

Environmental and Social Report 2012



The Air Water Group is engaged in a business that makes the most of air, water and the other precious resources of the earth to support industry, local communities and day-to-day life.

By offering technologies and services that are essential to modern manufacturing, the Group aims to help build a more sustainable world.

The Great East Japan Earthquake and the accident at the Fukushima nuclear power plant served as a harsh reminder that safety and security are prerequisites for all socioeconomic activity, and accordingly, that better effort is needed to maintain them.

It is the mission of the Air Water Group to provide customers with products and services without interruption, whatever circumstances may arise. The key to fulfilling this mission is maintaining deep roots in local communities and building relationships of trust with all stakeholders.

This report describes what the Air Water Group has done in the year since the Great East Japan Earthquake to improve safety and security. It also introduces some of the unique business initiatives undertaken with various stakeholders across Japan. We hope that the report serves as a useful tool for improving dialogue with everyone interested in the Air Water Group.

Management Philosophy



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

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Editorial Policy

This is the eleventh edition of the Air Water Environmental and Social Report. Air Water is engaged in a diverse range of businesses, and we aim to produce a balanced report on our Corporate Social Responsibility (CSR) initiatives. In order to produce a report for as broad a readership as possible, we set the following editorial policy.

- *The Environmental and Social Report 2012* comprises the following sections: feature stories, governance and compliance, safety report, environmental report, quality report, and social report. It covers the corporate activities of Air Water Inc. and its group companies in fiscal 2011.
- The data shown is for the period from April 1, 2011 to March 31, 2012. Some more recent initiatives are also mentioned.
- This report follows *the Environmental Reporting Guidelines* of Japan's Ministry of the Environment. However, since the company is still working to put in place initiatives on green procurement, environmental accounting and so on, specific numbers could not be provided in certain areas.
- Feature stories cover Air Water's efforts in the aftermath of the Great East Japan Earthquake and the engagement of Group companies with local communities.
- The environmental report covers the environmental solutions and environmental targets of Air Water and its Group companies in the industrial gas business, chemical business, seawater business, and food products business.
- The basic approach and current situation of the company are presented in the governance and compliance section, safety report, quality report and social report.

Message from the CEO

One and a half years have passed since the Great East Japan Earthquake. Japan experienced a major earthquake, devastating tsunami, and crisis at a nuclear power plant, and today the nation faces a severe test unlike anything before in overcoming the natural disaster and the energy crisis that affects everything from industry to daily life.

Immediately after the earthquake, the Air Water Group threw its network of compact liquid nitrogen/oxygen co-production plants (VSUs) and other resources of the Group into the recovery effort, working quickly to minimize the effects of the disaster on supplies of industrial and medical gas to customers. Through these experiences, we learned how profoundly systematic preparations and structures in normal times affect business continuity. In order to continue to merit the trust of society, we are working to develop an even stronger supply system while building closer relationships with regional stakeholders.

The power shortages and energy crisis in the aftermath of the earthquake represent serious challenges that are shaking the Japanese economy to its foundations. Up to the present, the Air Water Group has worked actively to conserve energy with a focus on its industrial gas plants, which need a good deal of electricity for the manufacturing process. This summer, the Group responded to the power supply risk by reducing its consumption of electricity at all plants and offices. As a company that supports the day-to-day life of Japanese society, I believe that we have a responsibility to contribute to society with our wide-ranging technical capabilities, particularly during times of crisis.

In addition, in order to ensure safety, the most critical aspect of corporate responsibility, the Air Water Group established its Safety and Health Basic Policy as well as a safety and health framework, undertaking a wide range of related actions. For the past year, taking into account the accidents that have

TOP COMMITMENT

occurred, we have been further strengthening our safeguards by conducting general risk inspections at each operation site, among other initiatives.

The business of the Air Water Group is supported by the valuable resources of the earth. We seek to make the best use of these valuable resources for daily life and industry, returning these resources to nature after using them, for the sake of the future. Our Management Philosophy commits us to contributing to the public good and the future of the earth by creating new businesses involving the earth's resources, and this is also our policy for the pursuit of corporate social responsibility. I hope that you understand the goals of the Air Water Group, and I look forward to your continued support.

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

H. Aoki



Business Overview

Air Water provides not only industrial gas, but many other products and services that are essential to every aspect of life, including medicine, energy, distribution and food.

Leveraging its strengths in industrial gas to pursue a variety of businesses, the company is currently implementing its NEXT-2020 Ver.1 three-year mid-term business plan, which started in fiscal 2010.

Basic Policy

1. Revamp the earnings base to respond to changes in the business environment
2. Achieve sustained growth through a new growth strategy
3. Meet the challenges of achieving the NEXT-2020 Vision for a 1 trillion yen company

Air Water is making steady progress on this basic policy,

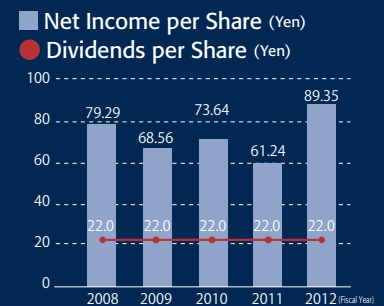
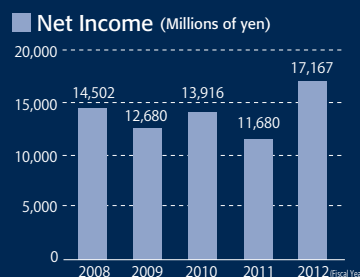
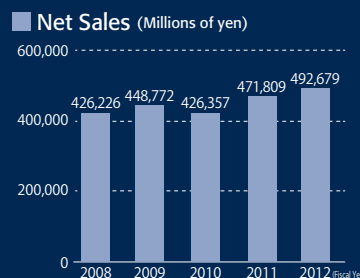
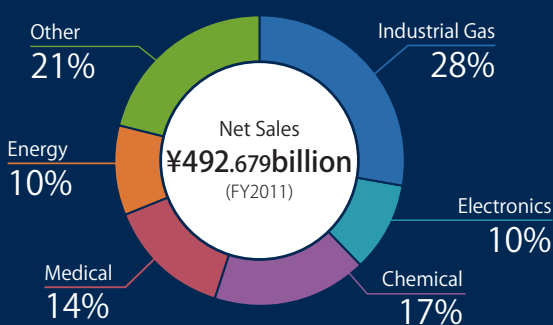
aiming to identify a wide range of social needs and respond with the latest solutions.

The company is working to achieve a more safe and secure society and expand its operating base as a company that enjoys broad trust.

Restructuring of Business Segments

Starting in fiscal 2012, Air Water consolidated the various segments related to industrial gas and electronics, and restructured its business into five operating companies.

Paid-in Capital: ¥32,263 million Number of Employees: 8,062 (Consolidated)



Industrial Gas Business

From onsite piped supply to supply by liquefied gas truck or in cylinders, Air Water delivers every type of industrial gas to its customers. With a nationwide sales network of production facilities and regional business companies, the company provides a safe and stable supply using the best methods to meet customers' needs.



Large-scale cryogenic air separation system



High-efficiency compact liquid nitrogen/oxygen/argon co-production plant (VSUA)

Electronics Business

Air Water provides high purity gas and special gases and chemicals critical for leading-edge electronic device manufacturing sites, as well as associated equipment and services. The company also offers proprietary next-generation device materials, functional plastics and high added-value electronic materials for a wide range of applications.



Special gas supply module



Semiconductor manufacturing equipment line

Chemical Business

Air Water manufactures and markets coal chemical products such as fuel gas for steel plants, gas by-products, carbon material products and tar distillation products, which are produced from the active ingredient of coke oven gas. The company also supplies fine chemical products such as medical and agrichemical intermediates made using organic synthesis technology.



Products that use thermally expandable graphite (TEG)



GMP plant

Medical Business

As Japan's industry leader for medical gas, Air Water provides a stable supply of medical oxygen and a wide range of other medical gases to medical institutions nationwide, as well as implementing a comprehensive solutions business from the sale of medical equipment, construction of hospital facilities and various hospital services, to home healthcare, welfare and care.



Advanced medical facilities simulation center



Hyperbaric oxygen chamber

Energy Business

From Hokkaido to eastern Japan, Air Water provides LP gas and kerosene under the Hello Gas brand, as well as piped natural gas, manufacture and sale of LNG containers, and home delivery of drinking water. The Energy Company also undertakes consumer-oriented businesses, specifically home improvement.



A Hello Gas spherical tank



Hybrid hot water and heating system

Other Businesses

Air Water's other businesses include Seawater, with Japan's top share for salt and magnesia produced using a unique technology; Food Products, offering high quality frozen foods, ham, and delicatessen products; and Logistics, providing advanced services using expertise developed for the transport of high pressure gas. The Aerosol Business, Drinking Water Business and Agriculture Business also support the growth of the Group with proprietary technologies and products.



Sunsetsu Saveur product range



Liquefied gas tank trucks

Where Does the Air Water Group Stand One Year after the Great East Japan Earthquake?

Through our experience of the Great East Japan Earthquake, we learned how profoundly systematic preparations and structures in normal times can affect business continuity. When disaster strikes, their true value is tested. With the importance of building relationships with regional stakeholders clearer than ever in the aftermath of the quake, we discussed the progress that each company is making toward ensuring that the Air Water Group remains a trusted and essential presence for society.

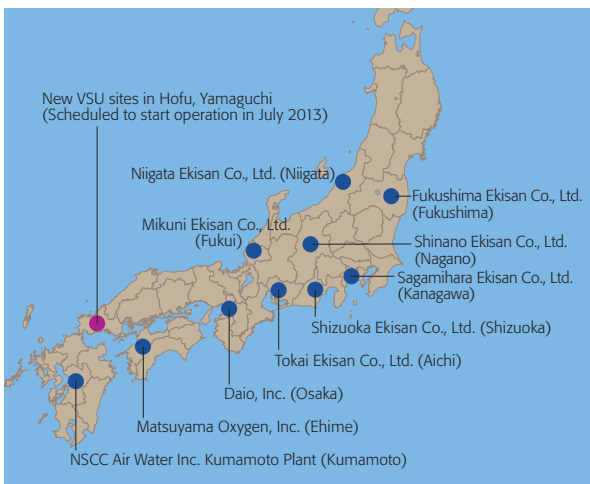


Go Tanaka,
General Manager,
Industrial Gas Division
Air Separation Gas Department,
Industrial Company

Building a Gas Supply Network with Diversified Risk

Tanaka At the time of the Great East Japan Earthquake, we were able to minimize supply disruptions to our customers, yet I strongly felt that we were not able to fulfill their wishes completely.

Maruko Our Medical Company is engaged in a field



Location of regionally distributed plant VSU* sites

where business continuity is a matter of life or death. Although the cooperation between Group companies during the earthquake enabled us to respond smoothly to the emergency, we are intentionally maintaining a sense of urgency as we review and systematically reinforce the systems and infrastructure required of a medical business.

Tanaka Our Industrial Company is also building a network designed to diversify risk so that we will be able to provide our customers with an uninterrupted supply of gas, no matter what happens. Specifically, we are considering establishing bases with a focus on regions currently without any gas supply locations, or in regions where we should bolster our sales strategy.

Kato Sites are being established in Niigata and Hofu, right?

Tanaka Yes. The gas-filling plant in Niigata Prefecture is scheduled to go into operation in January 2013, while Air Water's eleventh VSU* in Hofu, Yamaguchi prefecture, will start operation in July 2013.

Based on our experience with earthquakes, when we establish a new gas supply base, we first consider the history of natural disasters in the area such as past earthquakes, tsunamis, floods, snow damage and so on, and survey potential risks. Nowhere is absolutely safe from natural disasters, but we do our best to avoid foreseeable risk.

* VSU: High-efficiency compact liquid nitrogen/oxygen co-production plant

** BCP: Business Continuity Plan—A plan of measures designed to ensure that a company can continue its business operations without interruption despite contingencies such as disasters or other incidents.

*** In the metropolitan area, 20 km is said to be the limit for the ability to return home after a disaster. See *The Necessity of Measures for Evacuees to Return Home in an Earthquake Directly Below the Capital* September 20, 2011 Cabinet Office (Disaster Prevention).



Kazutoshi Maruko,
General Manager,
Medical Gas Department,
Medical Company

Hiroshi Kakimoto,
Group Leader,
Administration Group,
Business Development Department,
Energy Company

Yasunori Kato,
General Manager,
Safety Promotion Department,
Compliance Center

Note: Job titles and posts cited in this article were current as of the time interviews were conducted. (June 2012)

Business Continuity Is an Absolute Imperative for the Medical Company

Maruko The Medical Company supplies medical gas, medical equipment and home deliveries of oxygen nationwide. The business involves a great deal of organizational coordination, with other divisions and Group companies that operate the manufacturing and distribution bases, and with other regional business companies responsible for supply and maintenance. In a disaster, the degree to which this coordination and contact can be maintained determines the potential for a quick recovery. As I said before, supplying these medical gases is a matter of life or death; failure is not an option. Using the valuable experience we gained at



The business continuity plan of the Medical Company

the time of the Great East Japan Earthquake, we are further enhancing our systems for ensuring business continuity.

Kakimoto I understand that you have taken charge of the BCP** for the Medical Company.

Maruko First of all, I thought we should document everyone's experience of the earthquake before memories faded. This is so that we can share the important information held by the many staff involved in operations. Today, we are adding new items that became apparent from our experience with the Great East Japan Earthquake to the existing BCP.

Kato What sort of things, specifically?

Maruko As one example, we start with an assumption that only 60% of the employees living within 20 km*** of the Tokyo Office2 will be able to make it to work after a disaster. So we are listing up all the information that must be gathered after the earthquake, after 1 hour, 3 hours, 3 days and so on have elapsed, and the steps that must be taken. We plan to add things like organizing pressurized trucks and electric generators, how to accumulate gas cylinders and other equipment, how to contact patients who use oxygen at home, and so on.

Kato Rather than some sort of BCP set in stone, it seems more appropriate to make revisions and additions whenever the situation or environment changes.

Maruko Yes, that's exactly right.

Protecting People's Livelihoods with LP Gas, a Disaster-resistant Energy Source

Kakimoto Our Energy Company provides LP gas to about 35,000 homes in Tohoku and Kanto. After the earthquake, we visited every home and carried out a full inspection in each. Specifically, we took disaster prevention measures to ensure that gas cylinders would not fall over and gas leaks would not occur in an aftershock. We installed excess flow check valves and attached chains to secure the gas cylinders. Further, to protect our customers from secondary disaster, we reviewed the national Standards for Supply Facilities and adopted a more stringent set of measures as our company standard.



Vehicle-mounted electricity generator powered by LP gas

Tanaka After the earthquake, LP gas companies were quick to resume supplies, winning LP gas more credibility as a disaster-resistant energy source. Consequently, expectations are higher, and we have an even greater responsibility to ensure a stable supply.

Kakimoto Yes, that's right. Japan's Ministry of Economy, Trade and Industry is also planning to designate "core filling stations" and is now soliciting contractors, in order to strengthen the supply chain for nationwide LP gas provision and ensure capacity to inspect facilities at customer locations in case of disaster.

Once established, this new system and its contractors will perform a leadership function in supplying LP gas to any region hit by disaster, fulfilling specified obligations. Air Water has submitted a tender for this public offering, and hopes to be selected as a contractor.

Kato Can you tell us about your vehicle mounted electricity generators?

Maruko Our newly developed vehicle mounted electricity generators was demonstrated on July 7 this year. The speed of development showed how important fulfilling this social requirement is to us.

Kakimoto Exactly. One of the merits of LP gas is that it is distributed energy. Immediately after the earthquake, we focused on this characteristic and developed and commercialized Japan's first 100 kW class vehicle mounted electricity generators powered by LP gas. Potential customers are LP gas filling stations and regional evacuation centers where electricity is required in a disaster or emer-

gency, as well as factories, stores, apartments and so on. We are thinking of making bigger electric generators in the future for hospitals, local government buildings and other large facilities. Our group company, Hokkaido Body, is contributing manufacturing know-how for the development of these cars.

Strengthening Risk Management across the Entire Group

Kato The Air Water Group comprises a very diverse range of businesses. This means it shoulders diverse risks. This is why we established the Risk Management Committee to identify all manner of risk across the Group as whole, including work-related accidents and traffic accidents, as well as natural disasters.

Kakimoto I understand that a questionnaire was sent out about business risks to every operating company at Air Water, as well as all Group companies.

Kato Yes. We have already received the answers to the questionnaire, and from the answers, we aim to identify the issues and weak points of the relevant risk management and improve it through discussion and review. Risk first has to be documented in a visible form before it can be managed. At the Compliance Center, we are aggregating the matters discussed in the committee and making general rules for the Group as a whole—in other words, regulations and procedures.

Kakimoto Incidentally, after the earthquake, in its safety audits, the Compliance Center recommended that we use square rings which are an effective means of preventing cylinders from falling over, and JIMGA* is also recommending them.

Kato That's right. After the Great East Japan Earthquake, the government is moving to reinforce the regulations for preventing leaks of combustible and toxic gases, and we are also considering how to handle the matter. The Compliance Center is working to review risk across the Group as a whole and to raise the awareness of risk among employees. Our ultimate goal is to achieve a corporate culture that is resistant to disaster, people-friendly, and devoted to social contribution, and we are constantly active towards that end.

* JIMGA: Japan Industrial and Medical Gases Association



Square ring for preventing cylinders from falling over

Building a Business with Deep Roots in the Community

How does the Air Water Group practice corporate social responsibility in local communities?

What initiatives are needed to grow as a company with a strong presence in the local community, and to pursue business while building solid relationships with stakeholders?

Here we'll look at two businesses, Niigata Ekisan and Air Water Farm, and their practice of CSR in the local community.

Growing with Our Partners

Niigata Ekisan

Meeting a New Partner Changes Local Business

In 2004, the first VSU developed by Air Water started commercial operation in Niigata. In 2008, the venture



Niigata Ekisan's VSU and Kaneko Shokai's tank truck

made a new start as Niigata Ekisan after a local company, Kaneko Shokai, took an equity stake in the company. We asked Shinsuke Shimizu, president of Niigata Ekisan, to tell the story of the alliance with Kaneko Shokai.

"A VSU is a community-based compact manufacturing system that supplies liquefied gas in the area of demand, but it is not always easy to connect with the demand in an area," said Shimizu. "And so in Niigata, we partnered with Kaneko Shokai, a leading dealer of industrial gas, to create a new business model for Air Water. Kaneko Shokai has more than 80 years in the Niigata gas business, and it has earned the deep trust of its customers. We proposed a business partnership, and Kaneko Shokai kindly agreed."

Toshitaka Ara, chairman of Kaneko Shokai, added, "We also had a need. Originally there was only one industrial gas plant in Niigata. We needed extra supply capability so that we could fulfill our pledge of stable supply to our customers, including hospitals, in case of an accident or disaster. So from that point of view, we were already thinking about partnering. With the creation of Niigata Ekisan, we were able to achieve everything from GMP* manufacturing, to filling and delivery, which gives our customers even greater confidence."

* GMP: Good Manufacturing Practice, standards clarifying the procedures that businesses should follow in manufacturing facilities such as factories, and in processes such as quality control and production control, to assure the quality and safety of pharmaceutical products, medical devices, and food products.



Toshitaka Ara
Chairman and CEO, Kaneko Shokai Co., Ltd.



Takayuki Tachibana
President, Kaneko Shokai Co., Ltd.



Shinsuke Shimizu
President, Niigata Ekisan Co., Ltd.

What Role Can We Play in the Local Community?

Niigata Ekisan is playing a new role in the region by building a network with new VSUs in Fukushima and in Matsumoto in Nagano Prefecture, aiming to back each other up and increase the reliability of supply in the region. This has also allowed the company to respond flexibly to local fluctuations in demand. In addition, it has eliminated long-distance transportation, which helps to reduce impact on the environment from CO₂ emissions.

Takayuki Tachibana, president of Kaneko Shokai, said, "After the Great East Japan Earthquake, even when infrastructure took a major hit, we were able to maintain a stable supply, which was a major selling point for Kaneko Shokai."

Meeting the Challenges of Local Industry Together

Kaneko Shokai and Niigata Air Water (a regional business company of Air Water) can be considered competitors since they both handle the same product manufactured by Niigata Ekisan. However, as Ara remarked, "If we can share our respective contacts, as well as our staff and facilities, complementing areas that are lacking, then there is no reason not to." Ara feels that this relationship of trust arose precisely because Air Water and Kaneko Shokai were heading in the same direction in the first place.

Ara continued, "Isn't the mission of local industry to provide what customers want and to meet their needs? If we tried to do things only our own way, then we would do no business at all. So if the customer changes in some

way, then we also have to change. I get the impression that Air Water takes the same view."

In addition to selling industrial gas, Kaneko Shokai also strives to meet customer needs by providing a wide range of other products such as lifestyle related goods and items for welfare and care.

The company also sells Air Water's home delivery service for drinking water, AW-Water. For Kaneko Shokai, this represents an opportunity to expand its business domain and create value for customers.



Water-cooler for AW-Water

Building a Foundation of Trust Over Time

Shimizu of Niigata Ekisan concluded the conversation by addressing the topic of future business development. "We are aiming to grow together with Kaneko Shokai based on a relationship of trust in order to foster a regional industrial gas business. Through transparent management, mutual exchange of views, expansion of our respective business, and standardization of various rules and so on, we want to share the experience and systems that Air Water has built up. It is difficult to build a business with deep roots in the community overnight, and so we intend to spend the time required to build a foundation of trust."

Aiming for Mutually Prosperous Regional Agriculture

Air Water Farm Chitose Farm

Undertaking Intensive Agriculture, Air Water-style

Two years have passed since the start of production at the Air Water Farm in Hokkaido, where crops are grown in greenhouses. Here, temperature, humidity, sunlight and water are all controlled automatically by computer. "This was a decisive year for us," says Katsuhiko Morikawa, Sales

Director at the Chitose Farm of Air Water Farm Agricultural Corporation. Farming involves high initial investment for equipment and facilities, agricultural machinery.

In order to amortize these expenses and make a quick transition to profitability, the company is working to improve productivity and find the optimum cost structure.

Kazushige Matsuo, General Manager, Administration and Facility Management, had this to say: "My role is to introduce factory-style production management to farming, making the most of my background; for example, managing energy costs and databasing cultivation technologies. If it can be recorded as data, whatever works can be used at other locations."



Chitose Farm greenhouse



Katsuhiko Morikawa
Director, Chitose Farm, Sales Director,
Air Water Farm Agricultural Corporation



Kazushige Matsuo
General Manager, Administration and Facility
Management,
Air Water Farm Agricultural Corporation



The business plan covers everything from the selection of crop plants like tomatoes, baby leaf, and frilly lettuce to the selection of taste and shape, to selection of buyers based on rigorous rationality. The company has also trademarked the Chitose Fresh Tomatoes™ it developed and is working on branding the product.

Harnessing the Sales Capabilities of Local Intermediate Wholesalers to Promote Local Production for Local Consumption

Air Water Farm's distribution and sales is also based on an original policy. In order to strengthen ties with the community, the company is pinpointing local retail stores as part of its approach emphasizing local production for local consumption, and is selling our products to intermediate wholesalers who deal with these retail stores.

Morikawa explained, "We are working with local intermediate wholesalers who can help us deal with fluctuations in harvests. The wholesalers also manage complaints from the retailers, allowing us to concentrate on controlling production. In other words, we rely on the intermediate wholesalers to control the sales side of things."

Active Communication with the Local Community

Even with this highly rational type of farming operation, engagement with the local community—including farmers in the surrounding area, local residents and local governments, and regional agricultural organizations—is essential. Morikawa reported, "Air Water is new to the

community, so our every movement is under scrutiny. The farmers around Chitose Farm are particularly concerned that they may be negatively affected in some way. At the briefing meeting we held to explain our operations, they asked a lot of questions about insect damage and water pollution. We explained our operations patiently and in good faith. I really came to realize that the most important thing for running a farming business here is trust."

In addition, Chitose Farm participates in the farmer's markets organized by Chitose City Producer's Profitability Improvement Council, events held by Chitose's Green Tourism Council, and Chitose's summer dance event. It also takes part in the activities of the Chitose Kita Environmental Protection Association, and the study group of the Ishikari Agricultural Extension Center, as well as periodic meetings to exchange views with Chitose City. Communication with the local government and regional organizations is essential. This is because in the agriculture sector, which requires a posture and actions that are deeply rooted in the locality, Air Water's farm business cannot hope to exist without the mutual prosperity of other farms in the region.

What We Hope for from Air Water Farm

Yasuhito Tanaka
Manager, Agriculture Promotion Division, Industrial
Promotion Department, Chitose City

Chitose City is very pleased that Air Water Farm renovated unused facilities and used them effectively to expand production and local employment. The company is also engaging actively with the farming community in the region. We hope that Air Water Farm will achieve stable management and put down roots in Chitose as a leading agricultural producer. We look forward to a long supply of safe, wholesome vegetables.

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 maximizing 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-range information disclosure.

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 on the spirit of observing social ethics and the law, and establishes rules regarding legal compliance.

Directors report business activities in regular meetings of the Board of Directors or at other times as necessary and mutually review and supervise activities. In addition, each auditor including external auditors, attend meetings of the Board of Directors and other important meetings in accordance with the auditors' inspection standards established by the Board of Auditors. They also audit the state of business implementation at group companies as part of their supervision of the execution of duties of the directors.

The Internal Auditing Office, which is Air Water's internal auditing unit, carries out internal audits of the state of compliance with internal regulations and laws in the conduct of the business activities of Air Water and its group companies in accordance with the internal auditing regulations and internal audit plan. In addition, there is a system for reporting the results of the internal audit to the representative directors and standing auditors.

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.

Risk Management Structure

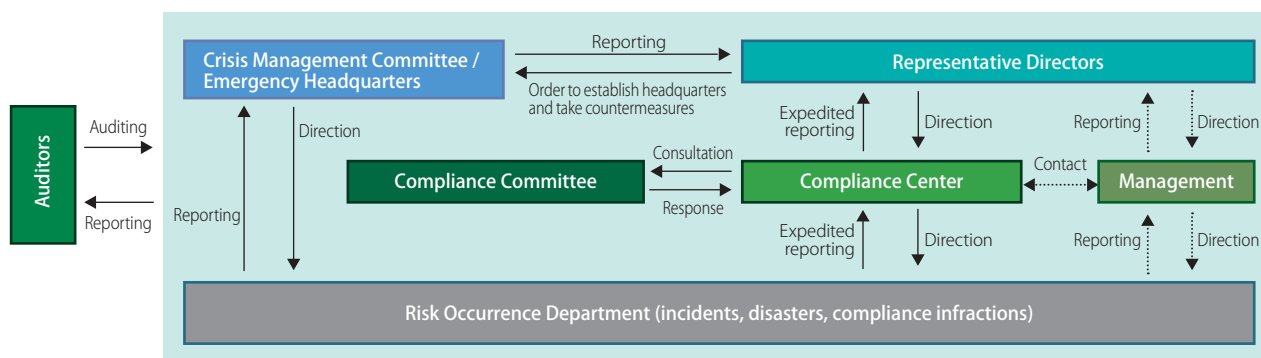
The Compliance Center, which is under the direct control of the representative directors, manages compliance items recognized as particularly important risks for business activities and risks concerning safety, disaster prevention and environmental preservation at Air Water and its group companies, as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

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

carried out.

From August 2011, the Compliance Center has regularly held a risk management committee as a secretariat responsible for assessing the risk management framework in each division and group company, and for bolstering the risk management framework in the Air Water Group overall. If a risk with 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

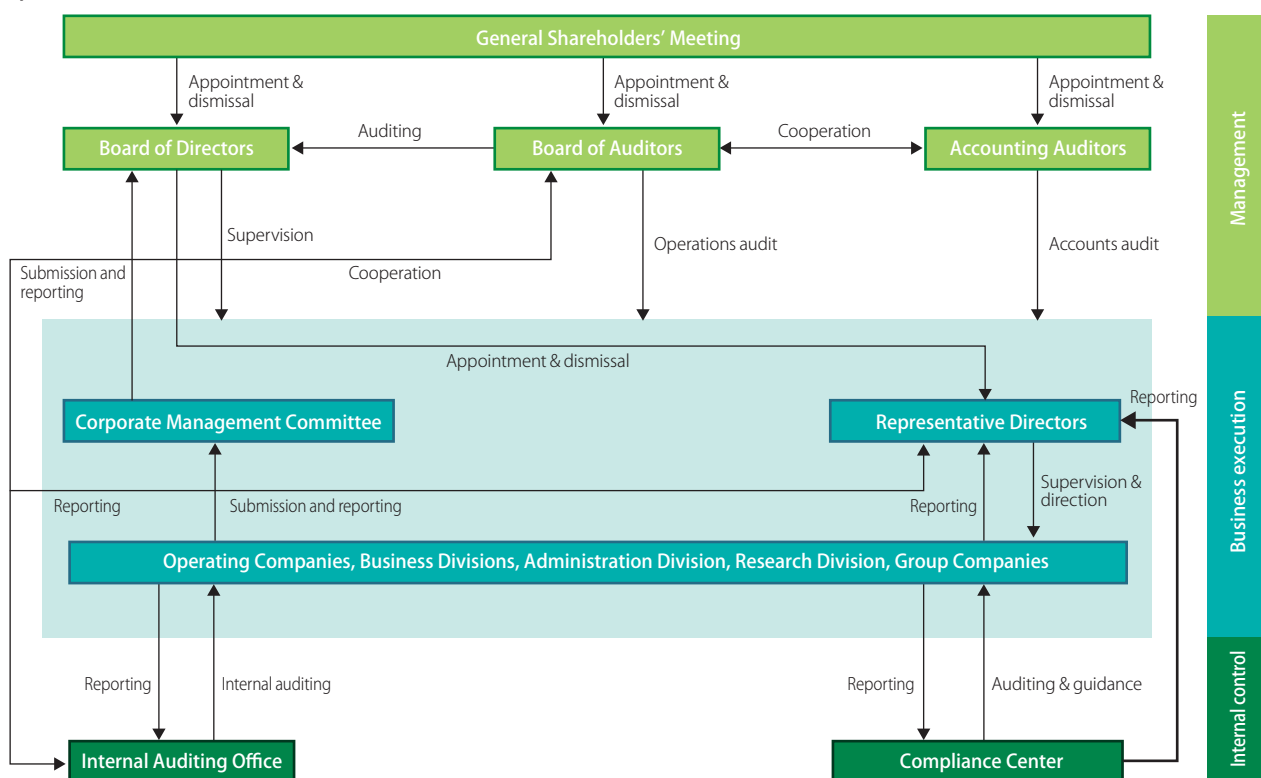


Internal Audits

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 di-

rectors. 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, and environmental preservation across the Air Water Group. Under our management structure, the Internal Auditing Office and Compliance Center report to the auditors and to the representative directors as appropriate when their internal audits confirm facts that might have a material effect on Air Water's management.

Corporate Governance Structure



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). In regard to the payment order for surcharge, Air Water made a request for a hearing because Air Water was dissatisfied with the standards for calculating the surcharge, and the hearing procedures are currently in progress.

Air Water regards this matter with all seriousness. In order to prevent similar situations in the future, Air Water continu-

ously receives advice from outside professionals and educates its directors and employees regarding compliance with the Antimonopoly Act. Air Water also strictly regulates contact with competitors.

Furthermore, Air Water makes best efforts to restore trust by enforcing corporate ethics and its compliance structure at any cost. For example, the Compliance Center periodically maintains a system for monitoring the status of implementation of the Antimonopoly Act Compliance Manual in each Air Water operating division as well as in Air Water Group companies.

Air Water believes that ensuring safety is the basic premise of its corporate activities. The Group continues to make every effort to reinforce a corporate culture that gives first priority to safety and trust.

Air Water Group Safety and Health Basic Policy

Air Water has set the following Safety and Health Basic Policy so that employees can work safely without concern, and to secure customer and product safety.

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.

Items Implemented at Each Workplace

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> a. Hold Safety and Health Committee meetings b. Draw up a safety and health activity implementation plan c. Advance education on safety and health d. Revise work standards and manuals, and secure safe operations by having them observed e. Review and strengthen safety measures for each operation | <ol style="list-style-type: none"> f. Advance "near miss" and KY (hazard prediction training) activities g. Advance 5S activities h. Maintain and improve employee physical and psychological health i. Observe traffic rules and advance traffic safety education activities |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Approach to Safety

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 groupware, for information sharing.

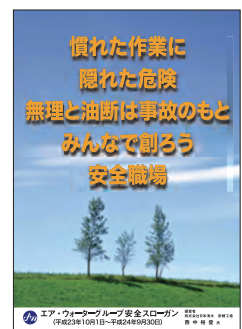
Safety and Health Structure Chart



Safety Slogans

The Compliance Center Safety Management Department solicits safety slogan proposals from all employees, including employees at affiliates, in order to raise awareness of safety. In fiscal 2011, there were 2,409 proposals. This contest provides a good opportunity for employees to think about safety at work

and at home. An award is given for the best entry, and the slogan is displayed on posters in each workplace.



Safety slogan poster

Working to Reduce Risk

Industrial Accident Statistics and Recurrence Prevention Measures

The Compliance Center Safety Management Department gathers reports of incidents and accidents within the Air Water Group and provides guidance in preventing accidents through safety audits. In 2011, there were 43 work-related accidents excluding traffic accidents, and 12 accidents during commuting. Compared with 2010, work-related accidents increased by six incidents, while accidents during commuting decreased by two incidents. Getting a finger, hand, arm, or foot caught in machinery, falls, and lacerations accounted for many of the work-related accidents.

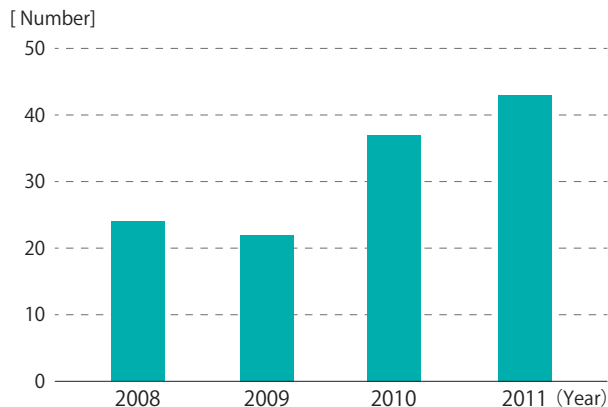
To prevent the recurrence of similar accidents, the Central Safety and Health Committee, Regional Health and Safety

Committee and Safety and Health Committees in each workplace share information on accidents and work to prevent them.

In addition, relevant information is posted on the corporate network, and the Compliance Center Safety Management Department distributes Safety Information bulletins to Air Water and its Group companies explaining the circumstances of the accidents and how to prevent them.

Furthermore, serious work-related accidents and incidents involving facilities are reported to the Corporate Management Committee and the attending directors of operating companies take steps to prevent recurrence.

Number of Work-Related Accidents



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

Distribution of Safety Information

安全情報 発出 No. A24-002 発行日 平成24年 5月17日
 エアウォーター株式会社 コンプライアンスセンター 事故調査課 安全管理課

<労災> 高圧ガスローリ乗務員転倒転落

【事象状況】
 平成24年5月4日(金)午前8時10分頃、東海建設株式会社 No.2ローリ-搬送所付近にて西日本エア・ウォーター株式会社安全衛生部(以下)調査部の高圧ガスローリ乗務員(以下)乗務員が搬送機取付側のローリ-を降車した際、後方および下方確認を怠ったためラックスケールより降車から地面に落下した。その結果、骨盤に重たい圧迫感(左股関節)の発症と大腿骨骨折及び足関節下を切創した。その結果、全休期間：19日(8日+内職)計全休(全休)19日(19日)

【事象原因】
 乗務員がローリ-降車時に後方および下方確認を怠ったことに加え、降車位置付近に高圧ガス配管中の立管が露出していたこと。

【対策報告】 企業務員へ車両乗務時の周囲の安全確認を徹底する。乗車が乗降口開口に止まらないようランを引いた。

【リストアップコメント】
 ロックスケールは降車時の降車位置が不明な場合は、降車のあるところを歩行する際は各自周囲に注意が必要である。また、特に転倒防止帯や床面の色分けなど車中人が確認しづらい場所には注意が必要である。

【安全情報】 「労働安全」(重大な通報) について迅速な半年毎の安全情報による安全情報の提供は毎日行われ、迅速な通報や重大な事故発生時の安全情報と併せて提供いたします。中央安全衛生委員会各部署設置、各社安全衛生委員会等を通じ、ヒヤリハット等にも活用し再発防止を機してに改善を促し、再発防止を促す。

以上

安全情報は、関係部署(代理店)、中央安全衛生委員会各部署及び事業所にてのみに提供しています。

General Risk Inspection

The Compliance Center Safety Management Department carried out a general risk inspection of Air Water and its Group companies in April 2012. This covered a total of 91 companies including Air Water and 287 sites, with safety checks of general offices, warehouses, production equipment and vehicles.

There were 46 companies that store hazardous materials

including Air Water, and 114 sites, including 25 with small quantities and five with less than small quantities). Looking to the future, we plan to seek the cooperation of the Hazardous Materials Safety Techniques Association and other organizations in conducting third-party inspections of companies that store hazardous materials to reconfirm the safety of stored materials.

Report on the Fires at the Kashima Plant of the Chemical Company and the Hyogo Plant of Air Water Sol Inc.

On June 19, 2011 a fire occurred at the Hyogo Plant of Air Water Sol Inc., and another occurred at the Kashima Plant of the Chemical Company on March 19, 2012. Two employees lost their lives in the incident at the Kashima Plant, and Air Water deeply regrets the distress this terrible accident has caused. The causes of the fires are currently under investigation by the police and fire departments, but are as yet unknown. While the police, fire department and Labor Standards Inspection Office are investigating the cause of the fire at the Kashima Plant, Air Water has established an internal

investigative committee to conduct an independent internal investigation.

As an urgent measure against recurrence, the president of Air Water ordered a general inspection of latent fire and facility risks at all workplaces on March 20, the day following the fire at the Kashima Plant. However, since this general risk inspection was conducted internally, a third-party inspection team was also organized to conduct walk-around inspections, and the company will make every effort, going forward, to prevent recurrence of incidents like these.

Air Water Group Environmental Basic Policy

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

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.

In accordance with the Environmental Basic Policy, Air Water also pursues 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.

Main Establishments with ISO 14001 Certification

As of March 31, 2012

Air Water Inc. (9 business establishments)	
• On-site Company: Wakayama Plant (as a business establishment related to the Wakayama Steel Works of Sumitomo Metal Industries, Ltd.)	• On-site Company: Kokura Plant (as a business establishment related to Sumitomo Metals (Kokura), Ltd.)
• Chemical Company: Kashima Plant, Wakayama Plant	• Sakai Business Complex, Amagasaki Business Complex, Hirakata Business Complex
• Hokkaido Company	• Utsunomiya Business Complex
• Nagoya Business Complex	• Kashima Business Complex
• Research & Development Institute	
Air Water Group companies (21 business establishments)	
For details, see the following website: http://www.awi.co.jp/english/environment/index.html	

* Some company names have changed as of August 31, 2012.

Environmental Risk Management

Environmental Audits

The Environmental Management Promotion Department conducts periodic environmental audits to ensure that operation sites and Group companies with a significant environmental impact undertake environmental conservation activities and comply with environmental regulations, as well as working to reduce environmental risk. In fiscal 2011, the division conducted audits with a focus on the state of compliance with the amended Energy Conservation Act and Chemical Inspection Act.



Environmental Audit Presentation at Nihonkaisui Co., Ltd.

FY2011 Environmental Audits

- Air Water Inc.
 - On-site Company: Wanishi, Kashima, Utsunomiya, Wakayama, Kokura
 - Hokkaido Company: Chitose
 - Chemical Company: Kashima, Wakayama
 - Uozu Gas Cente
 - ECOROCA Wood-Plastic Composites Division: Nagano
- Urashima Nori Co., Ltd. • Sun Chemical Co., Ltd.
- Nihonkaisui Co., Ltd.: Sanuki • Sagami Ham Co., Ltd.: Shirakawa
- Air Water Mach Inc. Head Office Plant • Printec Corporation

* Some company names have changed as of August 31, 2012.

Publication of Environmental Information

The Environmental Management Promotion Department 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

- Information about amendment of Air Pollution Control Act and Water Pollution Control Act
- Information about full compliance with the Air Pollution Control Act
- Information about production and import of organic pigments containing byproduct PCBs

Surveys of Responses to Revisions of Environmental Law

The Environmental Management Promotion Department carries out surveys of compliance with amendments to environmental laws at operation sites and Group companies and provides guidance where necessary with the aim of reducing environmental risk.

Principal Surveys

- Amendment of the Air Pollution Control Act and Water Pollution Control Act
- Amendment of the Act on Confirmation, etc., of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof

Education and Human Resources Development

Environment and Energy Management Staff Training Sessions

The Environmental Management Promotion Department holds workshops for educating personnel at workplaces and Group companies about environmental activities and so on.

In fiscal 2011, 34 employees responsible for saving energy at each workplace and Group company took part in workshops on energy conservation. The program featured training conducted by instructors from the Wakayama Environment and Energy Conservation Division of Sumikin Management Co., Ltd.

Participants identified challenges and energy-conservation best

practices using case studies. They also discussed how to achieve further energy savings at manufacturing sites. The participants exchanged opinions and information on energy conservation and improved their skills as managers.



Environment and energy managerial staff workshop

Internal Environmental Auditors Training Sessions

Every year, the Environmental Management Promotion Department holds training workshops for the internal environmental auditors at sites within the Air Water Group that have obtained ISO 14001 certification. Participants learn about ISO standard requirements, internal audit methods and so on through texts, seminars and group discussions.

In fiscal 2011, training workshops were held in three re-

gions nationwide (Hokkaido, eastern Japan, and western Japan) and 34 internal environmental auditors received training for the first time.



Internal environmental auditors training session

Addressing 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.

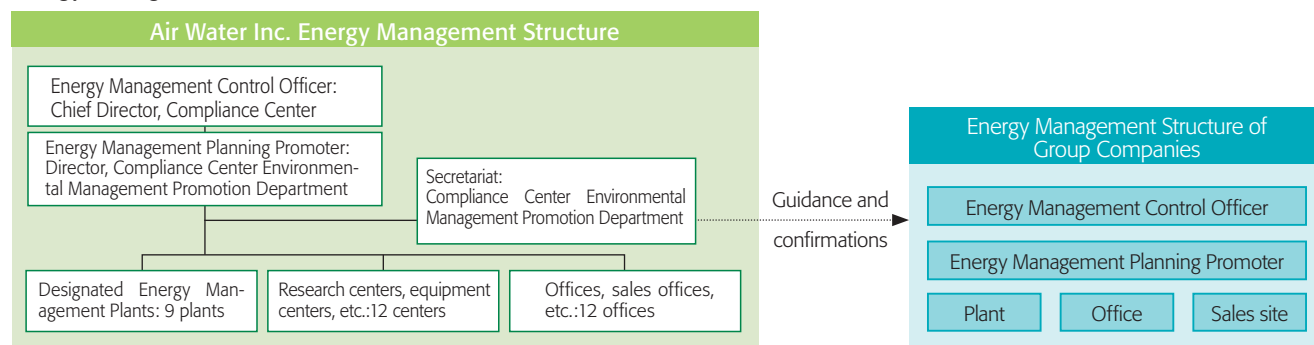
Energy Management Structure

Air Water's main industrial gas plants use a great deal of energy in liquefying and separating gases from air. Energy conservation measures have been advanced at these plants as Designated Energy Management Factories.

In response to the revisions to the Energy Conservation Act implemented in April 2010, Air Water has constructed an energy management structure with the Compliance Center Manager as

the responsible officer to advance energy management throughout the entire company, building on its prior efforts at the individual plant level to include offices and other business premises. The Environmental Management Promotion Department also confirms the energy management structures of each group company, and provides guidance.

Energy Management Structure



Energy Conservation Promotion Committee

Air Water's Energy Conservation Promotion Committee meets twice a year with the participation of the energy management control officers of designated energy management plants to consider legal compliance and to exchange information about

energy conservation. In addition, the committee considers specific business practices such as gathering data and preparing reports in accordance with the Energy Conservation Act, taking appropriate measures to comply with the law.

Response to Power Shortages Following the Great East Japan Earthquake

In the summer of 2011, there were shortages of electricity all over Japan due the accidents at the Fukushima nuclear plant following the Great East Japan Earthquake. The Air Water Group responded by conserving electricity and cutting peak power use at its manufacturing facilities and offices within the service area of the Tokyo and Tohoku electric power companies.

- The seven Air Water Group plants within the service area of Tokyo Electric Power united to request joint usage restrictions. By adjusting the operating rate at each plant and shifting operating times, it was possible to reduce peak power by 31% compared with 2010.
- As production facilities for medical supplies, two Air Water Group plants within the service area of Tohoku Electric Power were authorized to relax the power usage restrictions. These plants set voluntary power-saving targets and strove to achieve stable operation.
- In other offices and workplaces, efforts were made to save electricity by turning off lights, reducing air conditioning and growing climbing plants to shade windows. The Air Water Tokyo Office succeeded in reducing peak power by 25% compared with 2010.



Electricity Conservation Efforts in Fiscal 2012

There were nationwide power shortages again in the summer of 2012, and so the Air Water Group established a Power Risk Countermeasures Committee comprising the Gas BCP Subcommittees of the plants and the Power Saving Subcommittees of offices and other workplaces. The Gas BCP Subcommittees are considering the risks that power shortages pose to the gas business and the countermeasures required in terms of business continuity. The Power Saving Subcommittees are establishing power conservation action plans and targets to save power across the whole Group.

Measures to Address Global Warming

Efforts as a Business Operator (Plants & Offices)

Air Water has established long-term targets for energy conservation and addressing global warming in accordance with the Energy Conservation Act, particularly in the manufacturing facilities for industrial gas and chemicals, which use a lot of energy.

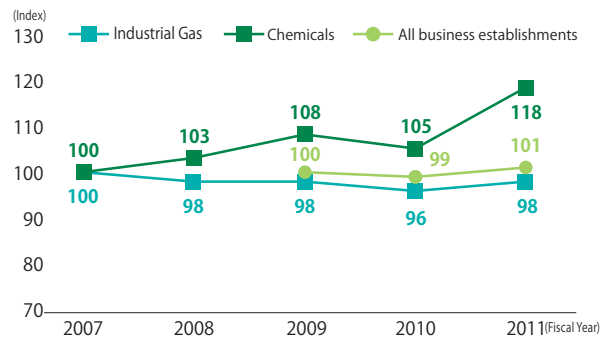
Regarding industrial gas manufacturing facilities, the introduction of new facilities at the Wanishi Plant improved the energy consumption rate. However, the efficient facilities of Kashima Plant were struck by disaster and stopped operations, which caused the worsened energy consumption rates of Kashima

Plant. As a result, the energy consumption rate of the Industrial Gas Business overall deteriorated.

Regarding chemical manufacturing facilities, the energy-saving equipment at the Kashima Plant was damaged in the Great East Japan Earthquake. As a result, the energy consumption rate of the Chemical Business overall deteriorated.

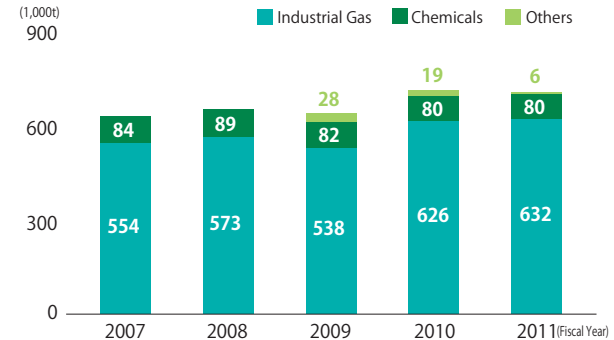
Consequently, the energy consumption rate of Air Water as a whole deteriorated.

Energy Consumption Rate Index



* FY2007 energy consumption rate set at 100.
For all Air Water business establishments (plants, offices, etc.); FY2009 unit set at 100.
Scope: All Air Water Inc. plants and business establishments

CO₂ Emissions



* Shows CO₂ emissions for all Air Water business establishments (plants, offices, etc.) from FY2009 based on the revisions to the Energy Conservation Act.

Mid- to Long-term Goals

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

Purpose	Goal	Business Establishments in Scope	Specific Efforts	FY2011 Results	Evaluation
Addressing global warming (energy conservation)	Reduce energy consumption rate by an average rate of at least 1% per year over the mid- to long-term (over the past five years)	Air Water Inc.		Past three years Average: ±0%	○
		Industrial Gas* ¹ (Chitose, Wanishi, Kashima, Utsunomiya, Wakayama, Kokura, Arai, Uozu, Tonami)	<ul style="list-style-type: none"> Construction of a high-efficiency, large-scale plant Change to energy-efficient facilities Improvements to operating methods 	Annual average reduction of 0.6% over the past 5 years	○
		Chemical* ¹ (Kashima, Wakayama)	<ul style="list-style-type: none"> Improvement and renewal of facilities Control of speed of rotation of pumps etc. 	Annual average increase of 4.1% over the past 5 years	✕

*1: Designated Energy Management Factories (The table below is same)

Fiscal Year Goals

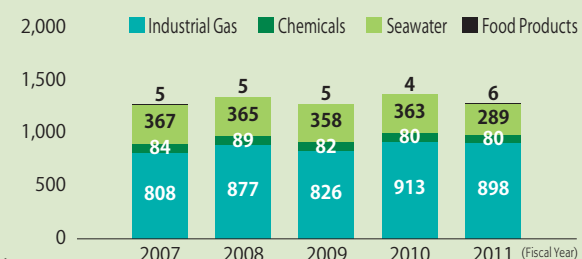
Purpose	Goal	Business Establishments in Scope	Specific Efforts	FY2011 Results	Evaluation
Addressing global warming (energy conservation)	Reduce energy consumption rate compared with the previous year	Air Water Inc.		Increase of 2% compared with FY2010	✕
		Industrial Gas* ¹ (Chitose, Wanishi, Kashima, Utsunomiya, Wakayama, Kokura, Arai, Uozu, Tonami)	<ul style="list-style-type: none"> Wanishi: Construction of a large new plant Utsunomiya: Adjustment of the facility operation switching cycle Chitose: Efficiency improvements through facility overhaul 	Increase of 1% compared with FY2010	○
		Chemicals* ¹ (Kashima, Wakayama)	<ul style="list-style-type: none"> Kashima: Efficiency improvements through addition of equipment in desulfurization facilities Wakayama: Efficiency improvements through facility overhaul 	Increase of 12% compared with FY2010	✕

CO₂ Emissions at Main Air Water Group Plants (FY2007–FY2011)

The Air Water Group is advancing energy conservation measures as measures to combat global warming, striving to track and manage CO₂ emissions.

CO₂ emissions from plants inside the Air Water Group which consume large amounts of energy (Designated Energy Management Plants under the Energy Conservation Act) totaled 1.272 million tons in FY2011 (a 6% decrease compared with FY2010).

CO₂ Emissions at Main Air Water Group Plants (FY2007–FY2011)



Scope: Same as "Materials Balance" on page 21.

Measures to Address Global Warming

Transportation Sector Efforts

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.

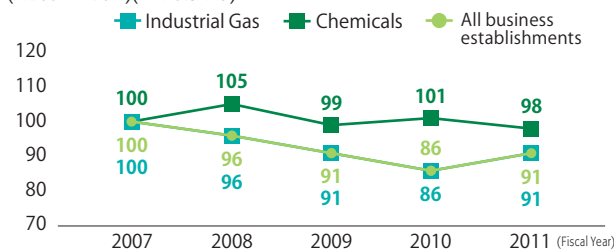
After the Great East Japan Earthquake, long distance haulage increased in the Tohoku and Kanto regions, and due to the decrease in the amounts transported, the energy consumption rate of contract haulage of Air Water increased overall in fiscal 2011.

For transportation of Industrial Gas Company products, Air

Water is using its nationwide VSUs for efficient delivery, reducing the amount of fuel used as well as CO₂ emissions. However, due to the effects of the Great East Japan Earthquake, long distance haulage increased for backup and so on, increasing the energy consumption rate of haulage.

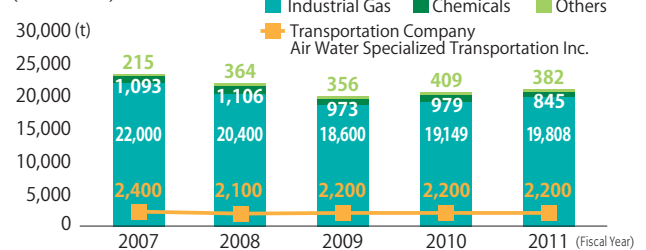
The Chemical Company was also affected by the Great East Japan Earthquake, but the energy consumption rate of haulage improved slightly.

Energy Consumption Rate Index in Consigned Transportation (FY2007–FY2011)(Air Water Inc.)



* FY2007 energy consumption rate (energy use / amount of transportation) set at 100.

CO₂ Emissions from Consigned Transportation (FY2007–FY2011) (Air Water Inc.)



Mid- to Long-term Goals

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

Purpose	Goal	Specific Efforts	FY2011 Results	Evaluation
Addressing global warming (energy conservation)	Reduce energy consumption rate by an average of at least 1% per year over the middle- to long-term (over the past 5 years)	<ul style="list-style-type: none"> Construction of a new supply base Pursuit of efficient delivery 	9% reduction compared with FY2007(Annual average reduction of 2% over the past 5 years)	✓

Fiscal Year Goals

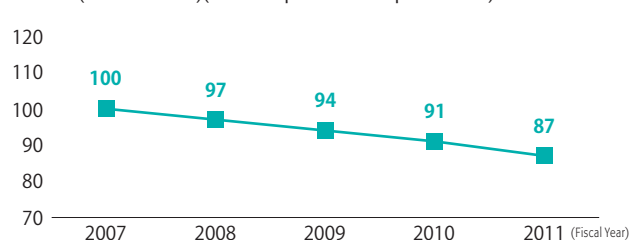
Purpose	Goal	Specific Efforts	FY2011 Results	Evaluation
Addressing global warming (energy conservation)	Reduce energy consumption rate compared with the previous year	<ul style="list-style-type: none"> Efficient delivery using shared bases in the Nagano region Efforts to reduce the number of trips 	Increase of 5% compared with FY2010	×

Initiatives Befitting an Innovative Transportation Business

Air Water Specialized Transportation Inc., which manages transportation in the Hokkaido area, is designated a special freight carrier by Japan's national government under the Energy Saving Act. The company complies with the regulations pertaining to transportation and works systematically to control CO₂ emissions and prevent environmental pollution from vehicle exhaust.

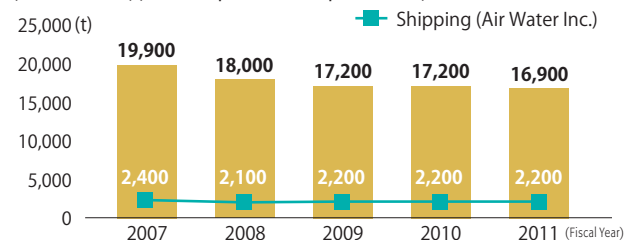
Air Water Specialized Transportation Inc. completed installation of digital tachographs in all its vehicles last fiscal year. The tachographs have been used to reset transportation routes and implement eco-friendly driving. This has reduced the energy consumption rate of transportation.

Energy Consumption Rate Index for Transportation as a Freight Carrier (FY2007–FY2011)(Air Water Specialized Transportation Inc.)



* FY2007 energy consumption rate (energy use / amount of transportation) set at 100.

CO₂ Emissions from Transportation as a Freight Carrier (FY2007–FY2011)(Air Water Specialized Transportation Inc.)



Mid- to Long-term Goals

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

Purpose	Goal	Specific Efforts	FY2011 Results	Evaluation
Addressing global warming (energy conservation)	Reduce energy consumption rate by an average of at least 1% per year over the middle- to long-term (over the past 5 years)	<ul style="list-style-type: none"> Introduction of fuel efficient vehicles Implementation of eco-friendly driving 	13% reduction compared with FY2007(annual average reduction of 2% over the past 5 years)	✓

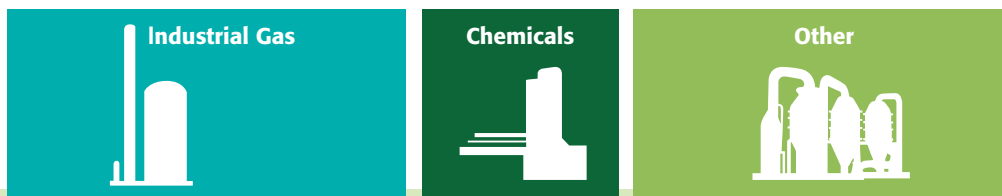
Fiscal Year Goals

Purpose	Goal	Specific Efforts	FY2011 Results	Evaluation
Addressing global warming (energy conservation)	Reduce energy consumption rate compared with the previous year	<ul style="list-style-type: none"> Introduced ten fuel efficient vehicles/year Assessed energy consumption rate for each vehicle and instructed drivers in eco-friendly driving 	4% reduction compared with FY2010	✓

Materials Balance

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.

FY2011



INPUT		Industrial Gas		Chemicals	Other		
		Air separate	Carbon dioxide gas		Seawater	Food Products	
• Main raw materials		Air	Raw material off-gas	Coal (coke oven gas)	Seawater	Food ingredients	
• Other raw materials				Molten sulfur 1,400 t	Light burnt dolomite 7,700 t Caustic lime, calcined lime 18,000 t		
Inputs	Energy	Electric power	1,900 million kWh	40 million kWh	110 million kWh	95 million kWh	9 million kWh
		Fuel	50,000 TJ	1,000 TJ	730 TJ	3,100 TJ	43 TJ
		Steam	230 TJ	10 TJ	260 TJ	0 TJ	0 TJ
	Water resources	Tap water	50,000 m ³	1,000 m ³	90,000 m ³	400,000 m ³	2,000 m ³
		Water for industrial use	3 million m ³	100,000 m ³	7.2 million m ³	1.1 million m ³	260,000 m ³
		Seawater	75 million m ³	0 m ³	63 million m ³	– m ³	0 m ³



OUTPUT		Industrial Gas		Chemicals	Other		
		Oxygen, nitrogen and argon	Carbon dioxide		Salt products	Manufactured goods	
• Products		4.7 billion Nm ³	110,000 t	• Refined coke oven gas 1.1 billion Nm ³ • Crude benzene 74,000 t • Ammonium sulfate 25,000 t • Concentrated sulfuric acid 14,000 t	• Magnesium hydroxide 190,000 t • Magnesium oxide 44,000 t • Magnesium oxide 8,000 t	7,700 t	
Outputs	Air	CO ₂ emissions	880,000 t	16,000 t	79,000 t	280,000 t	65,000 t
		Air pollutants (SO _x , NO _x)	0 t	0 t	480 t	800 t	9 t
		PRTR substances	0 t	0 t	4 t	0 t	0 t
	Disposal (land)	Industrial waste	495 t	9 t	529 t	11,383 t	526 t
		PRTR substances	42 t	0 t	0 t	0 t	0 t
	Water	Public water bodies	76 million m ³	100,000 m ³	61 million m ³	46 million m ³	220,000 m ³
		Sewage	500,000 m ³	0 m ³	0 m ³	10,000 m ³	0 m ³
		PRTR substances	0 t	0 t	1 t	0 t	0 t

Scope (manufacturing facilities with high environmental impact):

- Industrial Gas (air separation products): On-site Companies, Air Water Inc. (Wanishi, Kashima, Utsunomiya, Wakayama, Kokura), Hokkaido Company (Chitose), Gas Center (Arai, Uozu, Tonami), Cryo Air Co., Ltd., Senboku Oxygen Co., NCSS Air Water Inc. (Hikari, Kumamoto), Tomakomai Oxygen Co., Ltd., Fukushima Ekisan Co., Ltd., Niigata Ekisan Co., Ltd., Shinano Ekisan Co., Ltd., Sagami-hara Ekisan Co., Ltd., Tokai Ekisan Co., Ltd., Shizuoka Ekisan Co., Ltd. Shizuoka Ekisan Co., Ltd., Mikuni Ekisan Co., Ltd., Matsuyama Oxygen, Inc., Daido Air Products Electronics, Inc. (Mie, Hiroshima, Nagasaki), Chugoku Air Water Inc. (Kudamatsu)
- Industrial Gas (carbon dioxide gas): Air Water Carbonic Inc. (Ichi-hara), Kyodo Carbonic Inc. (Muroan)
- Chemicals: Chemical Company, Air Water Inc. (Kashima, Wakayama)
- Other (Seawater Business): Nihonkaisui Co., Ltd. (Onahama, Ako, Sanuki), Tateho Chemical Industries Co., Ltd. (Head Office, Une)
- Other (Food Products Business): Saveur SS Inc., Sagami Co., Ltd. (Shirakawa)

* Company names have changed as of August 31, 2012.

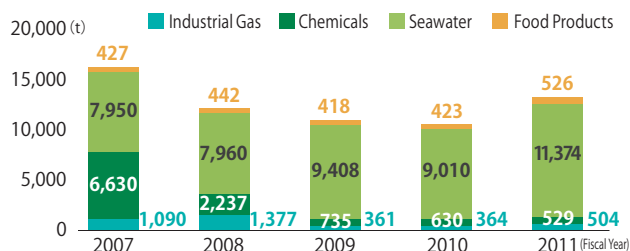
Appropriate Management of Waste Products and Chemical Substances

Waste Management

The Air Water Group works to limit waste generation, implement reuse, recycling and other proper disposal, and track waste trans-

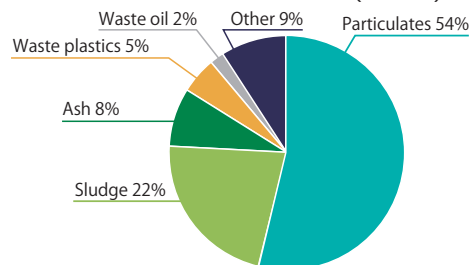
fers and releases. The Group promotes environmental preservation and the effective use of resources.

Industrial Waste Generation: Breakdown



Scope: Same as "Materials Balance" on page 21.

Industrial Waste Generation: Breakdown (FY2011)



PCB Wastes Management

The Air Water Group accurately tracks the types, quantities, storage conditions and other details of PCB wastes, and reports these to prefectural governors and other authorities each year. The Group is moving forward systematically with appropriate disposal, aiming for completion by the July 2016 disposal deadline.

Business Establishments with PCB Waste Products Storage

As of March 31, 2012

Storage at key manufacturing facilities	Location
On-site Company, Air Water Inc.: Kashima Plant	Kashima City, Ibaraki Prefecture
On-site Company, Air Water Inc.: Wakayama Plant	Wakayama City, Wakayama Prefecture
On-site Company, Air Water Inc.: Kokura Plant	Kitakyushu City, Fukuoka Prefecture
Chemical Company, Air Water Inc.: Kashima Plant	Kashima City, Ibaraki Prefecture
Kyodo Carbonic Inc.	Muroran City, Hokkaido
Nihonkaisui Co., Ltd.: Onahama Plant	Iwaki City, Fukushima Prefecture
Nihonkaisui Co., Ltd.: Ako Plant	Ako City, Hyogo Prefecture
Nihonkaisui Co., Ltd.: Sanuki Plant	Sakaida City, Kagawa Prefecture

Scope: Same as "Materials Balance" on page 21. * Company names have changed as of August 31, 2012.

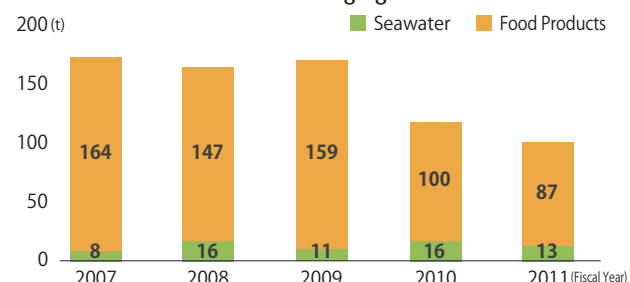
Container and Packaging Recycling

To comply with the Container and Packaging Recycling Act, the Air Water Group monitors and controls the amount of product packaging used at operation sites where containers and packaging are used and has concluded an agreement with the Japan Container

and Packaging Recycling Association for recycling of packaging.

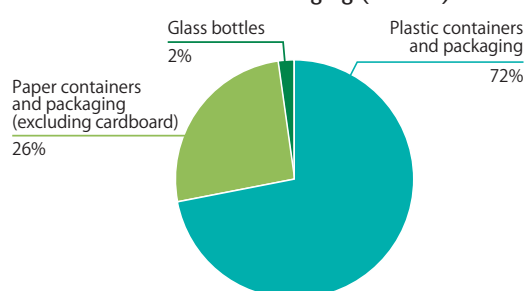
In addition, the company is working to review the material and size of its containers and packaging in order to reduce their weight and save resources.

Amount of Containers and Packaging Used in Products



Scope: Same as "Materials Balance" on page 21.

Breakdown of Containers and Packaging (FY2011)

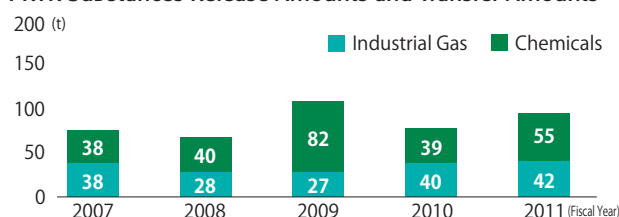


Chemical Substance Management

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

In accordance with the PRTR Act, businesses within the Air Water Group that handle more than one ton of Class I Designated Chemical Substances (one half ton or more of specified substances) notify the national government of the amounts emitted and transported.

PRTR Substances Release Amounts and Transfer Amounts



Scope: Same as "Materials Balance" on page 21.

The Seawater Business and Food Products Business have never released or transferred any PRTR substances.

Air Water's Environmentally Responsible Technologies and Services

Air Water provides various technologies and services that contribute to protection of the environment, and aims to be a company that recycles the resources of the earth in harmony with the natural environment. This section highlights two examples: Air Water's efforts to develop technologies for efficient generation of electricity using environmentally responsible liquid natural gas; and a unique service for safe transportation of industrial waste.

LNG (liquid natural gas) applications VCP Series standing centrifugal pumps

LNG is once again making news as a clean form of energy, and Air Water has developed the VCP Series centrifugal pump for environmentally responsible low-temperature liquefied gas. A centrifugal pump for liquefied gas is a device for increasing the pressure of liquefied high-pressure gas for filling lorries and high-pressure gas containers (cryogenic storage tanks, etc.) for transportation.

The VCP Series is designed to be compact, lightweight, quiet and easy to use, with a unique and innovative structure integrating a room temperature motor with a pump. In addition, it has the following environmental benefits.

(1) Resource saving through improvements in the maintenance cycle

With a simple configuration and few replacement parts, the maintenance cycle is 20,000 hours (20 to 80 times longer than before, depending on conditions of use) and service life is long. This results in conservation of resources.

(2) Use in clean energy LNG transportation

The equipment incorporates safety measures against leakage, and it makes filling possible in potential LNG transportation situations that have been impossible thus far.

(3) Use with LNG gas turbine power generation to reduce environmental impact

When LNG is used with gas turbine power generation, the pressure is typically raised after the LNG is gasified. However,

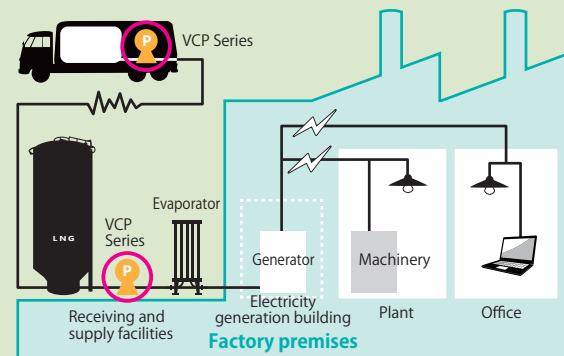
with this pump, the liquefied gas is gasified after the pressure is raised to obtain high-pressure gas more efficiently, thereby substantially improving the generating efficiency of the gas turbine.

Building on more than 40 years of experience with pumps for low-temperature liquefied gas, Air Water aims to provide environmentally responsible products that meet emerging customer needs.



VCP Series

Schematic of Factory Electricity Generation



Contributing to Environmental Protection by Collecting and Transporting Industrial Waste and Recycled Resources

Air Water Specialized Transportation Inc. provides various haulage and warehousing services, mainly in Hokkaido. One of its haulage operations involves the collection and transport of industrial waste for which the company obtained qualification in 1986. The company is authorized to collect and haul waste in the prefectures north of Kanto, as well as in Nara Prefecture, Osaka City, and Kyoto City. The company has 300 vehicles authorized for these operations in Hokkaido.

This article features Air Water's system for assuring the safe and appropriate transport of waste as well as the efficient collection and distribution of recyclable resources.

1. Traceability system provides information concerning the safe, secure and appropriate disposal of medical waste

This system not only records a history of the waste, but also sends information from door sensors, temperature sensors and GPS from an onboard device to various related parties in separate locations in real time, providing confirmation that the waste is transported properly from the site of origin to the final disposal site. Further traceability is achieved by managing waste items individually using bar codes.



Traceability

2. Helping to build a resource-recycling society

1) Collection and haulage of car batteries

The company collects used car batteries from all parts of Hokkaido covered by the Lead Acid Storage Battery Recycle Association wide-area certification program and transports them to recycling centers in Miyagi, Fukushima, and Tochigi Prefectures. The material from the batteries is recycled for use in new lead-acid batteries.

2) Administering designated collection sites under the Electric Appliance Recycling Act

The company administers manufacturer-designated collection sites under the Electric Appliance Recycling Act in three districts, Wakkanai, Kitami and Muroran. It manages all steps from acceptance of consumer electronics to transport to the recycling plant, and it also transports glass and other materials separated at the recycling centers to the resource recycling center.



Battery collection

Quality Improvement Initiatives

The Air Water Group undertakes a range of initiatives to maintain and improve the quality of its products.

This section describes the management system. Air Water uses to ensure the continuous improvement needed to meet the high expectations and earn the trust of its customers.

FSSC 22000/ISO 22000 Food Safety System Certification Initiatives

Air Water Carbonic Inc. manufactures and sells carbon dioxide gas and dry ice. The company's quality policy seeks to ensure customers' needs are met, pledging to provide products and services that earn customer trust and offer satisfaction and reliability.

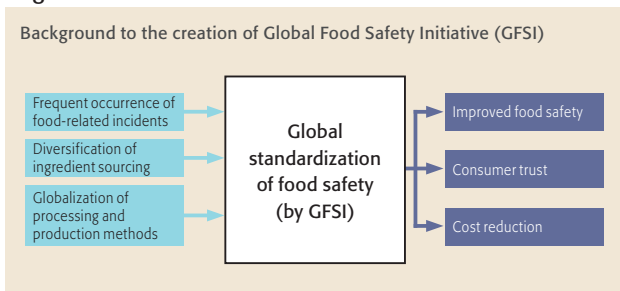
One of the company's customers, Coca-Cola (Japan) Co., Ltd., requires Air Water Carbonic to obtain food safety certification for the liquefied carbon dioxide it supplies to Coca-Cola (Japan). Starting in November 2010, the Ichihara Plant of Air Water Carbonic and other related facilities which supply liquefied carbon dioxide worked to obtain FSSC 22000/ISO 22000 certification, and it was granted in February 2012.

Consumers around the world have many concerns about food

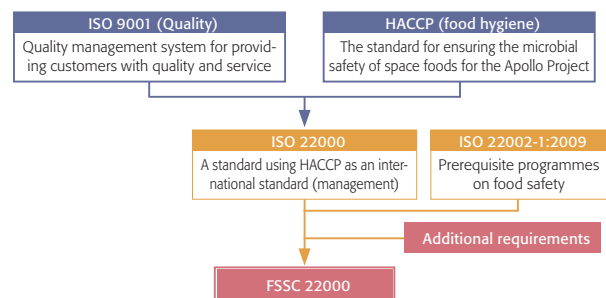
safety including the diversification of dietary supplements, the development of genetic modification technologies for plants and animals, and antibiotics used when raising meat and farmed fish. In response, major retail businesses have established the Global Food Safety Initiative (GFSI) in an effort to regain the trust of consumers. FSSC 22000/ISO 22000 is a food safety management system established by GFSI. Japanese companies in the food product business maintain this certification as part of their efforts to ensure safety.

In the Air Water Group, in addition to Air Water Carbonic Inc., Kyodo Carbonic Inc., a company that manufactures and sells carbon dioxide and dry ice, has also obtained certification.

Food Safety Initiative by Worldwide Retail Businesses to Regain Consumer Trust



About FSSC 22000



Management Systems Relating to Quality and ISO Certification

FSSC 22000/ISO 22000: Certification scheme for food safety systems

Company name	Scope of certification
Air Water Carbonic Inc.	Production of liquid carbon dioxide for beverages
Kyodo Carbonic Inc.	Production of liquid carbon dioxide for beverages

ISO 22000: Food Safety Management Systems—Requirements for Any Organization in the Food Chain

Company name	Scope of certification
Saveur SS Inc.	Production, shipment and sale of ham (meaning processed meat products) and delicatessen (including only sliced meat with sauce) products and frozen foods

ISO/IEC 17025: General Requirements for the Competence of Testing and Calibration Laboratories

Company name	Scope of certification
Air Water Inc. Research & Development Analysis Center	Pure gas composition analysis and mixed gas composition analysis
Hokkaido Air Water Inc. Analysis Center	Analysis of pesticide residues in food

ISO 13485: Medical Devices – Quality Management Systems – Requirements for regulatory purposes

Company name	Scope of certification
Air Water Safety Service Inc.	Design and development, production and distribution of medical gas outlets (terminal units)
Saito Medical Industries, Inc.	Design and development, production and distribution of medical needles
Denken Co., Ltd.	1. The design/development, manufacture, sales, and servicing (repair, supply of repair parts, supply of maintenance & repair parts information) of (1) Dental filler (2) Dental plasticizer (3) Device for dental impression and articulation (4) Dental evaporator and polymerization device (5) Dental casting device 2. The design/development, manufacture, and sales of (1) Furnace, dental, accessories
Nishimura Kikai Co., Ltd.	Repair and import of medical instruments

ISO 9001: Quality Management Systems

Certification acquired by Air Water Inc. at its Utsunomiya Plant in 1997 and currently held at 47 business establishments including Group companies.

Involvement with Suppliers

Suppliers are essential partners in the mutual prosperity sought by the Air Water Group.

In order to ensure fair dealings and to maintain and improve business competitiveness, the Group as a whole works together to build relationships of trust with its suppliers.

The Air Water Group, working mainly through its Procurement Department, strives to ensure appropriate costs and improve the cost structure for purchasing across the Group.

The Group is committed to transparency and social responsibility in purchasing. In order to maintain purchasing activities appropriate for these commitments, Air Water has established purchasing management regulations and strives to ensure that its purchasing approach is understood group-wide.

Purchasing Approach

Maintaining close engagement with business partners, the company observes the following three commitments.

1. Air Water builds long-term relationships of trust with its business partners on the basis of free competition, equality and mutual trust so that as good partners, each party can exercise its capabilities to a higher degree in pursuit of mutual prosperity.
2. Air Water selects its suppliers based on a comprehensive evaluation of the economic rationality of their goods and services. Selection is made without regard to nationality, location or size of business, and new entrants are always given a fair and impartial opportunity to participate.
3. In conducting its purchasing activities, Air Water considers conservation of resources and environmental protection in order to achieve harmony with the environment. In addition, the company meets its obligations under all relevant regulations.

Fair and Impartial Evaluation and Selection

The Procurement Department is open to new as well as existing suppliers of indirect materials and conducts fair and impartial evaluation and selection. In addition to price, it takes cost structure and workflow into consideration to achieve the best results for both parties.

The dedicated Web Procurement site is operated jointly by the Air Water Group and its suppliers. Air Water employees can use the Web Procurement site to purchase everything from com-

mercial vehicles and computers to airplane tickets and stationery, at suitable prices. Purchases of indirect materials amounted to approximately 4,650 million yen in fiscal 2011, achieving cost savings of approximately 200 million yen.



Web procurement site

Pursuing Group-wide Procurement

The Procurement Department also facilitates group-wide coordination for the purchase of direct materials.

It operates the information sharing website "Kouca" to share the expertise of Group companies regarding reducing costs. This site is helpful for sharing information and providing guidance for purchasing, and is helping to reduce costs.

In addition, the Procurement Department operates "a-cube," a database of purchasing information from suppliers. It allows users to check and analyze the state of the Group's dealings with each supplier at a glance, helping to enhance Group companies' relationship with various suppliers.



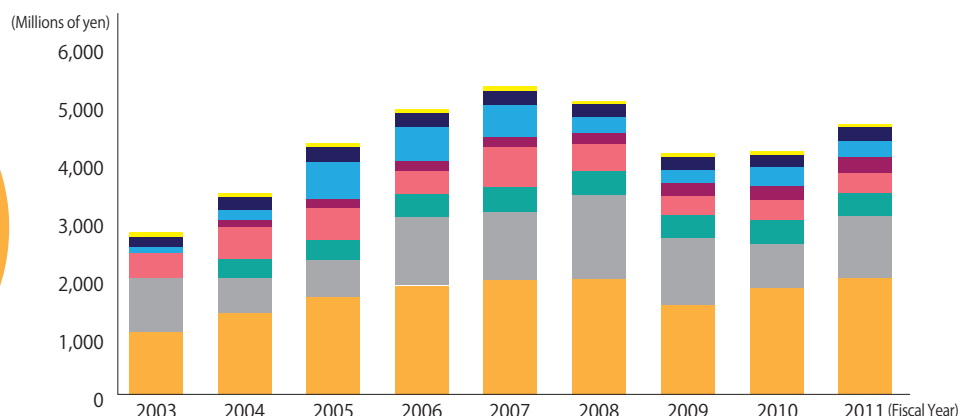
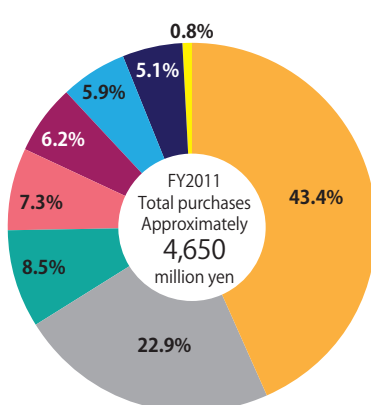
Kouca

a-cube



Purchasing Breakdown and Trend

Gasoline / diesel Vehicles Travel expenses Information equipment Office supplies Containers Communications Office equipment



Relationship with Employees

The Air Water Group aims to create a vibrant corporate culture in which employees with diverse values enjoy teamwork and each individual can fulfill his or her respective role and responsibilities with aspiration and pride in accordance with the management philosophy as an essential member of the Group.

Respect for Human Rights and Prohibition of Discrimination

The Air Water Group has established a Code of Ethical Conduct that addresses legal compliance, respect for human rights and the prohibition of discrimination and sexual harassment.

It calls for respect for individual human rights while also prohibiting discrimination on the basis of gender, nationality, beliefs, race, age, social status, disability or any other irrational reason unrelated to performance of duties. In addition, sexual harass-

ment—unwelcome words or actions of a sexual nature in the workplace—is not tolerated.

Employees are asked to affirm the Code of Ethical Conduct when they enter the company and reaffirm it as part of the curriculum of training at each stage in order to instill an awareness of respect for human rights.



Training for new employees

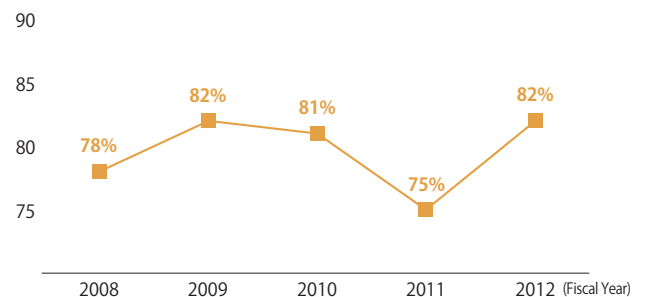


Introduction to Compliance

Initiative to Employ Seniors

The Air Water Group has introduced a re-employment system for retired employees. By offering re-employment at Group companies, the Group benefits from the smooth transfer of skills and veteran employees can keep using their abilities. When seniors are given an opportunity to continue to enjoy the satisfaction of work, it makes the workplace as a whole more dynamic.

Percentage of Retirees among Re-Employed Workers



Employee Health Initiatives

The Air Water Group's strength is its people, and their wisdom is the force that drives all progress. To sustain this progress, employees must be healthy in mind and body, which enables them to adapt to various changes. Creating an environment where each individual can understand policies and information correctly and exercise his or her capabilities to the full is an important issue from the viewpoint of business operations, and it also has an obvious bearing on employee satisfaction. If each individual employee is healthy physically and mentally, his or her unique capabilities can be used in more situations and to better effect, enabling everyone to work more efficiently and enjoyably. In turn, more efficient work results in a better work-life balance.

To promote the physical and mental health of employees, the Human Resources Division and Health Insurance Society ensure that all employees receive foundational healthcare benefits like periodical health examinations and follow-up. They

also provide various other services such as health consultations, health education, prevention of lifestyle-related diseases and mental health care.

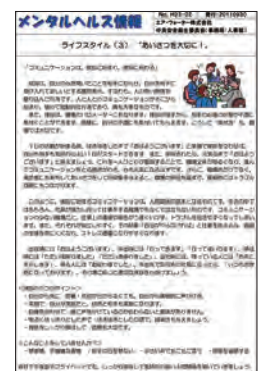


Health class in progress



Staff who completed the class

Mental health information



Relationship with 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 corporate information actively through websites and publications, 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. Furthermore, every year Air Water sends a gift set made up of Group products to holders of one block of shares (1,000 shares), registered as of March 31.



Azusa sprouted brown rice presented to shareholders

Communication with Investors

Air Water has established an "all-weather management system" that minimizes influence from the ups and downs of the economic environment, building a diverse business portfolio to achieve steady growth. The company strives to stay in constant communication with investors to give them a proper understanding of its unique business strategy and business model of continuous change and growth, which calls for boldly entering challenging new fields.

In fiscal 2011, the company held a study visit to the *Real AM-house* where a new operating room system equipped with the latest medical facilities is open for viewing, to provide a deeper understanding of the advanced medical engineering segment that is driving the growth of the medical business.

In addition, upon each settlement of accounts, the company holds a telephone conference for institutional investors and analysts, as well as a results briefing to explain the operating results and important measures, as one way to ensure timely information disclosure.

The IR Officer also holds individual meetings to explain and discuss the company's results, management strategy and the most recent developments. This provides an opportunity for Japanese and overseas investors to gain a deeper understanding of the diversity of Air Water's businesses.



Results briefing



Study visit to the *Real AM-house*

Shareholder Returns

In order to continue improving the corporate value of Air Water, the company emphasizes maintaining a strong business foundation and providing returns to shareholders. 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 fiscal 2011, the mid-year and year-end dividend was 11 yen per share.

Publications

- Annual Report (Annually in September)
- Business Report (Twice a year: June, December)
- Consolidated Financial Results (Quarterly in May, August, November, February)
- Environmental and Social Report (Annually in November)
- *We Shall* (Annually in August)



Annual Report



We Shall



Environmental and Social Report 2011

Website

In order to provide shareholders and investors with timely and appropriate information, Air Water has an IR library on its website featuring Consolidated Financial Results, Financial Reports and Financial Results briefing materials, as well as documents relating to the General Meeting of Shareholders, Shareholder Reports, Annual Reports and other materials for download. In addition, the website is used for publishing summaries of the mid-term business plan, news releases, the Environmental and Social Report and other information intended to promote understanding of Air Water's business policy, business activities and technologies.

Air Water website: <http://www.awi.co.jp/english/index.html>



Top page



IR Library

Engagement with Local Communities

Communication with local communities is essential for the continued development of the Air Water Group.

This section presents some typical activities: a participation in a local cleanup campaign by Inoueki Co., Ltd. and a school visit by Tateho Chemical Industries Co., Ltd.

Participation of Inoueki Co., Ltd. in Love Earth Cleanup Fukuoka

Love Earth Cleanup Fukuoka started in 1992 when the Club of Rome Conference was held in Fukuoka in order to implement the "Global Environment and Community Activities" that were the themes of the conference. Citizens, companies, and local government cooperate to pick up garbage from beaches, rivers, mountains and other places.

Inoueki Co., Ltd. is engaged in the export, import and sale of semiconductor manufacturing chemicals, products for the chemical industry, and synthetic resins. Volunteers from the company cleaned up Nagatare Beach in Fukuoka in 1994 as part of Love Earth Cleanup Fukuoka, and this year did it again for the 18th time. Since 2007, Inoueki has been the company responsible for Reisen Park, which is located near its head office in Fukuoka. In this role, it invites local companies to take part in the cleanup and prepares necessities such as garbage bags.

These activities provide an opportunity to meet people from other divisions of the company, as well as to work side by side with suppliers from the adjacent offices and with local people.

One hundred and six people took part in the cleanup of Reisen Park in May 2012, with 12 people from Inoueki. A participant from Inoueki said, "Doing cleanup work with the suppliers next door heightened my awareness that it is we who are responsible

for local environmental protection." A local participant said, "I took part just because I was passing by, but I want to take part again next year." The company will continue to build relationships with the local community by participating in this sort of cleanup activity.



Collecting garbage

School Visit by Tateho Chemical Industries Co., Ltd.

Following on from the previous year, Tateho Chemical Industries Co., Ltd. gave a class for 65 children at Ako Josai Elementary School in February 2012. Tateho Chemical Industries manufactures magnesium oxide, magnesium hydroxide and ceramic products.

With a melting point of 2,800 °C, magnesium oxide is very heat resistant. It also has excellent thermal conduction and is a weak conductor of electricity. These characteristics make it suitable for the heaters in fan heaters, for defrosting commercial refrigerators, in commercial deep fat fryers and in irons. It is also used for protecting the electrodes of plasma televisions and the core of transformers.

In this year's class, the instructors explained how magnesium oxide products are made and the role they play in daily life. The instructors held a sample single crystal directly in the flame of a burner to show how it resists heat and is not deformed at all. In addition, the children dismantled the heater in a hot plate and the instructors explained how magnesium oxide powder is used as an insulating material.

Asked what they had learned, the children said that they learned the important role that magnesium oxide plays in their daily lives. The principal of the school said, "It was very interesting to see this special demonstration and we look forward to Tateho Chemical Industries visiting again next year."

The company will continue to seek ways to connect with the community through these classes and other activities.



Class in progress



Tateho Chemical Industries employees who conducted the class

Corporate Profile (as of March 31, 2012)

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: 8,062 (Consolidated)

List of group companies classified in the business segments of Group companies that appear in Environmental and Social Report 2012

Regional Business Companies

Hokkaido Air Water Inc., Niigata Air Water Inc., Chugoku Air Water Inc.

Industrial Gas Business

Daio, Inc., Air Water Carbonic Inc., NSCC Air Water Inc., Senboku Oxygen Co. Ltd., Cryo-Air Co., Ltd., Kyodo Carbonic Inc., Tomakomai Oxygen Co., Ltd., Niigata Ekisan Co., Ltd., Mikuni Ekisan Co., Ltd., Tokai Ekisan Co., Ltd., Fukushima Ekisan Co., Ltd., Sagami-hara Ekisan Co., Ltd., Matsuyama Oxygen, Inc., Shizuoka Ekisan Co., Ltd., Shinano Ekisan Co., Ltd.

Electronics Business

Daido Air Products Electronics, Inc., Inoueki Co., Ltd., Printec Corporation

Chemical Business

Sun Chemical Co., Ltd.

Medical Business

Air Water Safety Service Inc., Nishimura Kikai Co., Ltd., Saito Medical Industries, Inc., Denken Co., Ltd.

Other Businesses

Air Water Specialized Transportation Inc., Tateho Chemical Industries Co., Ltd., Air Water Sol Inc., Saveur SS Inc., Air Water Mach Inc., Nihonkaisui Co., Ltd., Sagami Ham Co., Ltd., Air Water Farm Agricultural Production Corporation, Hokkaido Body Co., Ltd., Urashima Nori Co., Ltd.

Third-Party Opinion

The Environmental and Social Report 2012 is the eleventh published by Air Water, and this is the first time I have been asked to review the report. As mentioned in the report, the Great East Japan Earthquake and subsequent nuclear incident resulted in heightened interest in business continuity throughout Japan as well as a need to conserve electricity due to the power shortages during fiscal 2011. Feature Story 1 covers the company's establishment of a Risk Management Committee in response to the lessons learned from the earthquake and to other risks. It makes for very interesting reading, in particular given the social significance of Air Water's medical business.

Air Water employs a Product Portfolio Management concept comprising several operating companies, business development sectors, regional business corporations and affiliated companies. This could make it quite challenging to tabulate and manage unit energy consumption, industrial waste, chemicals handled and other environmental performance indicators, though this process is basic to environmental management. Nevertheless, the scope of the data presented is broad and includes data on the Air Water Group as a whole. This is a laudable achievement.

On the other hand, since some environmental objectives such as single-year and mid- to long-term targets are quantified

numerically and subject to the PDCA cycle, numerical environmental targets are not presented for some areas of environmental performance. There is room for improvement in this respect. Another topic of concern is the company's efforts to reduce water consumption. Air Water uses large amounts of city water, industrial water and seawater in each of its business segments. For a company with the word "water" in its name, this is a particularly important item in terms of the materiality mentioned in the GRI Guidelines,* and this content could be covered in more detail.

Finally, the ISO 26000 guidance standard on social responsibility was adopted in Japan as a JIS standard in March 2012. It provides a range of pointers for approaches to core subjects in seven areas in addition to the environment. This standard places emphasis on consistent communication with stakeholders and initiatives in the supply chain. Bridging both areas, I would like to see Air Water report more fully on communication with suppliers, which are key partners from the viewpoint of business continuity, and on the company's initiatives in relation to suppliers.

* The GRI Guidelines are global guidelines for sustainability reporting, and "materiality" is identified as an important theme for the economic, environmental and social reporting of organizations.

Masatoshi Ikari

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This report is available on Air Water's website.
The PDF files can be viewed with Adobe Acrobat Reader.
URL: <http://www.awi.co.jp/english/index.html>

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