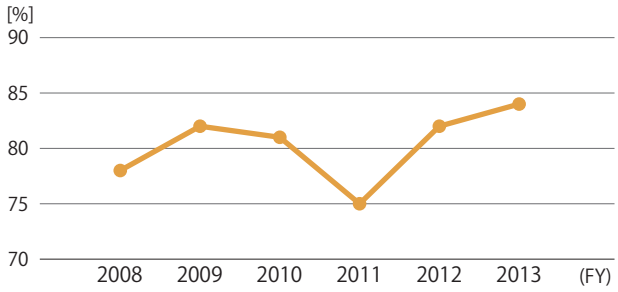
We, the Air Water Group, are developing businesses in many fields, but we are not setting any specific images of human resources suited for individual businesses. The basic premise is to have personnel who can put into practice the management philosophy and guidelines for action of the Group in their respective positions and roles. As a human resources policy, we make every effort to enforce our guidelines for action, which calls for "*Kyakka Shoko*," or knowing ourselves well, and "*Ogi Oko*," or full communication across divisions and member companies to enhance cooperation, and nurture a diverse team of human resources in order to realize the Group's management policy "Order Rodentia Style of Business." Talents of human resources are then linked beyond the Group boundary, so that it would bear fruit as a business.

Human Resources Management System Which "Places the Right Person in the Right Place" in the Group as a Whole

There are two major pillars in the human resources measures for the "Order Rodentia Style of Business." One is the "human resources management of the Group." It is important to grasp in detail the human resources available in the Group as a whole, as "the type of human resources needed" is the foundation for considering development of new fields or new businesses. Presently, we are in the process of integrating human resources information systems operated by individual companies, to shift to a new system in which the human resources of the entire Group can be managed.

The posting of the best-suited personnel is also done when retired employees are re-employed. Since fiscal 2008, the ratio of retiring employees who wish to be re-employed has been staying high at about 80%. The entire Group is being vitalized by making use of the rich experience of veteran employees.

Percentage of Re-Employed Workers among Retirees



The Spirit of Entrepreneurship Ties Together Diverse Human Resources and Produces Great Power

The second pillar is the "improvement of the centripetal force of the Group." We, as a cluster of 200 or more businesses, need a firm policy in order to go beyond the borders of companies and to show great ability as one group. Presently, we are realigning our training program under the theme of learning "the spirit of entrepreneurship," which is our management philosophy and also key to the Group's growth. We are also looking into the group-wide training program aimed at facilitating human resources interaction, which has been in place, and are considering an action-oriented training program which goes beyond classroom lectures and involves actual planning of businesses that cut across the Group and gives thought to processes to put the plans into practice.

In addition, we are conducting training at Tsumori Training Center (Osaka City), a place of significance where the Company started, targeting general managers and managers who are executive candidates. Objectives of the training include spreading the spirit of Air Water's business, recognizing and integrating management resources of the Group among training participants, and expanding businesses through *Ogi Oko* (full communication across divisions and member companies to enhance cooperation). The training provides participants with an opportunity for practical learning and thinking.

To Support the Order Rodentia Style of Business

As for human resources measures, our policy is to support the Order Rodentia Style of Business through: human resources development ensuring that all members of the Group, from new employees to management, deeply recognize that they are members constituting the Air Water Group and fulfill their respective missions; and the active exchange of human resources which is essential for expanding our business domain. Specific measures include, for example, implementation of joint training courses for the Group such as training for directors, training for managers, and management training, through which interaction within the Group is deepened further.

To Ensure Fair Dealings

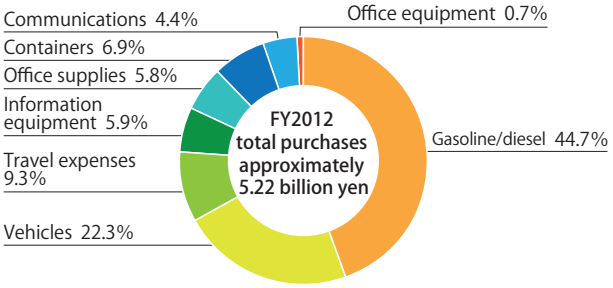
Suppliers are important partners for Air Water to continue its growth. The Company aims at building mutual trust and prosperity.

Measures to Ensure Fair Dealings

Air Water considers suppliers as important partners with whom it builds long-term trust on the basis of equality, and seeks for a relationship of mutual prosperity.

To this end, the Procurement Department of Air Water conducts study meetings for employees of each division and Group company responsible for procurement to ensure fair dealings. Three such meetings were held in fiscal 2012, focusing on all aspects of procurement activities. In addition, individual guidance is given to companies that have newly joined the Air Water Group, concerning the ways procurement should be. Aside from the above, procurement documents are checked to ensure fair dealings.

Breakdown of Purchasing through Central Purchasing System



Communication with Suppliers

The Procurement Department explains to suppliers the Company's procurement policies and methods, and makes efforts to ensure proper dealings. The Procurement Department is always open to new suppliers and interviews are held with them. In addition, information exchange meetings are held as a venue to explain to suppliers the status of Air Water and its needs, so that they can introduce most suitable products. Aside from this, meetings are held involving the sales divisions of Air Water in order to build a business relationship that includes aspects which benefit both parties.

To Earn Trust of Shareholders and Investors

Air Water understands that it is essential to disclose timely and appropriate information to shareholders and investors to build stable, long-term relationships of trust with them. Consequently, the Company seeks to communicate actively with shareholders and investors through dispatching corporate information via media such as websites and publications, and through the annual meeting of shareholders and other investor relations activities in Japan and overseas.

Communication with Shareholders

Air Water holds its general meeting of shareholders in June every year. The Company strives to present business activities and results to shareholders using a clear format. In addition, the Company also sends a copy of its Business Report to shareholders twice a year, presenting information about the state of business and other news.

Shareholder Returns

Air Water will further strengthen its business foundation in order to continue improving the corporate value. At the same time, the Company considers providing returns to shareholders as one of the most important matters of management. While maintaining sufficient internal reserves for strategic investment in mid- to long-term growth, the Company has set a target dividend payout ratio of 30% of consolidated net income. Its basic policy is to pay regular dividends in line with business performance in the years to come. In fiscal 2012, the annual dividend was 24 yen per share. In addition, Air Water has introduced a shareholders incentives system, and sends a gift set made up of Group products every year to holders of one block of shares (1,000 shares) or more, registered as of March 31.

Communication with Investors

The Company strives to stay in constant communication with investors to give them a proper understanding of its unique strategy and business model, in which a diverse business portfolio is built and the Company continuously changes and grows. In fiscal 2012, a total of four study visits were held in facilities and plants in Wakayama, Nagoya, and Hokkaido area, to provide a deeper understanding of the diverse business portfolio. In addition, upon each settlement of accounts, the Company holds a telephone conference for institutional investors and analysts, as well as business briefings to explain the operating results and important measures, as one way to ensure timely information disclosure. The IR Officer also holds individual meetings in Japan and overseas to have discussions to provide an opportunity for investors to gain a deeper understanding of the diversity of the Company's businesses.

Business policy briefing

To Build Trust with Local Communities

The Air Water Group believes that being loved and trusted by local communities is essential for a company to survive. Toward this end, the Group is undertaking a range of initiatives in each region. One such example is shown here.

Gold Pak Has Held Plant Tours Since Its Establishment

Gold Pak Co., Ltd., a Group company of Air Water, is a beverage company founded in Matsumoto City, Nagano, in 1959. Production is currently done in its plants in Matsumoto City and Azumino City in Nagano. Its production is mainly contract manufacturing, including fruit and vegetable juice, coffee, tea, and mineral water for major beverage manufacturers and consumers' co-operatives, while it also produces and sells products under its own brand.

Visitors Can Clearly Observe Production Lines from a Gallery

The Azumino Plant, which started operation in 1991, has held plant tours since its establishment, as one way to get consumers interested in the products of Gold Pak and for them to purchase its products. Toward this end, a pathway dedicated for visitors is established on the second floor of the plant. While sanitation conditions must be maintained inside the plant since it is a beverage production plant, visitors can tour through the dedicated pathway without changing their clothes and see production lines through the glass.

Many visitors are elementary school children mainly from Nagano City coming on educational visits, and ten schools were received in fiscal 2012. Plant tours by the Japanese Consumers' Co-operative Union and members of consumer co-operatives in various places have also been received, and 200 visitors from 10 organizations in Aichi and Toyama came to the plant in fiscal 2012. In addition, plant tours are held mainly for local people on the occasion of the annual thanksgiving festival organized by Gold Pak.

The plant tour held during the thanksgiving festival of Gold Pak. Local people toured with keen interest.

Azumino Plant and the products of Gold Pak. The products manufactured are endowed with the gift of the rich nature of Nagano.

Toward Becoming a Plant Loved in the Local Community

Ms. Tajima of the Business Management Division, Gold Pak, who guides tours, says "Many visitors come without having any knowledge on how juice is made. I am pleased to see visitors understand this after the tours. Also, as Gold Pak has held plant tours since its establishment, we occasionally hear during business negotiations with middle-aged and older persons that they remember visiting the plant when they were in elementary school. While the share of contract manufacturing is high at Gold Pak, I feel that plant tours have contributed to a better understanding of the company by the public, and also that educational visits have contributed to the education of local children."

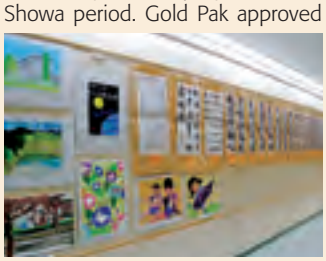
Gold Pak will continue organizing plant tours, so that more people become familiar with the company, and toward becoming a company loved and trusted in the local community.

The company has received lovely thank-you letters from children who came on plant tours.

Ms. Tajima, who is in charge of guiding tours

Works of Local Children Add Color to Visitors' Pathway

Drawings and calligraphies of local children are displayed along the visitors' pathway of the Azumino Plant. Azumino City is home to the steering committee of the Sorin Yamaguchi Children's Art and Calligraphy Exhibition. This exhibition is held in memorial of the achievement of the Japanese-style painter who actively worked in the early Showa period. Gold Pak approved the idea of the exhibition, and has been providing the visitors' pathway of the plant as a venue for exhibitions organized by the steering committee. By providing opportunities for local children's work to be displayed, the company strives to support the local community in a small way.



Drawings and calligraphies of local children are displayed along the visitors' pathway.

Third-Party Opinion

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

Continuing from last year, I have been asked to provide a third-party opinion, this year on the Environmental and Social Report 2013, which is the twelfth published by Air Water.

Commendable Points

- The greatest feature of this report is that the Company's management models, namely "All-Weather Management System" and the "Order Rodentia Style of Business™" are described throughout the report. More specifically, the concepts are explained first in the "Commitments from the Top" and "Business Overview." Then, the cases presented in feature stories one and two can be viewed as outcomes achieved by demonstrating group synergy, which is also based on the latest social needs such as "local production for local consumption," CO_2 reduction, and measures against disaster risks. Furthermore, human resources measures for realizing these management models are presented in the section that describes the "use of human resources." The Company's character can be known more clearly to the readers.
- From the "Commitments from the Top" at the beginning, the feature stories one and two, and other sections, the Company's commitment toward solving the challenges of society through its core businesses has become clearer.
- Continuing from last year's report, this report is fulfilling accountability concerning negative information (violation of the Antimonopoly Act and the fire) to a certain extent, which is commendable.

Points Where Further Improvements Are Expected

- The greatest challenge is on ensuring absolute safety. This point is mentioned in the "Commitments from the Top" as well, and various measures have been taken. However, the number of work-related accidents is showing an increasing trend, and in fiscal 2012 in particular, the number has increased significantly. I would like to see further measures toward reducing the number of accidents, and above all, an improvement as a result of such efforts.
- There is a tendency to attach greater importance to stakeholders and supply chain as part of the Company's efforts on CSR. In terms of the efforts concerning employees, who are one of the important stakeholders, I would like to see the Air Water report to disclose various data on, for example, the number of days taken as paid leave and the number of women in managerial jobs, in addition to the information on "occupational safety and health" and on the "use of human resources."

Corporate Profile (as of March 31, 2013)

Company Name:	Air Water Inc.
Head Office Address:	12-8 Minami-Semba, 2-chome, Chuo-ku, Osaka, 542-0081, Japan
Established:	September 24, 1929
Representative:	Hiroshi Aoki Representative Director, Chairman of the Board, Chief Executive Officer
Paid-in Capital:	¥32,263 Million
Number of Employees:	8,937 (Consolidated)

List of Group Companies Classified in the Business Segments of Group Companies That Appear in Environmental and Social Report 2013

Industrial Gas Business
Daio, Inc., Air Water Carbonic Inc., NSCC Air Water Inc., Shinko AirTech, Ltd., Senboku Oxygen Co., Ltd., Kyodo Carbonic Inc., Daido Air Products Electronics, Inc., Chushikoku Air Water Inc., Printec Corporation, Air Water Bellpearl Inc., Tomakomai Oxygen Co., Ltd., Niigata Ekisan Co., Ltd., Tokai Ekisan Co., Ltd., Fukushima Ekisan Co., Ltd., Sagamihara Ekisan Co., Ltd., Matsuyama Oxygen, Inc., Shizuoka Ekisan Co., Ltd., Shinano Ekisan Co., Ltd.

Agriculture and Food Business
Saveur SS Inc., Gold-Pak Co., Ltd., Tomiichi Co., Ltd., Air Water Farm Agricultural Production Corporation

Other Businesses
Air Water Specialized Transportation Inc., Hokkaido Body Co., Ltd., Nihonkaisui Co., Ltd., Tateho Chemical Industries Co., Ltd., Air Water NV Inc., Air Water R&D Co., Ltd., Air Water Philippines, Inc.

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www.mori-cho.org

About the Paper Used for This Report
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 2012 helped to facilitate the thinning of forest with an area of 0.12 ha.

AIR WATER INC.

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The PDF files can be viewed with Adobe Acrobat Reader.
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