

# PLOTTING OUT FURTHER GROWTH



ANNUAL REPORT 2012

Year Ended March 31, 2012  
Financial Section

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**(1) Business Overview**

Net sales increased by ¥20,870 million from the previous fiscal year to ¥492,680 million. This was primarily due to expansion of Medical Business and favorable conditions in Logistics Business and Food Products Business.

Operating income totaled ¥31,672 million. This represents an increase of ¥403 million from the previous fiscal year, and is primarily a result of efforts to cut costs such as company rental fees and system related expenses.

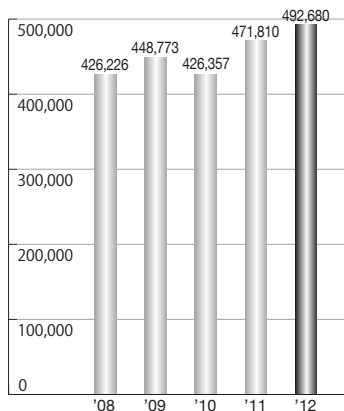
Ordinary income was ¥33,602 million. This represents an increase of ¥643 million from the previous fiscal year, and is primarily a result of decreased interest expenses as well as increased operating income.

Extraordinary income totaled ¥4,100 million, an increase of ¥3,845 million from the previous fiscal year, stemming in part from the contribution of stock holdings to the retirement benefit trust and compensation received for the Great East Japan Earthquake.

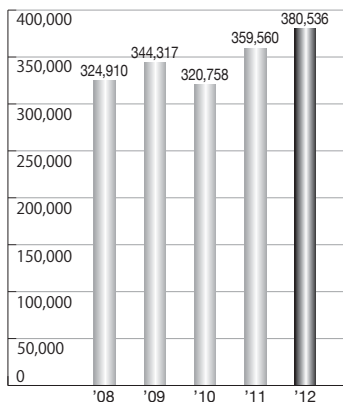
Extraordinary losses fell ¥4,656 million to ¥4,200 million compared to the previous fiscal year, as a result of a ¥1,336 million reduction in loss on disaster as well as a ¥3,639 million provision for surcharge in the previous term.

As a result, income before taxes and other adjustments, as obtained by adding extraordinary income to and deducting extraordinary losses from ordinary income, stood at ¥33,502 million, while net income minus tax expenses and minority interests totaled ¥17,167 million, an increase of ¥5,487 million. Net income per share moved from ¥61.24 to ¥89.35. Return on equity (ROE) rose from 7.5% to 10.5%, while return on assets (ROA) fell from 8.2% to 8.0%.

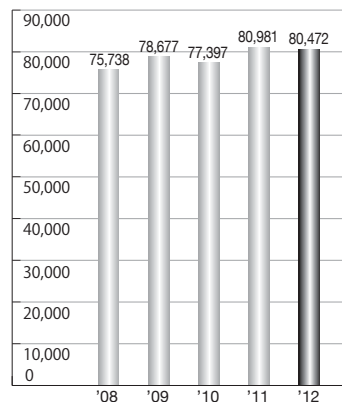
**Net Sales** (million JPY)



**Cost of Sales** (million JPY)



**Selling, General and Administrative Expenses** (million JPY)



**(2) Financial Condition**

**Assets**

Current assets increased by ¥16,686 million from the end of the previous fiscal year to ¥174,102 million due in part to an increase in notes and accounts receivable-trade.

Fixed assets also saw an increase of ¥6,222 million from the end of the previous fiscal year, arising from an increase in tangible fixed assets and an increase in goodwill and other assets accompanying acquisition of stock in subsidiaries, reaching ¥256,445 million.

These changes produced an increase in total assets of ¥22,908 million from the end of the previous fiscal year to ¥430,547 million.

**Liabilities**

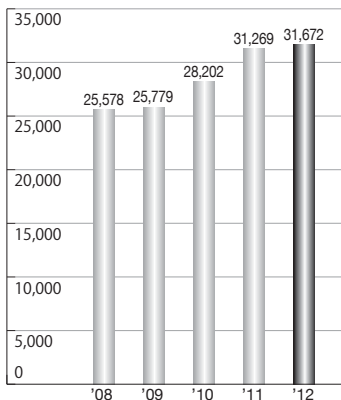
Total liabilities increased by ¥9,335 million from the end of the previous fiscal year to ¥247,847 million due in part to an increase in notes and accounts payable-trade.

**Net Assets**

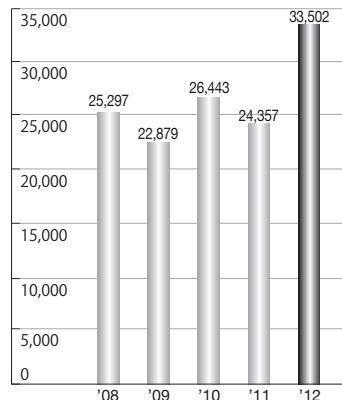
Net assets increased by ¥13,573 million from the end of the previous fiscal year, due to such factors as an increase in capital and capital surplus due to a buildup of net income and the conversion of bonds with share option, reaching a total of ¥182,700 million.

Net assets per share also increased from ¥822.05 to ¥873.78, and the equity ratio moved from 38.7% to 39.6%.

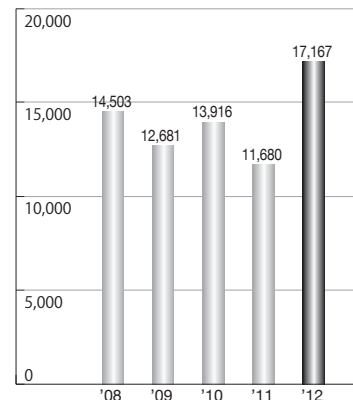
**Operating Income** (million JPY)



**Income before Taxes and Other Adjustments** (million JPY)



**Net Income** (million JPY)



**(3) Cash Flow**

Cash flow from operating activities increased by ¥7,085 million from the previous year as a result of deduction of corporation tax, etc. arising from income before taxes and other adjustments and depreciation costs, producing a net positive cash flow of ¥39,662 million.

Cash flow from investing activities decreased ¥6,071 million from the previous fiscal year due to factors including expenditure on the acquisition of tangible fixed assets, producing a net negative cash flow of ¥28,695 million. As a result, free cash flow, i.e. the total of cash flow from operating activities and cash flow from investing activities, increased by ¥13,156 million, giving a net cash flow of ¥10,966 million.

Cash flow from financing activities decreased ¥6,020 million from the previous fiscal year due to such factors as proceeds from issuance of bonds in the previous fiscal year, producing a net negative cash flow of ¥7,612 million.

The result was that the balance of cash and cash equivalents at the end of the fiscal year was ¥21,562 million, an increase of ¥3,432 million from the end of the previous fiscal year.

**[Risk Factors]**

The following are the primary risk factors which may influence the Air Water Group in conducting its business, bring about fluctuations in business, accounting, or other sectors, or have a material influence on judgments to be made by investors.

Forward-looking statements in the following discussion are based on judgments at the close of the fiscal year ended March 31, 2012.

**(1) Market**

The oxygen, nitrogen and other industrial gases produced and sold by the Air Water Group are used by major customers in the steel, electronics, automobile, and shipbuilding sectors. Consequently, industrial gas sales can be affected by demand in these sectors.

If electricity costs rise as a result of higher crude oil prices or other factors, the production cost of oxygen, nitrogen and other industrial gases produced and sold by the Air Water Group will increase. In the event such increased costs cannot be passed on to the customer, profits from the sale of industrial gases may be affected.

The LP gas and kerosene sold by the Air Water Group may be affected by such factors as contract prices and crude oil prices, and, if fluctuation in supply costs cannot be promptly passed on to the customer, profits from the sale of LP gas and kerosene may be affected.

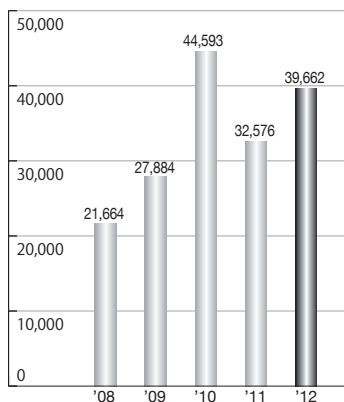
**(2) Rising Fuel Costs**

If the prices of light oil and other fuels increase as a result of higher crude oil prices or other factors, shipping expenses, including the costs of light oil, fuel oil, ocean freight, and air freight, will increase. If such increased costs cannot be passed on to the customer, profits may be affected.

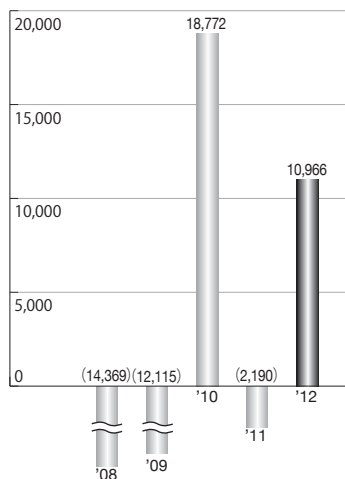
**(3) Drug Reimbursement Prices**

The Air Water Group supplies medical gases and provides services to medical institutions, and sales of such products and services may be affected by revision of the national insurance drug reimbursement prices.

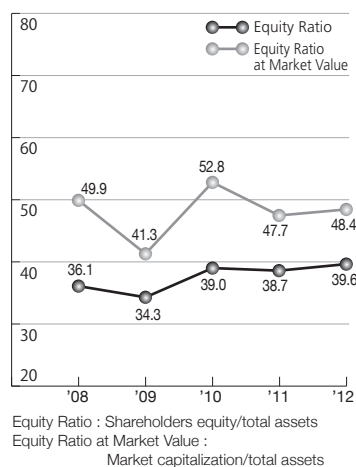
**Cash Flow from Operating Activities** (million JPY)



**Free Cash Flow** (million JPY)



**Equity Ratio & Equity Ratio at Market Value** (%)



**(4) Safety and Quality**

The Air Water Group produces and sells high-pressure gases and other products in compliance with the High Pressure Gas Safety Act and the LPG Act, and the Group's business performance or financial condition could be affected in the event of an industrial accident or similar event. The Air Water Group produces, imports and sells medical gases and medical equipment in compliance with the Pharmaceutical Affairs Act, and the Group's business performance or financial condition could be affected in the event of a product defect resulting in a recall or a liability compensation. The Air Water Group produces and sells frozen foods and ham and delicatessen products in compliance with the Food Sanitation Act, the JAS Act (Japan Agricultural Standards for proper labeling), and other relevant laws and regulations, and the Group's business performance or financial condition could be affected by a loss of consumer confidence in the event of issues with quality.

**(5) Business Investment**

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

**(6) Competitors**

Each business field in the Air Water Group competes with a variety of other companies and there is potential competition risk from new companies entering our fields of business. Consequently, the Group's business performance and financial condition could be affected if measures such as business expansion or cost reductions are not implemented in a timely manner in response to such competition.

**(7) Environmental Regulations**

The Air Water Group's operations are subject to environmental laws and regulations in Japan and in other countries, and while all operations are conducted in full compliance with such laws and regulations, in the event that stricter requirements are enforced as a result of revised or new environmental laws and regulations, the Group's business performance or financial conditions could be affected due to the increased cost of compliance.

**(8) Natural Disasters**

In the event that a natural disaster such as an earthquake causes significant damage to the Air Water Group's production facilities and results in a significant loss of production capacity or a delay to production, the Group's business performance or financial condition may be affected.

**(9) Litigation, Measures Taken by Regulatory Authorities, and Other Legal Procedures**

There is a risk inherent in the execution of the Air Water Group's business pertaining to litigation, measures taken by regulatory authorities, and other legal procedures. Such procedures may lead to compensation claims against the Group, monetary levies imposed on the Group by regulatory authorities, or constraints on the execution of business. Such litigation, measures taken by regulatory authorities, and other legal procedures could affect the business, performance or financial condition of the Group.

1.All indicators are calculated using financial figures.

2.Market capitalization is calculated by multiplying the stock closing price at the end of the fiscal year by the number of shares outstanding on that date.

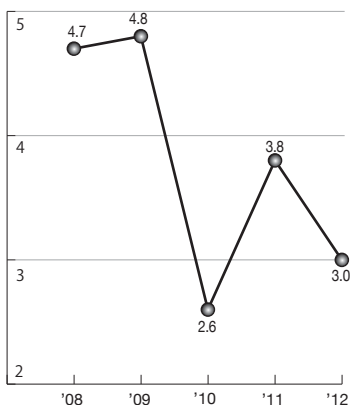
3.The figures for cash flows from operating activities use the figures from the Consolidated Statements of Cash Flows.

The figure for interest-bearing debt represents all debt on which interest is paid from among the liabilities recorded in the Consolidated Balance Sheets.

The figure for interest paid uses the figure for interest paid from the Consolidated Statements of Cash Flows.

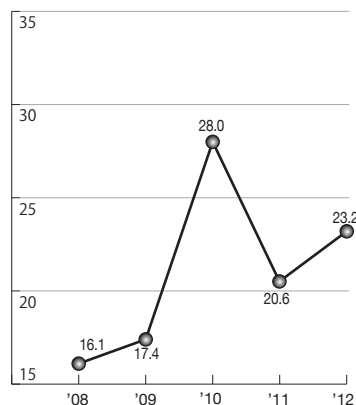
**Debt Repayment Period (Years)**

Interest bearing loans/operating cash flow



**Interest Coverage Ratio (Times)**

Operating cash flow/interest payments



## Consolidated Balance Sheets

AIR WATER INC.  
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and deposits (Note 3)	¥21,997	¥18,659	\$267,636
Notes and accounts receivable - trade	110,019	99,292	1,338,594
Inventories (Note 4)	27,202	25,788	330,965
Short-term loans receivable	6,516	6,006	79,280
Deferred tax assets (Note 9)	3,270	3,427	39,786
Other current assets	6,809	5,890	82,844
Allowance for doubtful accounts	(1,711)	(1,646)	(20,818)
Total current assets	174,102	157,416	2,118,287
<b>Property, plant and equipment (Note 7):</b>			
Land (Note 6)	48,519	47,109	590,327
Buildings and structures	96,379	90,286	1,172,637
Machinery, equipment and vehicles	189,655	181,392	2,307,519
Lease assets	22,835	19,355	277,832
Construction in progress	5,336	6,547	64,923
Other	30,982	32,965	376,955
	393,706	377,654	4,790,193
<b>Less accumulated depreciation</b>	<b>213,761</b>	<b>200,070</b>	<b>2,600,815</b>
Total property, plant and equipment	179,945	177,584	2,189,378
<b>Investments and other assets:</b>			
Investment securities (Note 5)	36,387	36,988	442,718
Investments in capital	2,683	2,024	32,644
Deferred tax assets (Note 9)	2,627	2,926	31,963
Goodwill	13,826	12,487	168,220
Other assets (Note 7)	22,500	19,565	273,755
Allowance for doubtful accounts	(1,523)	(1,351)	(18,530)
Total investments and other assets	76,500	72,639	930,770
<b>Total assets</b>	<b>¥430,547</b>	<b>¥407,639</b>	<b>\$5,238,435</b>

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



## Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
<b>Notes and accounts payable</b>			
Trade	¥77,032	¥64,073	\$937,243
Construction	3,021	4,409	36,756
Short-term borrowings, including current portion of long-term debt (Note 7)	40,214	39,318	489,281
Lease obligations (Note 7)	2,363	1,953	28,750
Accrued expenses	15,045	13,294	183,051
Income taxes payable (Note 9)	7,203	6,769	87,638
Provision for directors' bonuses	239	231	2,908
Provision for surcharge	-	3,639	-
Provision for loss on disaster	112	555	1,363
Other current liabilities	9,604	4,942	116,852
<b>Total current liabilities</b>	<b>154,833</b>	<b>139,183</b>	<b>1,883,842</b>
<b>Noncurrent liabilities:</b>			
Long-term debt (Note 7)	59,499	64,973	723,920
Lease obligations (Note 7)	17,309	16,074	210,598
Deferred tax liabilities (Note 9)	3,639	4,180	44,276
Deferred tax liabilities for land revaluation (Note 6 and 9)	1,132	1,328	13,773
Provision for retirement benefits (Note 20)	7,228	8,715	87,943
Provision for directors' retirement benefits	739	859	8,991
Other noncurrent liabilities	3,468	3,200	42,194
<b>Total noncurrent liabilities</b>	<b>93,014</b>	<b>99,329</b>	<b>1,131,695</b>
<b>Contingent liabilities (Note 13)</b>			
<b>Total liabilities</b>	<b>247,847</b>	<b>238,512</b>	<b>3,015,537</b>
<b>NET ASSETS (NOTE 10)</b>			
<b>Shareholders' equity:</b>			
<b>Capital stock</b>			
Authorized - 480,000,000 shares			
Issued - 195,069,487 shares in 2012 and 191,759,684 shares in 2011	32,264	31,014	392,554
Capital surplus	34,460	33,184	419,272
Retained earnings	116,207	103,883	1,413,883
Treasury stock, at cost	(3,653)	(4,469)	(44,446)
3,635,570 shares in 2012 and 4,445,373 shares in 2011			
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	143	3,073	1,740
Deferred gains or losses on hedges	(299)	(253)	(3,638)
Revaluation reserve for land (Note 6)	(8,801)	(8,922)	(107,081)
Foreign currency translation adjustments	128	127	1,557
<b>Total accumulated other comprehensive income</b>	<b>(8,829)</b>	<b>(5,975)</b>	<b>(107,422)</b>
<b>Subscription rights to shares (Note 21)</b>	<b>261</b>	<b>219</b>	<b>3,176</b>
<b>Minority interests</b>	<b>11,990</b>	<b>11,271</b>	<b>145,881</b>
<b>Total net assets</b>	<b>182,700</b>	<b>169,127</b>	<b>2,222,898</b>
<b>Total liabilities and net assets</b>	<b>¥430,547</b>	<b>¥407,639</b>	<b>\$5,238,435</b>



## Consolidated Statements of Income

AIR WATER INC.  
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>Net sales</b>	<b>¥492,680</b>	¥471,810	<b>\$5,994,403</b>
<b>Cost of sales</b>	<b>380,536</b>	359,560	<b>4,629,955</b>
<b>Selling, general and administrative expenses</b>	<b>80,472</b>	80,981	<b>979,097</b>
<b>Operating income</b>	<b>31,672</b>	31,269	<b>385,351</b>
<b>Other income (expenses):</b>			
Interest and dividends income	870	882	10,585
Interest expenses	(1,489)	(1,630)	(18,117)
Equity in earnings of nonconsolidated subsidiaries and affiliates	1,011	1,334	12,301
Gain on sales of noncurrent assets	123	119	1,497
Gain on negative goodwill	322	104	3,918
Gain on sales of investment securities	161	5	1,959
Gain on contribution of securities to retirement benefit trust (Note 14)	2,743	-	33,374
Compensation income	694	-	8,444
Loss on sales and retirement of noncurrent assets	(1,099)	(1,242)	(13,372)
Impairment loss (Note 15)	(260)	(611)	(3,163)
Loss on valuation of investment securities	(380)	(49)	(4,624)
Loss on disaster (Note 16)	(1,733)	(3,069)	(21,085)
Provision of allowance for doubtful accounts	(491)	-	(5,974)
Provision for surcharge	-	(3,639)	-
Other - net	1,358	884	16,522
<b>Income before income taxes and minority interests</b>	<b>33,502</b>	24,357	<b>407,616</b>
<b>Income taxes (Note 9):</b>			
Current	13,253	13,139	161,248
Deferred	1,424	(1,316)	17,326
	<b>14,677</b>	11,823	<b>178,574</b>
<b>Income before minority interests</b>	<b>18,825</b>	12,534	<b>229,042</b>
<b>Minority interests in income</b>	<b>(1,658)</b>	(854)	<b>(20,172)</b>
<b>Net income</b>	<b>¥17,167</b>	¥11,680	<b>\$208,870</b>

	Yen		U.S. dollars (Note 1)
<b>Per share of common stock:</b>			
Net income - basic	¥89.35	¥61.24	\$1.09
Net income - diluted	87.21	59.56	1.06
Cash dividends applicable to the year	22.00	22.00	0.27

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

## Consolidated Statements of Comprehensive Income

AIR WATER INC.  
Years ended March 31, 2012 and 2011

	2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2012
<b>Income before minority interests</b>	<b>¥18,825</b>	¥12,534	<b>\$229,042</b>
<b>Other comprehensive income</b>			
Valuation difference on available-for-sale securities	<b>(2,941)</b>	(1,159)	<b>(35,783)</b>
Deffered gains or losses on hedges	<b>(40)</b>	(44)	<b>(486)</b>
Revaluation reserve for land	<b>156</b>	(2)	<b>1,898</b>
Foreign currency translation adjustments	<b>1</b>	(31)	<b>12</b>
Share of other comprehensive income of associates accounted for using equity method	<b>4</b>	(5)	<b>49</b>
Other comprehensive income (Note 17)	<b>(2,820)</b>	(1,241)	<b>(34,310)</b>
<b>Comprehensive income</b>	<b>16,005</b>	11,293	<b>194,732</b>
<b>Comprehensive income attributable to</b>			
Owners of the parent	<b>14,348</b>	10,440	<b>174,571</b>
Minority interests	<b>1,657</b>	853	<b>20,161</b>

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

# Consolidated Statements of Changes in Net Asset

AIR WATER INC.  
Year ended March 31, 2011

	Millions of yen				
	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Shareholders' equity
<b>Net assets at April 1, 2010</b>	<b>¥30,014</b>	<b>¥32,183</b>	<b>¥96,049</b>	<b>¥(370)</b>	<b>¥157,876</b>
<b>Changes in items during the period</b>					
Issuance of new shares - exercise of subscription rights to shares	1,000	1,000			2,000
Dividends from surplus			(4,218)		(4,218)
Reversal of revaluation reserve for land					
Net income			11,680		11,680
Change in scope of consolidation			3		3
Change in scope of equity method			369		369
Purchase of treasury stock				(4,364)	(4,364)
Disposal of treasury stock		1		265	266
Net changes in items other than shareholders' equity					
Total changes in items during the period	<b>1,000</b>	<b>1,001</b>	<b>7,834</b>	<b>(4,099)</b>	<b>5,736</b>
<b>Balance as of March 31, 2011</b>	<b>¥31,014</b>	<b>¥33,184</b>	<b>¥103,883</b>	<b>¥(4,469)</b>	<b>¥163,612</b>

	Millions of yen							
	Valuation and translation adjustments							
	Valuation difference on available-for-sale securities	Deferred gains on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation and translation adjustments	Subscription rights to shares	Minority interests	Total net assets
<b>Net assets at April 1, 2010</b>	<b>¥4,234</b>	<b>¥(206)</b>	<b>¥(8,920)</b>	<b>¥157</b>	<b>¥(4,735)</b>	<b>¥171</b>	<b>¥10,638</b>	<b>¥163,950</b>
<b>Changes in items during the period</b>								
Issuance of new shares - exercise of subscription rights to shares								2,000
Dividends from surplus								(4,218)
Reversal of revaluation reserve for land								
Net income								11,680
Change in scope of consolidation								3
Change in scope of equity method								369
Purchase of treasury stock								(4,364)
Disposal of treasury stock								266
Net changes in items other than shareholders' equity	(1,161)	(47)	(2)	(30)	(1,240)	48	633	(559)
Total changes in items during the period	<b>(1,161)</b>	<b>(47)</b>	<b>(2)</b>	<b>(30)</b>	<b>(1,240)</b>	<b>48</b>	<b>633</b>	<b>5,177</b>
<b>Balance as of March 31, 2011</b>	<b>¥3,073</b>	<b>¥(253)</b>	<b>¥(8,922)</b>	<b>¥127</b>	<b>¥(5,975)</b>	<b>¥219</b>	<b>¥11,271</b>	<b>¥169,127</b>

# Consolidated Statements of Changes in Net Asset

AIR WATER INC.  
Year ended March 31, 2012

Millions of yen

Owners' equity

	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Shareholders' equity
<b>Net assets at April 1, 2011</b>	<b>¥31,014</b>	<b>¥33,184</b>	<b>¥103,883</b>	<b>¥(4,469)</b>	<b>¥163,612</b>
<b>Changes in items during the period</b>					
Issuance of new shares - exercise of subscription rights to shares	1,250	1,250			2,500
Increase by share exchanges		39		527	566
Dividends from surplus			(4,220)		(4,220)
Reversal of revaluation reserve for land			35		35
Net income			17,167		17,167
Change in scope of consolidation					
Change in scope of equity method			(658)		(658)
Purchase of treasury stock				(123)	(123)
Disposal of treasury stock		(13)		412	399
Net changes in items other than shareholders' equity					
<b>Total changes in items during the period</b>	<b>1,250</b>	<b>1,276</b>	<b>12,324</b>	<b>816</b>	<b>15,666</b>
<b>Balance as of March 31, 2012</b>	<b>¥32,264</b>	<b>¥34,460</b>	<b>¥116,207</b>	<b>¥(3,653)</b>	<b>¥179,278</b>

Millions of yen

	Valuation and translation adjustments								Total net assets
	Valuation difference on available-for-sale securities	Deferred gains on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation and translation adjustments	Subscription rights to shares	Minority interests		
<b>Net assets at April 1, 2011</b>	<b>¥3,073</b>	<b>¥(253)</b>	<b>¥(8,922)</b>	<b>¥127</b>	<b>¥(5,975)</b>	<b>¥219</b>	<b>¥11,271</b>		<b>¥169,127</b>
<b>Changes in items during the period</b>									
Issuance of new shares - exercise of subscription rights to shares									2,500
Increase by share exchanges									566
Dividends from surplus									(4,220)
Reversal of revaluation reserve for land									35
Net income									17,167
Change in scope of consolidation									
Change in scope of equity method									(658)
Purchase of treasury stock									(123)
Disposal of treasury stock									399
Net changes in items other than shareholders' equity	(2,930)	(46)	121	1	(2,854)	42	719		(2,093)
<b>Total changes in items during the period</b>	<b>(2,930)</b>	<b>(46)</b>	<b>121</b>	<b>1</b>	<b>(2,854)</b>	<b>42</b>	<b>719</b>		<b>13,573</b>
<b>Balance as of March 31, 2012</b>	<b>¥143</b>	<b>¥(299)</b>	<b>¥(8,801)</b>	<b>¥128</b>	<b>¥(8,829)</b>	<b>¥261</b>	<b>¥11,990</b>		<b>¥182,700</b>

## Consolidated Statements of Changes in Net Asset

AIR WATER INC.  
Year ended March 31, 2012

Thousands of U.S. dollars (Note 1)

	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Shareholders' equity
<b>Net assets at April 1, 2011</b>	<b>\$377,345</b>	<b>\$403,747</b>	<b>\$1,263,938</b>	<b>\$(54,374)</b>	<b>\$1,990,656</b>
<b>Changes in items during the period</b>					
Issuance of new shares - exercise of subscription rights to shares	15,209	15,209			30,418
Increase by share exchanges		474		6,412	6,886
Dividends from surplus			(51,345)		(51,345)
Reversal of revaluation reserve for land			426		426
Net income			208,870		208,870
Change in scope of consolidation					
Change in scope of equity method			(8,006)		(8,006)
Purchase of treasury stock				(1,497)	(1,497)
Disposal of treasury stock		(158)		5,013	4,855
Net changes in items other than shareholders' equity					
Total changes in items during the period	<b>15,209</b>	<b>15,525</b>	<b>149,945</b>	<b>9,928</b>	<b>190,607</b>
<b>Balance as of March 31, 2012</b>	<b>\$392,554</b>	<b>\$419,272</b>	<b>\$1,413,883</b>	<b>\$(44,446)</b>	<b>\$2,181,263</b>

Thousands of U.S. dollars (Note 1)

	Valuation and translation adjustments								Total net assets
	Valuation difference on available-for-sale securities	Deferred gains on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation and translation adjustments	Subscription rights to shares	Minority interests		
<b>Net assets at April 1, 2011</b>	<b>\$37,389</b>	<b>\$(3,078)</b>	<b>\$(108,553)</b>	<b>\$1,545</b>	<b>\$(72,697)</b>	<b>\$2,665</b>	<b>\$137,133</b>		<b>\$2,057,757</b>
<b>Changes in items during the period</b>									
Issuance of new shares - exercise of subscription rights to shares									<b>30,418</b>
Increase by share exchanges									<b>6,886</b>
Dividends from surplus									<b>(51,345)</b>
Reversal of revaluation reserve for land									<b>426</b>
Net income									<b>208,870</b>
Change in scope of consolidation									
Change in scope of equity method									<b>(8,006)</b>
Purchase of treasury stock									<b>(1,497)</b>
Disposal of treasury stock									<b>4,855</b>
Net changes in items other than shareholders' equity	(35,649)	(560)	1,472	12	(34,725)	511	8,748		(25,466)
Total changes in items during the period	<b>(35,649)</b>	<b>(560)</b>	<b>1,472</b>	<b>12</b>	<b>(34,725)</b>	<b>511</b>	<b>8,748</b>		<b>165,141</b>
<b>Balance as of March 31, 2012</b>	<b>\$1,740</b>	<b>\$(3,638)</b>	<b>\$(107,081)</b>	<b>\$1,557</b>	<b>\$(107,422)</b>	<b>\$3,176</b>	<b>\$145,881</b>		<b>\$2,222,898</b>

# Consolidated Statements of Cash Flows

AIR WATER INC.  
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥33,502	¥24,357	\$407,616
Depreciation and amortization	20,373	19,424	247,877
Impairment loss	260	611	3,163
Loss on disaster	1,733	3,069	21,085
Compensation income	(694)	-	(8,444)
Amortization of goodwill	1,560	1,362	18,980
Gain on negative goodwill	(322)	(104)	(3,918)
Increase (decrease) in allowance for doubtful accounts	349	28	4,246
Increase (decrease) in provision for retirement benefits	(40)	57	(487)
Gain on contribution of securities to retirement	(2,743)	-	(33,374)
Interest and dividend income	(870)	(882)	(10,585)
Interest expenses	1,489	1,630	18,117
Equity in earnings of nonconsolidated subsidiaries and affiliates	(1,011)	(1,334)	(12,301)
Gain on sales of noncurrent assets	(123)	(119)	(1,497)
Loss on sales and retirement of noncurrent assets	1,099	1,242	13,372
Gain on sales of investment securities	(161)	(5)	(1,959)
Loss on valuation of investment securities	380	49	4,624
Provision for surcharge	-	3,639	-
Decrease (increase) in notes and accounts receivable	(9,050)	(3,176)	(110,110)
Decrease (increase) in inventories	(547)	3,744	(6,655)
Increase (decrease) in notes and accounts payable	11,854	(3,723)	144,227
Other - net	890	(2,149)	10,829
Subtotal	57,928	47,720	704,806
Interest and dividends income received	1,467	1,148	17,849
Interest expenses paid	(1,710)	(1,584)	(20,805)
Proceeds from compensation	168	-	2,044
Payments for loss on disaster	(1,479)	-	(17,995)
Payments for surcharge	(3,639)	-	(44,276)
Income taxes paid	(13,073)	(14,708)	(159,058)
Net cash provided by (used in) operating activities	¥39,662	¥32,576	\$482,565
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	(21,551)	(30,428)	(262,210)
Proceeds from sales of property, plant and equipment	811	449	9,867
Purchase of intangible assets	(781)	(448)	(9,502)
Purchase of investment securities	(7,232)	(3,049)	(87,991)
Proceeds from sales of investment securities	232	28	2,823
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	(68)	(885)	(827)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	380	87	4,623
Payments of loans receivable	(11,994)	(7,263)	(145,930)
Collection of loans receivable	11,376	6,393	138,411
Other - net	132	350	1,606
Net cash provided by (used in) investing activities	¥(28,695)	¥(34,766)	\$(349,130)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term loans payable	5,264	(4,982)	64,047
Proceeds from long-term debt	3,500	9,018	42,584
Repayment of long-term debt	(11,839)	(17,788)	(144,044)
Proceeds from issuance of bonds	-	10,000	-
Redemption of bonds	(1,546)	(134)	(18,810)
Proceeds from sale-leaseback transactions	3,200	11,955	38,934
Repayment of lease obligations	(1,959)	(1,019)	(23,835)
Purchase of treasury stock	(123)	(4,365)	(1,497)
Proceeds from sales of treasury stock	399	267	4,855
Cash dividends paid	(4,220)	(4,218)	(51,344)
Cash dividends paid to minority shareholders	(292)	(273)	(3,553)
Other - net	4	(53)	48
Net cash provided by (used in) financing activities	¥(7,612)	¥(1,592)	\$(92,615)
Effect of exchange rate changes on cash and cash equivalents	3	(9)	37
Net increase (decrease) in cash and cash equivalents	3,358	(3,791)	40,857
Cash and cash equivalents at beginning of year	18,131	21,528	220,598
Increase in cash and cash equivalents resulting from merger	73	23	888
Increase in cash and cash equivalents from newly consolidated subsidiary	-	371	-
<b>Cash and cash equivalents at end of year (Note 3)</b>	<b>¥21,562</b>	<b>¥18,131</b>	<b>\$262,343</b>

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

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of AIR WATER Inc. ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese

Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The financial statements of the Company's consolidated overseas subsidiaries for consolidation purposes have been prepared in conformity with IFRS or generally accepted accounting principles in the United States of America ("US GAAP"), and partially reflect the adjustments which are necessary to conform with Japanese GAAP.

The accompanying consolidated financial statements have been restructured and translated into English with some expanded

descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts was included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2012, which was ¥82.19 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of significant accounting policies

### (1) Consolidation

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

There were 65 consolidated subsidiaries for the year ended March 31, 2012 (65 for the year ended March 31, 2011) and 15 companies accounted for using the equity method for the year ended March 31, 2012 (9 for the year ended March 31, 2011).

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion attributable to minority interests has been recorded in minority interests.

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

### (2) Accounting change

None

### (3) Securities

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

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

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

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

If the fair market value of available-for-sale securities is not readily available, the securities are written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly and is not expected to recover.

### (4) Inventories

Inventories are principally stated at the lower of cost or net realizable value and costed using the average cost method. Each valuation at cost means to write-down the book value using the decreased profitability method, for the amount on the consolidated balance sheet.

### (5) Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss, unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in the fair value of the derivative financial instruments until the related loss or gain on the hedged items are realized.

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

Interest rate swaps meeting the requirement of exceptional treatment under Japanese GAAP are not measured at fair value, but the difference between the payment amount and the receipt amount is included in the interest expense occurred on the borrowings as the hedged item.

### (6) Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation is computed principally by the straight-line method.



**(7) Lease assets**

Property, plant and equipment capitalized under finance lease arrangements are depreciated over the estimated useful life of the asset or the lease term.

Finance leases, except for certain immaterial leases, are capitalized and depreciated over the estimated useful life of the asset or lease term, as applicable. However, the Companies account for finance leases commenced prior to April 1, 2008 and which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information.

**(8) Amortization of goodwill**

Goodwill is amortized using the straight-line method within 20 years. A limited amount of goodwill is recognized as income directly when incurred.

**(9) Allowance for doubtful accounts**

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

**(10) Directors' and statutory auditors' bonuses**

The provision for directors' and statutory auditors' bonuses is provided in the amount of the expected payment for the current fiscal year to those directors and statutory auditors serving at the end of the fiscal year.

**(11) Provision for loss on disaster**

The provision for loss on disaster is estimated and recorded to provide for potential future costs such as restoration costs related to the Tohoku Region Pacific Coast Earthquake.

**(12) Retirement benefits****(a) Employees**

To supplement the governmental welfare pension plan, the Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the balance sheet date. Actuarial gains and losses are recognized in expenses using the straight-line method within the average of the estimated remaining service years of employees commencing with the following period. Prior service cost is recognized in expenses using the straight-line method within the average of the estimated remaining service years commencing with the period incurred.

**(b) Directors and statutory auditors**

Certain consolidated subsidiaries provide for directors' and statutory auditors' retirement benefits based on internal regulations in the estimated amount to be paid if all directors and statutory auditors retired at the balance sheet date.

**(13) Standards for Recognition of Construction Revenue**

When the outcome of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method, otherwise the completed contract method is applied. The percent, or portion, of the contract completed as of the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost.

**(14) Research and development expenses**

Research and development expenses, which were ¥3,280 million (\$39,908 thousand) and ¥3,268 million for the years ended March 31, 2012 and 2011, respectively, are recognized when paid and are included in general and administrative expenses.

**(15) Translation of foreign currencies**

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

**(16) Income taxes**

The asset and liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

**(17) Cash and cash equivalents**

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

**(18) Per share of common stock**

The computations of net income per share are based on the weighted average number of shares of common stock outstanding during the period.

Diluted net income per share is based on the assumption that dilutive convertible bonds were converted and all stock options were exercised to the extent that each is not antidilutive at the beginning of the period.

Cash dividends per share presented in the statements of income represent the applicable cash dividends declared for each period.

**(Additional information)**

The Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No.24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

## Notes to Consolidated Financial Statements

AIR WATER INC.

### 3. Statements of cash flows

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash on hand and in banks in the consolidated balance sheets	<b>¥21,997</b>	¥18,659	<b>\$267,636</b>
Time deposits with maturities exceeding 3 months	<b>(436)</b>	(529)	<b>(5,305)</b>
Short-term investment securities included in other current assets	<b>1</b>	1	<b>12</b>
Cash and cash equivalents on the consolidated statements of cash flows	<b>¥21,562</b>	¥18,131	<b>\$262,343</b>

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current assets	<b>¥3,181</b>	¥7,025	<b>\$38,703</b>
Noncurrent assets	<b>4,396</b>	2,222	<b>53,486</b>
Current liabilities	<b>(2,855)</b>	(7,391)	<b>(34,737)</b>
Noncurrent liabilities	<b>(2,078)</b>	(1,443)	<b>(25,283)</b>
Goodwill	<b>2,304</b>	1,914	<b>28,033</b>
Minority interests	<b>(272)</b>	(304)	<b>(3,309)</b>
Acquisition cost	<b>4,676</b>	2,023	<b>56,893</b>
Carrying value under the equity method	-	(586)	-
Additional acquisition cost	<b>4,676</b>	1,437	<b>56,893</b>
Accrued expenses of acquisition cost	<b>(4,500)</b>	-	<b>(54,751)</b>
Cash and cash equivalents of acquired companies	<b>(488)</b>	(639)	<b>(5,938)</b>
Net expenditure (revenue)	<b>¥(312)</b>	¥798	<b>\$(3,796)</b>

Significant noncash transactions for the year ended March 31, 2012 and 2011 were as follows:

(1) Issuance of new stock by execution of stock acquisition rights	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Issuance of new stock by execution of stock acquisition rights:			
Credited to common stock	<b>¥1,250</b>	¥1,000	<b>\$15,209</b>
Credited to capital surplus	<b>1,250</b>	1,000	<b>15,209</b>
Decrease of zero coupon convertible bonds due 2012	<b>¥2,500</b>	¥2,000	<b>\$30,418</b>
(2) Share exchanges			
Share exchanges:			
Credited to common stock	<b>¥39</b>	-	<b>\$474</b>
Decrease by disposal of treasury stock	<b>527</b>	-	<b>6,412</b>
Increase of goodwill	<b>¥349</b>	-	<b>\$4,246</b>

### 4. Inventories

Inventories as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Merchandise and finished goods	<b>¥16,119</b>	¥15,065	<b>\$196,119</b>
Work-in-process	<b>3,873</b>	4,120	<b>47,122</b>
Raw materials and supplies	<b>7,210</b>	6,603	<b>87,724</b>
	<b>¥27,202</b>	¥25,788	<b>\$330,965</b>

## 5. Securities

Available-for-sale securities with available fair market values at March 31, 2012 and 2011 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference gain (loss)	Book value	Acquisition cost	Difference gain (loss)	Book value	Acquisition cost	Difference gain (loss)
	2012			2011			2012		
Securities with book values exceeding acquisition costs:									
Stocks	<b>¥7,022</b>	<b>¥4,463</b>	<b>¥2,559</b>	¥15,874	¥9,010	¥6,864	<b>\$85,436</b>	<b>\$54,301</b>	<b>\$31,135</b>
Subtotal	<b>7,022</b>	<b>4,463</b>	<b>2,559</b>	15,874	9,010	6,864	<b>85,436</b>	<b>54,301</b>	<b>31,135</b>
Securities with book values not exceeding acquisition costs:									
Stocks	<b>9,747</b>	<b>11,328</b>	<b>(1,581)</b>	2,623	3,481	(858)	<b>118,591</b>	<b>137,827</b>	<b>(19,236)</b>
Bonds	-	-	-	70	70	-	-	-	-
Subtotal	<b>9,747</b>	<b>11,328</b>	<b>(1,581)</b>	2,693	3,551	(858)	<b>118,591</b>	<b>137,827</b>	<b>(19,236)</b>
Total	<b>¥16,769</b>	<b>¥15,791</b>	<b>¥978</b>	¥18,567	¥12,561	¥6,006	<b>\$204,027</b>	<b>\$192,128</b>	<b>\$11,899</b>

## 6. Land revaluation

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

The difference between the book value and the fair value of the revalued land as of March 31, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Revalued land	<b>¥(2,716)</b>	¥(2,384)	<b>\$(33,045)</b>

## 7. Short-term borrowings and long-term debt

The weighted average interest rate of short-term borrowings as of March 31, 2012 was 0.56%.

Long-term debt as of March 31, 2012 and 2011 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Loans from banks and insurance companies due 2025 (weighted average interest rates - 1.37%)	<b>¥59,364</b>	¥65,835	<b>\$722,278</b>
0.54% unsecured bonds due 2015	<b>10,000</b>	10,000	<b>121,669</b>
Zero coupon unsecured convertible bonds due 2012	-	4,000	-
1.24% unsecured bonds due 2011	-	7	-
0.64% unsecured bonds due 2015	<b>133</b>	171	<b>1,618</b>
Lease obligations through 2028	<b>19,672</b>	18,027	<b>239,348</b>
	<b>89,169</b>	98,040	<b>1,084,913</b>
Less amount due within one year	<b>12,361</b>	16,993	<b>150,395</b>
	<b>¥76,808</b>	¥81,047	<b>\$934,518</b>

The aggregate annual maturities of short-term debt and long-term debt as of March 31, 2012 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥12,361	\$150,395
2014	18,511	225,222
2015	9,351	113,773
2016	22,081	268,658
2017	7,880	95,876
2018 and thereafter	18,985	230,989

As of March 31, 2012, assets were pledged as collateral for short-term bank loans of ¥3,556 million (\$43,266 thousand), long-term debt of ¥8,051 million (\$97,956 thousand) and others of ¥1,346 million (\$16,377 thousand) as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥11,484	\$139,725
Buildings and structures	5,317	64,692
Machinery and equipment	1,531	18,628
Property, plant and equipment	55	669
Investments and other assets	260	3,163
	¥18,647	\$226,877

## 8. Derivative financial instruments and hedging transactions

Derivative financial instruments and hedging transactions were as follows:

(1) Derivatives transactions for which hedge accounting does not apply For the years 2012 and 2011

None

(2) Derivatives transactions for which hedge accounting applies For the year 2012

### ① Currency related

For the year 2012			Millions of yen			Thousands of U.S. dollars		
Hedge accounting method	Type of transaction	Hedged items	Contract amount	Portion over 1 year	Fair value	Contract amount	Portion over 1 year	Fair value
Deferral hedge accounting	Forward exchange contracts:							
	Purchased option to sell							
	U.S. dollars	Accounts receivable – trade	¥426	¥-	¥(24)	\$5,183	\$-	\$ (292)
	Euro	Accounts receivable – trade	252	-	(18)	3,066	-	(219)
	Purchased option to buy							
	U.S. dollars	Accounts Payable – trade	2,708	-	151	32,948	-	1,837
	Euro	Accounts Payable – trade	40	-	0	487	-	0
Gain (loss) resulting from forward foreign exchange contracts is allocated over the applicable period	Forward exchange contracts:							
	Purchased option to sell							
	U.S. dollars	Accounts receivable – trade	84	-	(Note 2)	1,022	-	(Note 2)
	Euro	Accounts receivable – trade	88	-	(Note 2)	1,071	-	(Note 2)
	Purchased option to buy							
	U.S. dollars	Accounts Payable – trade	306	-	(Note 2)	3,723	-	(Note 2)
	RMB	Accounts Payable – trade	26	-	(Note 2)	316	-	(Note 2)
Total			¥4,552	¥-	¥128	\$55,384	\$-	\$1,557

For the year 2011			Millions of yen		
Hedge accounting method	Type of transaction	Hedged items	Contract amount	Portion over 1 year	Fair value
Deferral hedge accounting	Forward exchange contracts:				
	Purchased option to sell				
	U.S. dollars	Accounts receivable – trade	¥457	¥-	¥(0)
	Euro	Accounts receivable – trade	207	-	(6)
	Purchased option to buy				
	U.S. dollars	Accounts Payable – trade	4,176	-	46
	Euro	Accounts Payable – trade	347	-	15
Gain (loss) resulting from forward foreign exchange contracts is allocated over the applicable period	Forward exchange contracts:				
	Purchased option to sell				
	U.S. dollars	Accounts receivable – trade	161	-	(Note 2)
	Euro	Accounts receivable – trade	108	-	(Note 2)
	Purchased option to buy				
	U.S. dollars	Accounts Payable – trade	942	-	(Note 2)
<b>Total</b>			<b>¥6,398</b>	<b>¥-</b>	<b>¥55</b>

Notes : 1.Fair value is based on information provided by financial institutions at the end of the fiscal year.

2.For certain accounts receivable – trade and accounts payable – trade denominated in foreign currencies and for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, the fair value of the derivative financial instrument is included in the fair value of the accounts receivable – trade and accounts payable – trade as hedged items.

## ② Interest rate related

For the year 2012			Millions of yen			Thousands of U.S. dollars		
Hedge accounting method	Type of transaction	Hedged item	Contract amount	Portion over 1 year	Fair value	Contract amount	Portion over 1 year	Fair value
Deferral hedge accountings	Interest rate swap:							
	Receiving floating rate and paying fixed rate	Long-term loans payable	¥13,752	¥13,171	¥ (573)	\$167,320	\$160,251	\$ (6,972)
	Interest rate option:	Long-term loans payable	800	800	5	9,733	9,733	61
Special treatment of interest rate swaps	Interest rate swap:							
	Receiving floating rate and paying fixed rate	Long-term loans payable	2,074	1,496	(Note 2)	25,234	18,202	(Note 2)
<b>Total</b>			<b>¥16,626</b>	<b>¥15,467</b>	<b>¥ (568)</b>	<b>\$202,287</b>	<b>\$188,186</b>	<b>\$ (6,911)</b>

For the year 2011			Millions of yen		
Hedge accounting method	Type of transaction	Hedged item	Contract amount	Portion over 1 year	Fair value
Deferral hedge accountings	Interest rate swap:				
	Receiving floating rate and paying fixed rate	Long-term loans payable	¥13,419	¥13,169	¥ (476)
	Interest rate option:	Long-term loans payable	800	800	8
Special treatment of interest rate swaps	Interest rate swap:				
	Receiving floating rate and paying fixed rate	Long-term loans payable	545	85	(Note 2)
	Paying floating rate and receiving fixed rate	Long-term loans payable	1,428	833	(Note 2)
<b>Total</b>			<b>¥16,192</b>	<b>¥14,887</b>	<b>¥ (468)</b>

Notes : 1.Fair value is based on information provided by financial institutions at the end of the fiscal year.

2.The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loan.

## 9. Income taxes

The Companies are subject to a number of taxes based on income, which, in aggregate, indicate a statutory tax rate in Japan of approximately 40.6% for the years ended March 31, 2012 and 2011.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2012 and 2011.

	2012	2011
Statutory tax rate	40.6%	40.6%
Nondeductible expenses	1.2	1.7
Amortization of goodwill	0.8	1.4
Equity in earnings of nonconsolidated subsidiaries and affiliates	(1.2)	(2.2)
Per capita inhabitants taxes	0.7	0.8
Provision for surcharge	-	6.1
Effect of changes in tax rate	(0.4)	-
Increase (decrease) in valuation allowance	2.0	(0.2)
Other	0.1	0.3
<b>Effective tax rate</b>	<b>43.8%</b>	<b>48.5%</b>

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>Deferred tax assets:</b>			
Retirement benefits	¥2,835	¥3,802	\$34,493
Net operating losses carried forward for tax purposes	2,101	2,092	25,563
Excess bonuses accrued	1,749	1,889	21,280
Impairment loss	1,410	1,803	17,155
Loss on valuation of investment securities	802	951	9,758
Loss on business of subsidiaries and affiliates	630	641	7,665
Accrued enterprise taxes	623	612	7,580
Other	4,627	4,654	56,297
<b>Total deferred tax assets</b>	<b>14,777</b>	<b>16,444</b>	<b>179,791</b>
Valuation allowance	(5,524)	(4,620)	(67,210)
<b>Net deferred tax assets</b>	<b>9,253</b>	<b>11,824</b>	<b>112,581</b>
<b>Deferred tax liabilities:</b>			
Retained earnings appropriated for allowable tax reserves	(3,736)	(4,305)	(45,456)
Gain on contribution of securities to retirement benefit trust	(1,048)	(316)	(12,751)
Variance of estimate of capital consolidation	(1,261)	(1,593)	(15,342)
Net unrealized holding gains on securities	(244)	(2,481)	(2,969)
Other	(706)	(956)	(8,590)
<b>Total deferred tax liabilities</b>	<b>(6,995)</b>	<b>(9,651)</b>	<b>(85,108)</b>
<b>Net deferred tax assets (net deferred tax liabilities)</b>	<b>¥2,258</b>	<b>¥2,173</b>	<b>\$27,473</b>

Deferred tax assets and liabilities for land revaluation difference as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets	¥3,789	¥4,284	\$46,101
Valuation allowance	(3,779)	(4,250)	(45,979)
Net deferred tax assets	¥10	¥34	\$122
Deferred tax liabilities	¥(1,142)	¥(1,362)	\$ (13,895)

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 38.0% for years beginning on or after April 1, 2012 and 35.6% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 38.0% and 35.6%, respectively, as of March 31, 2012.

Due to these changes in statutory income tax rates, net deferred tax assets increased by ¥153 million(\$1,862 thousand), valuation difference on available-for-sale securities increased by ¥51 million(\$621 thousand), and deferred gains or losses on hedges decreased by ¥25 million(\$304 thousand) as of March 31, 2012 and deferred income tax expense recognized for the year ended March 31, 2012 decreased by ¥127 million(\$1,545 thousand). Also, deferred tax liabilities for land revaluation decreased by ¥156 million(\$1,898 thousand) and revaluation reserve for land increased by the same amount as of March 31, 2012.



## 10. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and

other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Moreover, additional paid-in capital and legal earnings reserve may not be directly distributed as dividends. However, additional paid-in capital and the legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

## 11. Information regarding business combinations

Transactions under common control  
(Conversion of Sagami Ham Co., Ltd. into wholly owned subsidiary of the Company through a share exchange)

The Company concluded the "Share Exchange Agreement" with Sagami Ham Co., Ltd. (Sagami Ham) to make it a wholly owned subsidiary on December 22, 2011. The share exchange took effect on March 21, 2012. The stocks of Sagami Ham were delisted from JASDAQ on March 15, 2012. (The last day of its stock transaction was March 14, 2012.)

Based on the board resolution on March 14, 2012, Sagami Ham had also retired all its own shares immediately before the date when the Company acquired all of the outstanding shares of Sagami Ham.

### 1. Summary of the business combination

(1) Name of company and business description of the parties

(a) The wholly owning parent company in share exchange

Name: AIR WATER Inc.

Business description: manufacturing and supplying products for Industrial Gas Business, Electronics Business, Chemical Business, Medical Business, Energy Business and other businesses

(b) The wholly owned subsidiary company in share exchange

Name: Sagami Ham Co., Ltd.

Business description: manufacturing and selling meat and processed foods

(2) The date of the business combination

March 21, 2012

(3) Legal form of the business combination

Share exchange

(4) Name of company after the business combination

No change

(5) Other details of the transaction

The processed food business faces growing competition from the low-end consumer needs and others. In order to accommodate changes in the business environment and expand business fields, Air Water Group was required to integrate corporate resources and achieve further growth. The Company effected share exchange with Sagami Ham, that will allow efficient utilization of the resources such as manpower, production technologies, research development and sales channels, smooth implementation of business strategies and heightening of corporate value.

### 2. Summary of accounting treatments applied

The share exchange was accounted for as transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

### 3. Information regarding additional acquisition of the subsidiary's shares

(1) Acquisition cost ¥597 million (\$7,264 thousand)

(2) Share exchange ratio and Number of shares delivered

Company name	The Company (The Wholly Owning Parent Company)	Sagami Ham (The Wholly Owned Subsidiary Company)
Share exchange ratio	1	0.055
Number of shares delivered	524,189 shares (distributed treasury stock)	

(3) Calculation of share exchange ratio

In order to ensure fairness and reasonableness of the share exchange ratio, each of the Company and Sagami Ham requested a separate independent third-party valuation institution to calculate the ratio. The Company selected SMBC Nikko Securities Inc. and Sagami Ham appointed PricewaterhouseCoopers Co., Ltd. as the institution.

Based on the analysis provided by the above institutions, the Company and Sagami Ham negotiated and discussed the ratio. The companies finally closed the Share Exchange Agreement with the ratio of 3 (2) above that will not be assumed to bring shareholders to lose their benefit.

(4) Amount, reason for recognition, amortization method and period of goodwill

(a) Amount of goodwill ¥349 million (\$4,246 thousand)

(b) Reason for recognition of goodwill

The additional acquisition cost of the shares of subsidiary has not balanced with the decrease in minority interest.

(c) Amortization method and period of goodwill

Straight-line method over 15 years



## 12. Segment information

### 1. General information about reportable segments

Reportable segments of the Company are the components of an entity about which separate financial information is available and such information is evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.

With the segment information, the Company develops comprehensive business strategies for the products and services and undertakes business activities.

Accordingly, the Company's business is separated based on its products and services into 6 segments: Industrial Gas Business, Electronics Business, Chemical Business, Medical Business, Energy Business, and Other Businesses, all treated as reportable segments.

The Industrial Gas Business segment provides manufacturing and sale of industrial gas such as oxygen, nitrogen and argon. In addition, this business provides manufacturing and setting construction related to high pressure gas and gas generators.

The Electronics Business segment provides manufacturing and sale of specialty materials such as specialty gas.

The Chemical Business segment provides manufacturing and sale of basic chemical products and fine chemical products.

The Medical Business segment provides manufacturing and sale of medical gas such as oxygen and nitrogen, various medical equipment and the hospital facility construction business.

The Energy Business segment provides sale of petrochemical product such as LP gas and kerosene and other products.

The Other Businesses segment consists of the Logistics Business, Food Products Business, Seawater Business and Aerosol Business. The Food Products Business provides manufacturing and sale of frozen food and processed meat products. The Seawater Business provides manufacturing and sale of salt and its by-products, electro fused magnesia and magnesia.

### 2. Basis of measurement about reported segment profit and loss, segment assets, segment liabilities and other material items

The accounting method for the reportable segments is the same as that used for the preparation for the consolidated financial statements. Profits for reportable segments are ordinary income. Ordinary income is income derived from regular business activities, including wages, dividends, and interest. Profits and transfer sums for intersegment transactions within the Group are based on market prices.

### 3. Information about reported segment profit or loss, segment assets and other material items

Segment information as of and for the fiscal year ended March 31, 2012 is as follows:

For 2012	Reportable Segment							Millions of yen	
	Industrial gas	Electronics	Chemical	Medical	Energy	Other	Total	Adjustment (Note 2)	Amounts reported on consolidated financial statements (Note 1)
Net sales:									
Customers	¥133,320	¥46,907	¥77,766	¥74,478	¥51,232	¥108,977	¥492,680	¥-	¥492,680
Intersegment	4,549	839	45	261	857	16,019	22,570	(22,570)	-
<b>Total</b>	<b>137,869</b>	<b>47,746</b>	<b>77,811</b>	<b>74,739</b>	<b>52,089</b>	<b>124,996</b>	<b>515,250</b>	<b>(22,570)</b>	<b>492,680</b>
Segment profit	12,223	4,040	3,353	5,168	2,670	6,243	33,697	(95)	33,602
Segment assets	138,398	41,665	44,295	49,546	28,560	92,504	394,968	35,579	430,547
Other items:									
Depreciation and amortization	8,492	2,453	1,939	1,027	1,983	4,479	20,373	-	20,373
Amortization of goodwill	573	166	50	147	493	131	1,560	-	1,560
Interest income	8	1	0	8	2	10	29	233	262
Interest expenses	136	312	4	47	76	212	787	702	1,489
Equity in earnings of nonconsolidated subsidiaries and affiliates	234	-	1,487	-	(147)	69	1,643	(632)	1,011
Investment amounts to equity method companies	715	147	758	-	547	493	2,660	-	2,660
Increase in amounts of fixed assets and intangible fixed assets	11,407	1,300	1,164	961	2,159	4,867	21,858	985	22,843

## Notes to Consolidated Financial Statements

Thousands of U.S. dollars									
For 2012	Reportable Segment							Adjustment (Note 2)	Amounts reported on consolidated financial statements (Note 1)
	Industrial gas	Electronics	Chemical	Medical	Energy	Other	Total		
Net sales:									
Customers	\$1,622,095	\$570,714	\$946,174	\$906,168	\$623,336	\$1,325,916	\$5,994,403	\$-	\$5,994,403
Intersegment	55,348	10,208	547	3,176	10,427	194,902	274,608 (274,608)	-	-
<b>Total</b>	<b>1,677,443</b>	<b>580,922</b>	<b>946,721</b>	<b>909,344</b>	<b>633,763</b>	<b>1,520,818</b>	<b>6,269,011 (274,608)</b>		<b>5,994,403</b>
Segment profit	148,716	49,154	40,796	62,879	32,486	75,958	409,989 (1,156)		408,833
Segment assets	1,683,879	506,935	538,934	602,823	347,488	1,125,489	4,805,548 432,887		5,238,435
Other items:									
Depreciation and amortization	103,322	29,845	23,592	12,495	24,127	54,496	247,877	-	247,877
Amortization of goodwill	6,972	2,020	608	1,789	5,998	1,593	18,980	-	18,980
Interest income	97	12	0	97	25	122	353	2,835	3,188
Interest expenses	1,655	3,796	49	572	924	2,579	9,575	8,542	18,117
Equity in earnings of nonconsolidated subsidiaries and affiliates	2,847	-	18,092	-	(1,789)	840	19,990 (7,689)		12,301
Investment amounts to equity method companies	8,699	1,789	9,223	-	6,655	5,998	32,364	-	32,364
Increase in amounts of fixed assets and intangible fixed assets	138,788	15,817	14,162	11,692	26,269	59,217	265,945 11,984		277,929

Notes: 1. Segment profit is adjusted to be consistent with ordinary income reported on the consolidated statements of income.

2. Adjustments are as follows:

(1) The adjustment to intersegment of -¥22,570 million (-\$274,608 thousand) is the elimination of intersegment transactions.

(2) The adjustment to segment profit of -¥95 million (-\$1,156 thousand) is the sum of corporate expenses, research and development department expenses and profit and loss related to financing.

(3) The adjustment to segment assets of ¥35,579 million (\$432,887 thousand) is the sum of eliminated intersegment assets of -¥10,987 million (-\$133,678 thousand) and corporate assets of ¥46,566 million (\$566,565 thousand) that cannot be assigned to any particular segment.

(4) The adjustment to interest income of ¥233 million (\$2,835 thousand) is interest income that cannot be assigned to any particular segment.

(5) The adjustment to interest expenses of ¥702 million (\$8,542 thousand) is interest expenses that cannot be assigned to any particular segment.

(6) The adjustment to equity in earnings of nonconsolidated subsidiaries and affiliates of -¥632 million (-\$7,689 thousand) is invested by corporate that cannot be assigned to any particular segment.

(7) The adjustment to increase in amounts of fixed assets and intangible fixed assets of ¥985 million (\$11,984 thousand) is mostly corporate assets that cannot be assigned to any particular segment.

Information by industry segment for the years ended March 31, 2011 was as follows:

Millions of yen									
For 2011	Reportable Segment							Adjustment (Note 2)	Amounts reported on consolidated financial statements (Note 1)
	Industrial gas	Electronics	Chemical	Medical	Energy	Other	Total		
Net sales:									
Customers	¥130,871	¥48,863	¥78,467	¥66,879	¥47,554	¥99,176	¥471,810	¥-	¥471,810
Intersegment	6,517	342	20	564	894	15,576	23,913 (23,913)		-
<b>Total</b>	<b>137,388</b>	<b>49,205</b>	<b>78,487</b>	<b>67,443</b>	<b>48,448</b>	<b>114,752</b>	<b>495,723 (23,913)</b>		<b>471,810</b>
Segment profit	13,419	3,581	3,398	4,383	2,733	5,362	32,876	83	32,959
Segment assets	134,031	44,204	41,749	43,542	30,232	81,840	375,598 32,041		407,639
Other items:									
Depreciation and amortization	7,975	2,057	1,760	1,039	1,995	4,598	19,424	-	19,424
Amortization of goodwill	526	193	36	106	481	20	1,362	-	1,362
Interest income	7	2	1	11	2	14	37	243	280
Interest expenses	135	325	6	69	50	270	855	775	1,630
Equity in earnings of nonconsolidated subsidiaries and affiliates	143	-	1,201	-	-	(10)	1,334	-	1,334
Investment amounts to equity method companies	715	147	758	-	-	388	2,008	-	2,008
Increase in amounts of fixed assets and intangible fixed assets	17,110	3,254	1,734	943	1,985	4,829	29,855 3,965		33,820

**(Related information)**
**1. Information by Area**

## (1) Net sales

This information was omitted as sales to external customers in Japan exceed 90% of net sales on the consolidated statements of income.

## (2) Property, plant and equipment

This information was omitted as property, plant and equipment in Japan exceed 90% of property, plant and equipment on the consolidated balance sheets.

**2. Information by Major Customer**

Customer	Sales (Millions of yen)	Sales (Thousands of U.S. dollars)	Related segments
Sumitomo Metal Industries, Ltd.	<b>¥74,630</b>	<b>\$908,018</b>	Industrial Gas, Electronics, Chemical, Other

**3. Information on impairment loss in noncurrent assets for each reported segment**

Millions of yen

	Reportable Segment							Eliminations and Corporate	Total
	Industrial Gas	Electronics	Chemical	Medical	Energy	Other	Total		
Impairment loss	-	<b>¥198</b>	-	-	-	-	<b>¥198</b>	<b>¥62</b>	<b>¥260</b>

Thousands of U.S. dollars

	Reportable Segment							Eliminations and Corporate	Total
	Industrial Gas	Electronics	Chemical	Medical	Energy	Other	Total		
Impairment loss	-	<b>\$2,409</b>	-	-	-	-	<b>\$2,409</b>	<b>\$754</b>	<b>\$3,163</b>

**4. Information on amortization of goodwill and the amortized balance for each reported segment**

Millions of yen

	Reportable Segment							Eliminations and Corporate	Total
	Industrial Gas	Electronics	Chemical	Medical	Energy	Other	Total		
Amortization of goodwill	<b>¥573</b>	<b>¥166</b>	<b>¥50</b>	<b>¥147</b>	<b>¥493</b>	<b>¥131</b>	<b>¥1,560</b>	<b>¥-</b>	<b>¥1,560</b>
Balance at end of period	<b>¥5,886</b>	<b>¥792</b>	<b>¥25</b>	<b>¥847</b>	<b>¥2,091</b>	<b>¥4,185</b>	<b>¥13,826</b>	<b>¥-</b>	<b>¥13,826</b>

Thousands of U.S. dollars

	Reportable Segment							Eliminations and Corporate	Total
	Industrial Gas	Electronics	Chemical	Medical	Energy	Other	Total		
Amortization of goodwill	<b>\$6,972</b>	<b>\$2,020</b>	<b>\$608</b>	<b>\$1,789</b>	<b>\$5,998</b>	<b>\$1,593</b>	<b>\$18,980</b>	<b>\$-</b>	<b>\$18,980</b>
Balance at end of period	<b>\$71,615</b>	<b>\$9,636</b>	<b>\$304</b>	<b>\$10,305</b>	<b>\$25,441</b>	<b>\$50,919</b>	<b>\$168,220</b>	<b>\$-</b>	<b>\$168,220</b>

**5. Information on gain on negative goodwill for reported segment**

The Companies acquired additional shares of a consolidated subsidiary in the Industrial Gas Business segment. Therefore, gain on negative goodwill of ¥43 million (\$523 thousand) was recorded.

The Companies acquired additional shares of a consolidated subsidiary in the Other Business segment. Therefore, gain on negative goodwill of ¥279 million (\$3,395 thousand) was recorded.

**13. Contingent liabilities**

As of March 31, 2012, the Companies were contingently liable with respect to notes receivable discounted in the amount of ¥982 million (\$11,948 thousand). As of the same date, the Companies were also contingently liable as guarantors for loans of other companies and employees in the amount of ¥727 million (\$8,845 thousand).

**14. Gain on contribution of securities to the pension trust**

"Gain on contribution of securities to the pension trust" resulted from contributions of investment securities to the pension trust.

**15. Impairment loss**

Impairment loss on noncurrent assets for the year ended March 31, 2012 and 2011 was as follows:

For the year 2012

Use	Type of assets	Place	Millions of yen	Thousands of U.S. dollars
Electronics assets	Machinery, others	Higashiroshima-city Hiroshima Prefecture, others	¥198	\$2,409
Idle assets, Others	Land, others	Kitami-city Hokkaido Prefecture, others	¥62	\$754

For the year 2011

Use	Type of assets	Place	Millions of yen
Other assets	Land, others	Tamana-city Kumamoto Prefecture	¥540
Idle assets, Others	Land, others	Mine-city Yamaguchi Prefecture	¥71

The Companies grouped their fixed assets based on operating activities, and idle assets and goodwill were considered individually.

Electronics assets and other assets have continuously experienced a decrease in profit from operating activities, and it is predicted that future cash flow will fall below the book value of the related facilities. The book value of those assets were written down to their recoverable amounts.

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

**16. Loss on disaster**

Loss on disaster for the year ended March 31, 2012 and 2011 was as follows:

For the year 2012

(1) Loss on disaster of ¥1,001 million (\$12,179 thousand) was recorded due to the Tohoku Region Pacific Coast Earthquake in March 2011. The details were as follows:

	Millions of yen	Thousands of U.S. dollars
Restoration expenses for the damaged assets	¥680	\$8,274
Other	321	3,905

(2) Loss on disaster of ¥732 million (\$8,906 thousand) was recorded due to loss on fire accident in June 2011 and March 2012.

For the year 2011

Loss on disaster was recorded due to the Tohoku Region Pacific Coast Earthquake in March 2011. The details were as follows:

	Millions of yen
Impairment loss	¥1,990
Restoration expenses for the damaged assets	543
Loss on destruction of inventories and damaged assets	236
Fixed cost during the suspension of operations	211
Other	89
	¥3,069

Impairment loss was as follows

Use	Type of assets	Place	Millions of yen
Other assets	Buildings, machinery and equipment, others	Iwaki-city Fukushima Prefecture	¥1,990

**17. Comprehensive income**

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
<b>Valuation difference on available-for-sale securities</b>		
Increase(decrease) during the year	¥(2,237)	\$(27,217)
Reclassification adjustments	(2,818)	(34,287)
Sub-total, before tax	(5,055)	(61,504)
Tax (expense) or benefit	2,114	25,721
Sub-total, net of tax	¥(2,941)	\$(35,783)
<b>Deferred gains or losses on hedges</b>		
Increase(decrease) during the year	¥(180)	\$(2,190)
Reclassification adjustments	154	1,874
Sub-total, before tax	(26)	(316)
Tax (expense) or benefit	(14)	(170)
Sub-total, net of tax	¥(40)	\$(486)
<b>Revaluation reserve for land</b>		
Increase(decrease) during the year	¥-	\$-
Reclassification adjustments	-	-
Sub-total, before tax	-	-
Tax (expense) or benefit	156	1,898
Sub-total, net of tax	¥156	\$1,898
<b>Foreign currency translation adjustment</b>		
Increase(decrease) during the year	¥1	\$12
Reclassification adjustments	-	-
Sub-total, before tax	1	12
Tax (expense) or benefit	-	-
Sub-total, net of tax	¥1	\$12
<b>Share of other comprehensive income of associates accounted for using equity method</b>		
Increase(decrease) during the year	¥3	\$37
Reclassification adjustments	1	12
Sub-total, net of tax	¥4	\$49
<b>Total other comprehensive income</b>	<b>¥(2,820)</b>	<b>\$(34,310)</b>

**18. Finance leases**

Information on finance leases commenced prior to April 1, 2008 that do not transfer ownership of the leased assets to the lessee and were accounted for as operating leases for the year ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>(1) Future minimum lease payments, including financing charges:</b>			
Due within one year	¥5,377	¥5,230	\$65,422
Due after one year	11,646	16,731	141,696
	<b>¥17,023</b>	<b>¥21,961</b>	<b>\$207,118</b>

Allowance for impairment loss on leased property of ¥223 million (\$2,713 thousand) as of March 31, 2012 was not included in obligations under finance leases.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
<b>(2) Original lease obligation, payments made, accumulated impairment loss and remaining balance:</b>			
Original lease obligation	¥37,646	¥42,280	\$458,036
Payments made	24,938	25,105	303,419
Accumulated impairment loss	253	272	3,078
Remaining balance	¥12,455	¥16,903	\$151,539
<b>(3) Lease payments for the period</b>	<b>¥4,788</b>	<b>¥5,419</b>	<b>\$58,255</b>

If the above finance leases had been capitalized, depreciation of ¥4,048 million (\$49,252 thousand), reversal of allowance for impairment loss on leased property of ¥30 million (\$365 thousand), interest of ¥579 million (\$7,045 thousand) would have been recorded for the year ended March 31, 2012.

## 19. Operating leases

Obligations under non-cancelable operating leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥124	¥218	\$1,509
Due after one year	656	1,247	7,981
	¥780	¥1,465	\$9,490

## 20. Employees' severance and pension benefits

The liability for employees' severance and pension benefits included in the liability section of the consolidated balance sheets as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥30,546	¥30,189	\$371,651
Prepaid pension costs	4,426	2,119	53,851
Unrecognized prior service costs	1,856	2,254	22,582
Unrecognized actuarial differences	(5,601)	(7,939)	(68,147)
Less fair value of pension assets	(23,999)	(17,908)	(291,994)
<b>Liability for severance and pension benefits</b>	<b>¥7,228</b>	<b>¥8,715</b>	<b>\$87,943</b>

Included in the consolidated statements of income for the years ended March 31, 2012 and 2011 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service costs - benefits earned during the year	¥1,560	¥1,633	\$18,980
Interest costs on projected benefit obligation	506	509	6,156
Expected return on plan assets	(198)	(237)	(2,409)
Amortization of actuarial differences	1,448	1,444	17,618
Amortization of prior service costs	(392)	(392)	(4,769)
<b>Severance and retirement benefit expenses</b>	<b>¥2,924</b>	<b>¥2,957</b>	<b>\$35,576</b>

The discount rate and the rate of expected return on plan assets used by the Companies were approximately 2.0% (2.0% in 2011) and mainly 1.5% (1.5% in 2011), respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses were principally recognized in the income statement using the straight-line method over 12 years (12 years in 2011). Prior service cost was recognized in the income statement using the straight-line method over 12 years (12 years in 2011).

**21. Stock options**

(1) Expenses recorded in the year ended March 31, 2012 were ¥69 million (\$840 thousand) and were included in selling, general and administrative expenses.

(2) Details, number, movement and price of stock options

The following table summarizes the details of stock options:

Company name	AIR WATER Inc.	AIR WATER Inc.
Date of resolution	August 8, 2007	July 30, 2008
Persons granted	18 directors	17 directors
Number of options granted	60,100 shares of common stock	67,300 shares of common stock
Date of grant	August 31, 2007	September 1, 2008
Vesting conditions	Holder relinquishes the position as a Director of the Company	Holder relinquishes the position as a Director of the Company
Eligible employment period	-	-
Exercise period	From September 1, 2007 to August 31, 2027	From September 2, 2008 to September 1, 2028

Company name	AIR WATER Inc.	AIR WATER Inc.
Date of resolution	August 12, 2009	August 13, 2010
Persons granted	20 directors	19 directors
Number of options granted	80,100 shares of common stock	88,700 shares of common stock
Date of grant	September 1, 2009	September 1, 2010
Vesting conditions	Holder relinquishes the position as a Director of the Company	Holder relinquishes the position as a Director of the Company
Eligible employment period	-	-
Exercise period	From September 2, 2009 to September 1, 2029	From September 2, 2010 to September 1, 2030

Company name	AIR WATER Inc.	Nihonkaisui Co., Ltd.
Date of resolution	August 12, 2011	September 28, 2007
Persons granted	18 directors	5 directors and 5 employees
Number of options granted	94,700 shares of common stock	408,991 shares of common stock
Date of grant	September 1, 2011	September 29, 2007
Vesting conditions	Holder relinquishes the position as a Director of the Company	-
Eligible employment period	-	-
Exercise period	From September 2, 2011 to September 1, 2031	From September 29, 2009 to September 28, 2017

The following table summarizes number of stock options

Company name	AIR WATER Inc.	AIR WATER Inc.	AIR WATER Inc.
<b>Date of resolution</b>	August 8, 2007	July 30, 2008	August 12, 2009
<b>Before vesting options (number of shares)</b>			
April 1, 2011	45,800	54,100	77,500
Granted	-	-	-
Forfeited	-	-	-
Vested	5,800	6,900	7,900
March 31, 2011	40,000	47,200	69,600
<b>After vesting options (number of shares)</b>			
April 1, 2011	-	-	-
Vested	5,800	6,900	7,900
Exercised	5,800	6,900	7,900
Forfeited	-	-	-
March 31, 2011	-	-	-



Company name	AIR WATER Inc.	AIR WATER Inc.	Nihonkaisui Co., Ltd.
<b>Date of resolution</b>	August 13, 2010	August 12, 2011	September 28, 2007
<b>Before vesting options (number of shares)</b>			
April 1, 2011	88,700	-	-
Granted	-	94,700	-
Forfeited	-	-	-
Vested	9,000	-	-
March 31, 2011	79,700	94,700	-
<b>After vesting options (number of shares)</b>			
April 1, 2011	-	-	267,191
Vested	9,000	-	-
Exercised	9,000	-	-
Forfeited	-	-	21,800
March 31, 2011	-	-	245,391

The following table summarize price per shares

Company name	AIR WATER Inc.	AIR WATER Inc.	AIR WATER Inc.
Date of resolution	August 8, 2007	July 30, 2008	August 12, 2009
Exercise price (yen)	1	1	1
Average stock price at exercise(yen)	965	965	965
Fair value price at grant date (yen)	1,001	1,104	868

Company name	AIR WATER Inc.	AIR WATER Inc.	Nihonkaisui Co., Ltd.
Date of resolution	August 13, 2010	August 12, 2011	September 28, 2007
Exercise price (yen)	1	1	540
Average stock price at exercise(yen)	965	-	-
Fair value price at grant date (yen)	746	741	-

## 22. Related party transactions

The Company directly owned 49% of Sakai Gases Center Co. Ltd.

Significant transactions between the company and related parties for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Payments of short-term loans receivable	¥8,100	¥3,075	\$98,552
Payments of long-term loans receivable	445	1,700	5,414
Interest income	197	206	2,397

The balance of the Company due to related parties for the year ended March 31, 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Short-term loans receivable	¥2,303	¥1,462	\$28,020
Long-term loans receivable	9,520	10,167	115,829

## 23. Financial instruments

Financial instruments were as follows:

### (1) Qualitative information on financial instruments

#### ① Policies for using financial instruments

The Companies restrict its funds management to time deposits and other short-term investments. Also, the Companies' policy is to raise funds mainly by borrowing from banks and issuing bonds. The Companies' policy is to use derivatives strictly as hedges to avoid the risks of interest rate fluctuations and foreign currency exchange fluctuations that arise in export and import transactions. The Companies do not conduct any speculative transactions.

#### ② Financial instruments, associated risks and the risk management system

Operating receivables, including notes and accounts receivable — trade, are exposed to the credit risk of customers. To minimize the credit risk, the Companies perform due date controls and balance controls for each customer in accordance with internal regulations and regularly screen the credit status of major customers.

The Companies are exposed to market price fluctuation risk in relation to investment securities. However, those are primarily the shares of companies with which the Companies have operational relationships. The Companies assess the fair values on a quarterly basis.

Trade liabilities, including notes and accounts payable — trade are mostly current with due dates within a year.

Short-term loans payable are primarily used for short-term fund raising related to operations. Bonds payable, long-term loans payable and lease obligations are mainly used for capital investment and are exposed to the risk of interest rate fluctuations.

#### ③ Supplemental information on the fair value of financial instruments

The fair value of financial instruments is based on market prices or a reasonable estimate of fair value for instruments for which market prices are not available. Estimates of fair value are subject to fluctuation because they employ variable factors and assumptions. In addition, the contractual amounts of the derivatives transactions described below in the note "Derivative financial instruments and hedging transactions" do not represent the market risk of the derivative transactions themselves.

### (2) Fair value of financial instruments

For the year 2012

Fair value, the carrying value reported in the balance sheets and any difference as of March 31, 2012 are set forth in the table below. Financial instruments for which it is extremely difficult to measure the fair value are not included.

	Millions of yen			Thousands of U.S. dollars		
	Carrying value reported in the balance sheets (※1)	Fair value (※1)	Difference	Carrying value reported in the balance sheets (※1)	Fair value (※1)	Difference
(1) Cash and deposits	¥21,997	¥21,997	¥-	\$267,636	\$267,636	\$-
(2) Notes and accounts receivable — trade	110,019	110,019	-	1,338,594	1,338,594	-
(3) Short-term loans receivable	6,516	6,516	-	79,280	79,280	-
(4) Investment securities						
Other securities	16,769	16,769	-	204,027	204,027	-
(5) Long-term loans receivable (※2)	10,939	-	-	133,094	-	-
Allowance for doubtful accounts	(338)	-	-	(4,112)	-	-
	10,601	11,088	487	128,982	134,907	5,925
(6) Notes and accounts payable — trade	(77,032)	(77,032)	-	(937,243)	(937,243)	-
(7) Short-term loans payable	(30,216)	(30,216)	-	(367,636)	(367,636)	-
(8) Current portion of long-term loans payable	(9,960)	(9,960)	-	(121,183)	(121,183)	-
(9) Current portion of lease obligations	(2,363)	(2,363)	-	(28,750)	(28,750)	-
(10) Current portion of bonds	(38)	(38)	-	(462)	(462)	-
(11) Bonds with subscription rights to shares	-	-	-	-	-	-
(12) Bonds	(10,095)	(10,135)	(40)	(122,825)	(123,312)	(487)
(13) Long-term loans payable	(49,404)	(50,265)	(861)	(601,095)	(611,571)	(10,476)
(14) Lease obligations	(17,309)	(18,238)	(929)	(210,598)	(221,901)	(11,303)
(15) Derivative transactions (※3)	(440)	(440)	-	(5,353)	(5,353)	-

Notes:

※1 Figures shown in parentheses are liabilities.

※2 Allowance for doubtful accounts separately recorded in long-term loans is excluded.

※3 The value of assets and liabilities arising from derivatives is shown at net value, and a net liability position is shown in parentheses.

(For the year 2011)

Fair value and the carrying value reported in the balance sheets and any difference as of March 31, 2011 are set forth in the table below. Financial instruments for which it is extremely difficult to measure the fair value are not included.

	Millions of yen		
	Carrying value reported in the balance sheets (※1)	Fair value (※1)	Difference
(1) Cash and deposits	¥18,659	¥18,659	¥-
(2) Notes and accounts receivable – trade	99,292	99,292	-
(3) Short-term loans receivable	6,006	6,006	-
(4) Investment securities			
Other securities	18,567	18,567	-
(5) Long-term loans receivable (※2)	11,585	-	-
Allowance for doubtful accounts	(467)	-	-
	11,118	11,308	190
(6) Notes and accounts payable – trade	(64,073)	(64,073)	-
(7) Short-term loans payable	(24,277)	(24,277)	-
(8) Current portion of long-term loans payable	(10,995)	(10,995)	-
(9) Current portion of lease obligations	(1,953)	(1,953)	-
(10) Current portion of bonds	(46)	(46)	-
(11) Bonds with subscription rights to shares	(4,000)	(4,000)	-
(12) Bonds	(10,133)	(10,120)	13
(13) Long-term loans payable	(54,840)	(55,785)	(945)
(14) Lease obligations	(16,074)	(16,168)	(94)
(15) Derivative transactions (※3)	(414)	(414)	-

## Notes:

※1 Figures shown in parentheses are liabilities.

※2 Allowance for doubtful accounts separately recorded in long-term loans is excluded.

※3 The value of assets and liabilities arising from derivatives is shown at net value, and a net liability position is shown in parentheses.

Note 1. Valuation approach for fair value of financial instruments, securities and derivative transactions

**(1) Cash and deposits, (2) Notes and accounts receivable – trade and (3) Short-term loans receivable**

The fair value of these amounts are stated at the carrying amount, which is approximate to it.

**(4) Investment securities**

The fair value of equity securities equals quoted market price, if available. The fair value of debt securities is equal to the quoted market price or the price provided by financial institutions. Marketable and investment securities classified by the purpose for which they are held are described in “Notes to securities.”

**(5) Long-term loans receivable**

The fair value is determined by the present value of future cash flows discounted using the assumed current lending rate for similar loans receivable of a comparable maturity. Doubtful receivables are valued with consideration for any possibility of collection based on guarantees or the existence of collateral.

**(6) Notes and accounts payable-trade , (7) Short-term loans payable, (8) Current portion of long-term loans payable, (9) Current portion of lease obligations, (10) Current portion of bonds and (11) Bonds with subscription rights to shares**

The fair value of these amounts are stated at the carrying amount which is approximate to it.

**(12) Bonds**

The fair value is determined by the present value of future cash flows discounted using the assumed current interest rate for similar bonds of comparable maturities and contract conditions.

**(13) Long-term loans payable**

The fair value is determined by the present value of future cash flows discounted using the assumed current interest rate for similar loans payable of comparable maturities.

Interest rate swaps subject to special treatment are used for long-term floating-rate loans. “Derivative transactions” provides additional explanation. Principal and interest of the loans in which these interest rate swaps are embedded are discounted using a reasonable estimate of the interest rate on the loan at the time of issue.

**(14) Lease obligations**

The fair value is determined by the present value of future cash flows discounted using the assumed current interest rate for similar lease contracts of comparable maturities and contract conditions.

**(15) Derivative transactions**

Hedge accounting was applied to derivative transactions. The fair value of derivatives transactions is determined by quoted prices provided by financial institutions. The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loan. The fair value of gain or loss resulting from forward foreign exchange contracts embedded in payable and receivable subject to hedging is included in the fair value of the corresponding payable and receivable.

Note 2. Financial instruments cannot be estimated, which makes it extremely difficult to assess the fair value.

	2012	Millions of yen 2011	Thousands of U.S. dollars 2012
<b>Unlisted shares</b>	<b>¥19,618</b>	¥18,421	<b>\$238,691</b>

Unlisted shares are not included in “(4) Investment securities - Other securities” because these securities are without market values and their future cash flows cannot be estimated, which makes it extremely difficult to assess the fair value.

Note 3. The redemption schedule for receivables and marketable securities with maturity dates after the close of the fiscal year

(For the year 2012)	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	¥21,997	¥-	¥-	¥-	\$267,636	\$-	\$-	\$-
Notes and accounts receivable – trade	110,019	-	-	-	1,338,594	-	-	-
Long-term loans receivable	-	10,304	573	62	-	125,368	6,972	754
<b>Total</b>	<b>¥132,016</b>	<b>¥10,304</b>	<b>¥573</b>	<b>¥62</b>	<b>\$1,606,230</b>	<b>\$125,368</b>	<b>\$6,972</b>	<b>\$754</b>

(For the year 2011)	Millions of yen			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	¥18,659	¥-	¥-	¥-
Notes and accounts receivable – trade	99,292	-	-	-
Investment securities				
Other securities with maturity dates Bonds	-	70	-	-
Long-term loans receivable	-	11,269	277	39
<b>Total</b>	<b>¥117,951</b>	<b>¥11,339</b>	<b>¥277</b>	<b>¥39</b>

Note 4. The redemption schedule for bonds, long-term loans payable and lease obligations

(For the year 2012)	Millions of yen					
	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Bonds	¥-	¥38	¥38	¥10,019	¥-	¥-
Long-term loans payable	-	16,398	7,637	10,170	6,581	8,618
Lease obligations	2,363	2,075	1,676	1,892	1,299	10,367
<b>Total</b>	<b>¥2,363</b>	<b>¥18,511</b>	<b>¥9,351</b>	<b>¥22,081</b>	<b>¥7,880</b>	<b>¥18,985</b>

	Thousands of U.S. dollars					
	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Bonds	\$-	\$462	\$462	\$121,901	\$-	\$-
Long-term loans payable	-	199,513	92,919	123,737	80,071	104,855
Lease obligations	28,750	25,247	20,392	23,020	15,805	126,134
<b>Total</b>	<b>\$28,750</b>	<b>\$225,222</b>	<b>\$113,773</b>	<b>\$268,658</b>	<b>\$95,876</b>	<b>\$230,989</b>

(For the year 2011)	Millions of yen					
	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Bonds	¥-	¥38	¥38	¥38	¥10,019	¥-
Long-term loans payable	-	8,715	15,530	6,698	9,088	14,809
Lease obligations	1,953	1,828	1,719	1,318	1,530	9,679
<b>Total</b>	<b>¥1,953</b>	<b>¥10,581</b>	<b>¥17,287</b>	<b>¥8,054</b>	<b>¥20,637</b>	<b>¥24,488</b>

**To the Board of Directors of AIR WATER INC.:**

We have audited the accompanying consolidated financial statements of AIR WATER INC. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AIR WATER INC. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

June 28, 2012  
Osaka, Japan

 *AIR WATER INC.*

