CHALLENGE FOR THE NEXT STAGE

ANNUAL REPORT 2011

Year Ended March 31, 2011

Financial Section

CONTENTS

(1) Business Overview

Net sales increased by ¥45,453 million from the previous fiscal year to ¥471,810 million, primarily due to an increase in demand led by major customers in industrial businesses such as Industrial Gas Business, Electronics Business, and Chemical Business.

Operating income totaled ¥31,268 million, an increase of ¥3,067 million from the previous fiscal year, due to increased net sales and cost reduction efforts.

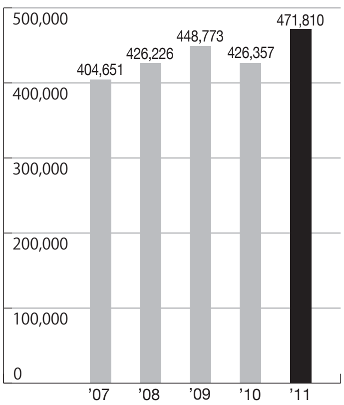
Ordinary income was ¥32,958 million. This represents an increase of ¥3,938 million from the previous fiscal year, and is primarily a result of increased income from investments under the equity method as well as increased operating income.

Extraordinary income totaled ¥254 million, a decrease of ¥140 million from the previous fiscal year, stemming in part from a fall in fixed asset sales.

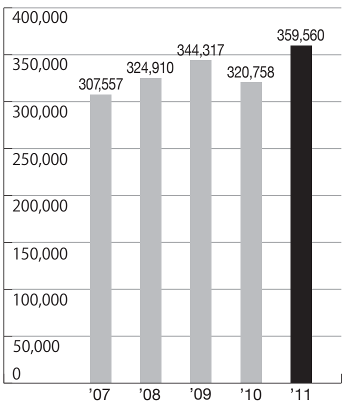
Extraordinary losses rose by ¥5,884 million to ¥8,855 million compared to the previous fiscal year, as a result of losses arising from the Great East Japan Earthquake, and a transfer to allowances for taxes under the Antimonopoly Law.

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 ¥24,357 million, while net income minus tax expenses and minority interests totaled ¥11,680 million, a decrease of ¥2,236 million. Net income per share moved from ¥73.64 to ¥61.24. Return on equity (ROE) fell from 9.7% to 7.5%, while return on assets (ROA) rose from 7.5% to 8.2%.

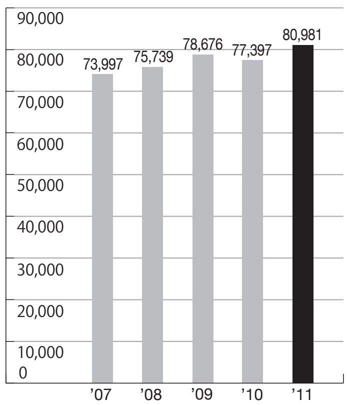
Net Sales (million JPY)



Cost of Sales (million JPY)



Selling, General and Administrative Expenses (million JPY)



(2) Financial Condition

Assets

Current assets increased by ¥373 million from the end of the previous fiscal year to ¥157,416 million due in part to an increase in notes and accounts receivable-trade.

Fixed assets also saw an increase of ¥14,507 million from the end of the previous fiscal year arising from an increase in tangible fixed assets, reaching ¥250,223 million.

These changes produced an increase in total assets of ¥14,880 million from the end of the previous fiscal year, to ¥407,639 million.

Liabilities

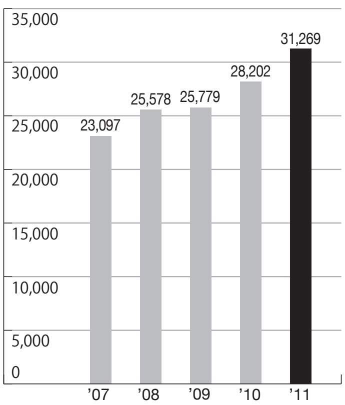
An increase in interest-bearing liabilities led to total liabilities of ¥238,512 million, an increase of ¥9,703 million from the end of the previous fiscal year.

Net Assets

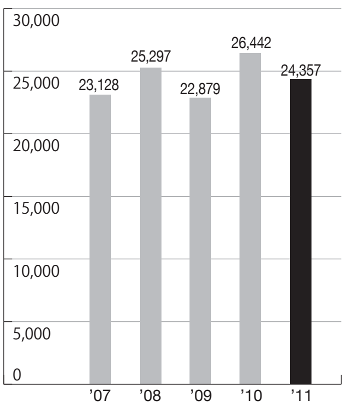
Net assets increased by ¥5,177 million from the end of the previous fiscal year, due to such factors as an increase in capital and capital surplus due to a buildup of net income and the conversion of bonds with share option, reaching a total of ¥169,127 million.

Net assets per share also increased from ¥789.89 to ¥822.05, and the equity ratio moved from 39.0% to 38.7%.

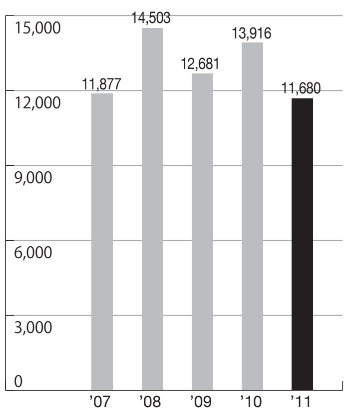
Operating Income (million JPY)



Income before Taxes and Other Adjustments (million JPY)



Net Income (million JPY)



(3) Cash Flow

Cash flow from operating activities decreased by ¥12,017 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 ¥32,576 million.

Cash flow from investing activities increased ¥8,946 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 ¥34,766 million. As a result, free cash flow, i.e. the total of cash flow from operating activities and cash flow from investing activities, decreased by ¥20,962 million, giving a net negative cash flow of ¥2,190 million.

Cash flow from financing activities fell by ¥19,023 million to provide a net negative flow of ¥1,592 million, due to such factors as the repayment of loans.

The result was that the balance of cash and cash equivalents at the end of the fiscal year was ¥18,131 million, a decrease of ¥3,398 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, 2011.

(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.

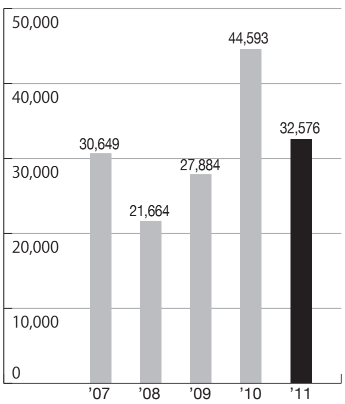
(2) Rising Fuel Costs

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.

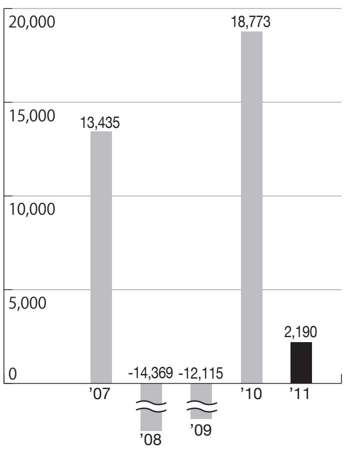
(3) Drug Reimbursement Prices

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.

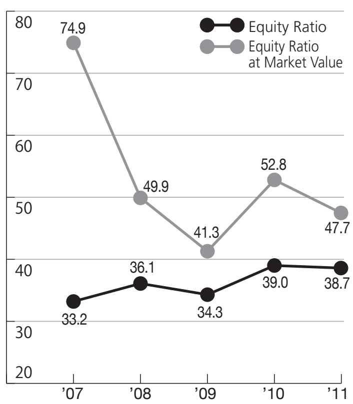
Cash Flow from Operating Activities (million JPY)



Free Cash Flow (million JPY)



Equity Ratio & Equity Ratio at Market Value (%)



Equity Ratio : Shareholders equity/total assets
Equity Ratio at Market Value : Market capitalization/total assets

(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

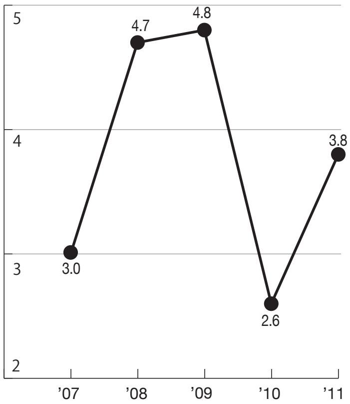
In the event that a natural disaster such as an earthquake causes significant damage to the Air Water Group's production facilities and results in a significant loss of production capacity or a delay to production, the Group's business performance or financial condition may be affected.

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

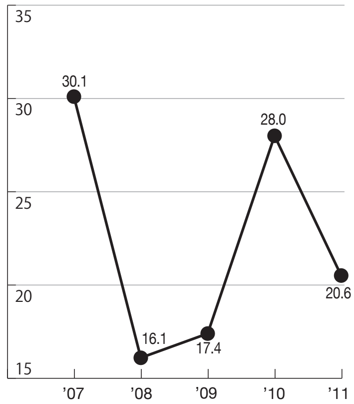
There is a risk inherent in the execution of the Air Water Group's business pertaining to litigation, measures taken by regulatory authorities, and other legal procedures. Such procedures may lead to compensation claims against the Group, monetary levies imposed on the Group by regulatory authorities, 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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
ASSETS			
Current assets:			
Cash and deposits (Note 3)	**¥18,659**	¥22,303	**$224,402**
Notes and accounts receivable - trade	**99,292**	91,485	**1,194,131**
Inventories (Note 4)	**25,788**	29,034	**310,138**
Short-term loans receivable	**6,006**	6,069	**72,231**
Deferred tax assets (Note 9)	**3,427**	3,492	**41,215**
Other current assets	**5,890**	6,312	**70,836**
Allowance for doubtful accounts	**(1,646)**	(1,652)	**(19,796)**
Total current assets	**157,416**	157,043	**1,893,157**
Property, plant and equipment (Note 7):			
Land (Note 6)	**47,109**	44,245	**566,555**
Buildings and structures	**90,286**	86,242	**1,085,821**
Machinery, equipment and vehicles	**181,392**	174,591	**2,181,503**
Lease assets	**19,355**	6,887	**232,772**
Construction in progress	**6,547**	8,925	**78,737**
Other	**32,965**	32,260	**396,452**
	377,654	353,150	**4,541,840**
Less accumulated depreciation	**200,070**	188,436	**2,406,133**
Total property, plant and equipment	**177,584**	164,714	**2,135,707**
Investments and other assets:			
Investment securities (Note 5)	**36,988**	36,253	**444,835**
Investments in capital	**2,024**	1,756	**24,342**
Deferred tax assets (Note 9)	**2,926**	2,867	**35,189**
Goodwill	**12,487**	12,011	**150,174**
Other assets	**19,565**	19,774	**235,297**
Allowance for doubtful accounts	**(1,351)**	(1,659)	**(16,248)**
Total investments and other assets	**72,639**	71,002	**873,589**
Total assets	**¥407,639**	¥392,759	**$4,902,453**

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

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
LIABILITIES			
Current liabilities:			
Notes and accounts payable:			
Trade	**¥64,073**	¥62,415	**$770,571**
Construction	**4,409**	2,809	**53,025**
Short-term borrowings, including current portion of long-term debt (Note 7)	**39,318**	45,458	**472,856**
Lease obligations (Note 7)	**1,953**	878	**23,488**
Accrued expenses	**13,294**	12,620	**159,880**
Income taxes payable (Note 9)	**6,769**	8,314	**81,407**
Provision for directors' bonuses	**231**	212	**2,778**
Provision for surcharge	**3,639**	-	**43,764**
Provision for loss on disaster	**555**	-	**6,675**
Other current liabilities	**4,942**	7,932	**59,435**
Total current liabilities	**139,183**	140,638	**1,673,879**
Noncurrent liabilities:			
Long-term debt (Note 7)	**64,973**	62,907	**781,395**
Lease obligations (Note 7)	**16,074**	5,543	**193,313**
Deferred tax liabilities (Note 9)	**4,180**	6,418	**50,271**
Deferred tax liabilities for land revaluation (Note 6 and 9)	**1,328**	1,327	**15,971**
Provision for retirement benefits (Note 21)	**8,715**	8,171	**104,811**
Provision for directors' retirement benefits	**859**	755	**10,331**
Other noncurrent liabilities	**3,200**	3,050	**38,484**
Total noncurrent liabilities	**99,329**	88,171	**1,194,576**
Contingent liabilities (Note 13)			
Total liabilities	**238,512**	228,809	**2,868,455**
NET ASSETS (NOTE 10)			
Shareholders' equity:			
Capital stock			
Authorized - 480,000,000 shares			
Issued - 191,759,684 shares in 2011 and 193,874,628 shares in 2010	**31,014**	30,014	**372,988**
Capital surplus	**33,184**	32,183	**399,086**
Retained earnings	**103,883**	96,049	**1,249,344**
Treasury stock, at cost	**(4,469)**	(370)	**(53,746)**
4,445,373 shares in 2011 and 330,429 shares in 2010			
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	**3,073**	4,234	**36,957**
Deferred gains or losses on hedges	**(253)**	(206)	**(3,042)**
Revaluation reserve for land (Note 6)	**(8,922)**	(8,920)	**(107,300)**
Foreign currency translation adjustments	**127**	157	**1,527**
Total accumulated other comprehensive income	**(5,975)**	(4,735)	**(71,858)**
Subscription rights to shares (Note 22)	**219**	171	**2,634**
Minority interests	**11,271**	10,638	**135,550**
Total net assets	**169,127**	163,950	**2,033,998**
Total liabilities and net assets	**¥407,639**	¥392,759	**$4,902,453**

Consolidated Statements of Income

AIR WATER INC.
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Net sales	**¥471,810**	¥426,357	**$5,674,203**
Cost of sales	**359,560**	320,758	**4,324,233**
Selling, general and administrative expenses	**80,981**	77,397	**973,915**
Operating income	**31,269**	28,202	**376,055**
Other income (expenses):			
Interest and dividends income	**882**	733	**10,607**
Interest expenses	**(1,630)**	(1,765)	**(19,603)**
Equity in earnings of nonconsolidated subsidiaries and affiliates	**1,334**	774	**16,043**
Gain on sales of noncurrent assets	**119**	381	**1,431**
Gain on negative goodwill	**104**	-	**1,251**
Gain on sales of investment securities	**5**	14	**60**
Loss on sales and retirement of noncurrent assets	**(1,242)**	(1,440)	**(14,937)**
Impairment loss (Note 14)	**(611)**	(463)	**(7,348)**
Loss on valuation of investment securities	**(49)**	(16)	**(589)**
Loss on disaster（Note 15）	**(3,069)**	-	**(36,909)**
Loss on business of subsidiaries and affiliates (Note 16)	**-**	(419)	**-**
Loss on extinguishment of tie-in shares	**-**	(355)	**-**
Provision for surcharge	**(3,639)**	-	**(43,764)**
Other - net	**884**	797	**10,631**
Income before income taxes and minority interests	**24,357**	26,443	**292,928**
Income taxes (Note 9):			
Current	**13,139**	12,312	**158,015**
Deferred	**(1,316)**	(1,014)	**(15,827)**
	12,534	15,145	**150,740**
Income before minority interests	**12,534**	-	**150,740**
Minority interests in income	**(854)**	(1,229)	**(10,271)**
Net income	**¥11,680**	¥13,916	**$140,469**

Per share of common stock:	Yen		U.S. dollars (Note 1)
Net income - basic	**¥61.24**	¥73.64	**$0.74**
Net income - diluted	**59.56**	70.03	**0.72**
Cash dividends applicable to the year	**22.00**	22.00	**0.26**

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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Income before minority interests	**¥12,534**	-	**$150,740**
Other comprehensive income			
Valuation difference on available-for-sale securities	**(1,159)**	-	**(13,939)**
Deffered gains or losses on hedges	**(44)**	-	**(529)**
Revaluation reserve for land	**(2)**	-	**(24)**
Foreign currency translation adjustments	**(31)**	-	**(373)**
Share of other comprehensive income of associates accounted for using equity method	**(5)**	-	**(60)**
Other comprehensive income（Note 18）	**(1,241)**	-	**(14,925)**
Comprehensive income（Note 17）	**11,293**	-	**135,815**
Comprehensive income attributable to			
Owners of the parent	**10,440**	-	**125,556**
Minority interests	**853**	-	**10,259**

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, 2010

	Millions of yen				
	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Share-holders' equity
Net assets at April 1, 2009	**¥25,514**	**¥27,683**	**¥86,220**	**¥(325)**	**¥139,092**
Changes in items during the period					
Issuance of new shares - exercise of subscription rights to shares	4,500	4,500			9,000
Dividends from surplus			(4,079)		(4,079)
Reversal of revaluation reserve for land			(8)		(8)
Net income			13,916		13,916
Purchase of treasury stock				(50)	(50)
Disposal of treasury stock		(0)		5	5
Net changes in items other than shareholders' equity					
Total changes in items during the period	**4,500**	**4,500**	**9,829**	**(45)**	**18,784**
Balance as of March 31, 2010	**¥30,014**	**¥32,183**	**¥96,049**	**¥(370)**	**¥157,876**

	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
Net assets at April 1, 2009	**¥2,282**	**¥(268)**	**¥(8,930)**	**¥151**	**¥(6,765)**	**¥102**	**¥10,801**	**¥143,230**
Changes in items during the period								
Issuance of new shares - exercise of subscription rights to shares								9,000
Dividends from surplus								(4,079)
Reversal of revaluation reserve for land								(8)
Net income								13,916
Purchase of treasury stock								(50)
Disposal of treasury stock								5
Net changes in items other than shareholders' equity	1,952	62	10	6	2,030	69	(163)	1,936
Total changes in items during the period	**1,952**	**62**	**10**	**6**	**2,030**	**69**	**(163)**	**20,720**
Balance as of March 31, 2010	**¥4,234**	**¥(206)**	**¥(8,920)**	**¥157**	**¥(4,735)**	**¥171**	**¥10,638**	**¥163,950**

AIR WATER INC.
Year ended March 31, 2011

	Millions of yen				
	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Shareholders' equity
Net assets at April 1, 2010	**¥30,014**	**¥32,183**	**¥96,049**	**¥(370)**	**¥157,876**
Changes in items during the period					
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	**1,000**	**1,001**	**7,834**	**(4,099)**	**5,736**
Balance as of March 31, 2011	**¥31,014**	**¥33,184**	**¥103,883**	**¥(4,469)**	**¥163,612**

	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
Net assets at April 1, 2010	**¥4,234**	**¥(206)**	**¥(8,920)**	**¥157**	**¥(4,735)**	**¥171**	**¥10,638**	**¥163,950**
Changes in items during the period								
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	**(1,161)**	**(47)**	**(2)**	**(30)**	**(1,240)**	**48**	**633**	**5,177**
Balance as of March 31, 2011	**¥3,073**	**¥(253)**	**¥(8,922)**	**¥127**	**¥(5,975)**	**¥219**	**¥11,271**	**¥169,127**

Consolidated Statements of Changes in Net Asset

AIR WATER INC.
Year ended March 31, 2011

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Shareholders' equity
	Thousands of U.S. dollars (Note 1)				
	Owners' equity				
Net assets at April 1, 2010	**$360,962**	**$387,048**	**$1,155,129**	**$(4,450)**	**$1,898,689**
Changes in items during the period					
Issuance of new shares - exercise of subscription rights to shares	12,026	12,026			24,052
Dividends from surplus			(50,728)		(50,728)
Reversal of revaluation reserve for land					
Net income			140,469		140,469
Change in scope of consolidation			36		36
Change in scope of equity method			4,438		4,438
Purchase of treasury stock				(52,483)	(52,483)
Disposal of treasury stock		12		3,187	3,199
Net changes in items other than shareholders' equity					
Total changes in items during the period	**12,026**	**12,038**	**94,215**	**(49,296)**	**68,983**
Balance as of March 31, 2011	**$372,988**	**$399,086**	**$1,249,344**	**$(53,746)**	**$1,967,672**

	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
	Thousands of U.S. dollars (Note 1)							
	Valuation and translation adjustments							
Net assets at April 1, 2010	**$50,920**	**$(2,477)**	**$(107,276)**	**$1,888**	**$(56,945)**	**$2,057**	**$127,937**	**$1,971,738**
Changes in items during the period								
Issuance of new shares - exercise of subscription rights to shares								24,052
Dividends from surplus								(50,728)
Reversal of revaluation reserve for land								
Net income								140,469
Change in scope of consolidation								36
Change in scope of equity method								4,438
Purchase of treasury stock								(52,483)
Disposal of treasury stock								3,199
Net changes in items other than shareholders' equity	(13,963)	(565)	(24)	(361)	(14,913)	577	7,613	(6,723)
Total changes in items during the period	**(13,963)**	**(565)**	**(24)**	**(361)**	**(14,913)**	**577**	**7,613**	**62,260**
Balance as of March 31, 2011	**$36,957**	**$(3,042)**	**$(107,300)**	**$1,527**	**$(71,858)**	**$2,634**	**$135,550**	**$2,033,998**

AIR WATER INC.
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥24,357	¥26,443	$292,928
Depreciation and amortization	19,424	17,045	233,602
Impairment loss	611	463	7,348
Loss on disaster	3,069	-	36,909
Amortization of goodwill	1,362	1,226	16,380
Gain on negative goodwill	(104)	-	(1,251)
Increase (decrease) in allowance for doubtful accounts	28	502	337
Increase (decrease) in provision for retirement benefits	57	107	686
Interest and dividend income	(882)	(733)	(10,607)
Interest expenses	1,630	1,765	19,603
Equity in earnings of nonconsolidated subsidiaries and affiliates	(1,334)	(774)	(16,043)
Loss (gain) on change in equity	-	3	-
Gain on sales of noncurrent assets	(119)	(381)	(1,431)
Loss on sales and retirement of noncurrent assets	1,242	1,440	14,937
Gain on sales of investment securities	(5)	(14)	(60)
Loss on valuation of investment securities	49	16	589
Provision for surcharge	3,639	-	43,764
Decrease (increase) in notes and accounts receivable	(3,176)	(2,943)	(38,196)
Decrease (increase) in inventories	3,744	7,255	45,027
Increase (decrease) in notes and accounts payable	(3,723)	(2,758)	(44,775)
Other - net	(2,149)	4,081	(25,844)
Subtotal	47,720	52,743	573,903
Interest and dividends income received	1,148	1,770	13,806
Interest expenses paid	(1,584)	(1,592)	(19,050)
Income taxes paid	(14,708)	(8,328)	(176,885)
Net cash provided by (used in) operating activities	¥32,576	¥44,593	$391,774
Cash flows from investing activities:			
Purchase of property, plant and equipment	(30,428)	(21,159)	(365,941)
Proceeds from sales of property, plant and equipment	449	959	5,400
Purchase of intangible assets	(448)	(848)	(5,388)
Purchase of investment securities	(3,049)	(2,837)	(36,669)
Proceeds from sales of investment securities	28	148	337
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(885)	-	(10,643)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	87	250	1,046
Payments of loans receivable	(7,263)	(13,619)	(87,348)
Collection of loans receivable	6,393	11,137	76,885
Other - net	350	149	4,209
Net cash provided by (used in) investing activities	¥(34,766)	¥(25,820)	$(418,112)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(4,982)	(13,338)	(59,916)
Proceeds from long-term debt	9,018	10,368	108,455
Repayment of long-term debt	(17,788)	(12,192)	(213,927)
Proceeds from issuance of bonds	10,000	-	120,265
Redemption of bonds	(134)	(295)	(1,612)
Proceeds from sale-leaseback transactions	11,955	-	143,776
Repayment of lease obligations	(1,019)	(810)	(12,255)
Purchase of treasury stock	(4,365)	(50)	(52,495)
Proceeds from sales of treasury stock	267	4	3,211
Cash dividends paid	(4,218)	(4,079)	(50,728)
Cash dividends paid to minority shareholders	(273)	(223)	(3,283)
Other - net	(53)	-	(637)
Net cash provided by (used in) financing activities	¥(1,592)	¥(20,615)	$(19,146)
Effect of exchange rate changes on cash and cash equivalents	(9)	2	(108)
Net increase (decrease) in cash and cash equivalents	(3,791)	(1,840)	(45,592)
Cash and cash equivalents at beginning of year	21,528	23,185	258,906
Increase in cash and cash equivalents resulting from merger	23	184	277
Increase in cash and cash equivalents from newly consolidated subsidiary	371	-	4,462
Cash and cash equivalents at end of year (Note 3)	¥18,131	¥21,529	$218,052

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. Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of residence. The accounts of consolidated overseas subsidiaries from the year ended March 31, 2009 are prepared in accordance with International Financial Reporting Standards, with the required adjustments for the six specified items as applicable.

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, 2011, which was ¥83.15 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, 2011 (62 for the year ended March 31, 2010) and 9 companies accounted for using the equity method for the year ended March 31, 2011 (9 for the year ended March 31, 2010).

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

<Fiscal year 2009>

(New accounting standard for construction contracts)

Prior to the year ended March 31, 2010, the Company and consolidated domestic subsidiaries (the “domestic companies”) recognized revenues and costs of construction contracts using the completed contract method. Effective from the year ended March 31, 2010, the domestic companies adopted the “Accounting Standard for Construction Contracts” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 15, issued on December 27, 2007) and the “Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18, issued on December 27, 2007). Accordingly, when the outcome of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method to work commencing during the year, 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.

The adoption of the new standards had no material impact on the consolidated financial statements.

<Fiscal year 2010>

(Application of “Accounting Standards for Asset Retirement Obligations”)

Effective April 1, 2010, the Company and its consolidated domestic subsidiaries adopted “Accounting Standards for Asset Retirement Obligations” (ASBJ Statement No. 18, issued on March 31, 2008) and “Guidance on Accounting Standards for Assets Retirement Obligations” (ASBJ Guidance No. 21, issued on March 31, 2008).

The change had no material impact on the consolidated financial statements.

(Application of “Accounting Standards for Business Combinations”)

Effective April 1, 2010, the Company adopted “Accounting Standard for Business Combinations” (ASBJ statement No.21, issued on December 26, 2008), “Accounting Standard for Consolidated Financial Statements” (ASBJ statement No.22, issued on December 26, 2008), “Partial Amendments to Accounting Standard for Research and Development Costs” (ASBJ statement No.23, issued on December 26, 2008), “Revised Accounting Standard for Business Divestitures” (ASBJ statement No.7, issued on December 26, 2008), “Accounting Standard for Equity Method of Accounting for Investment” (ASBJ statement No.16, issued on December 26, 2008), and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, issued on December 26, 2008).

(Application of “Accounting Standards for Equity Method of Accounting for Investments”)

Effective April 1, 2010, the Company adopted “ Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No.16, issued on March 10, 2008) and “ Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ Practical Issue Task Force (PITF) No.24, issued on March 10, 2008).

The change had no impact on the consolidated financial statements.

(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) Deferred charges

Bond issue expenses are charged to income when incurred.

(Additional Information)

Effective April 1, 2010, the Company and consolidated domestic subsidiaries adopted “Tentative Solution on Accounting for Deferred Assets” (ASBJ report No.19, issued on August 11, 2006). Therefore, bond issue expenses are charged to income when incurred.

(9) 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.

(10) 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.

(11) 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.

(12) Provision for surcharge

In accordance with the Antimonopoly Law, the Company received an advance notice, a draft of an order, for the payment of fines. The provision for surcharge is estimated, and the amount of the fine given in this draft was recorded.

(13) 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.

(14) 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.

(15) 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.

(16) Research and development expenses

Research and development expenses, which were ¥3,268 million ($39,302 thousand) and ¥3,274 million for the years ended March 31, 2011 and 2010, respectively, are recognized when paid and are included in general and administrative expenses.

(17) 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.

(18) 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.

(19) 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.

(20) 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)

(Application of “Accounting Standard for Presentation of Comprehensive Income”)

Effective March 31, 2011, the Company adopted “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, issued on June 30, 2010).

As a result of the adoption of these standards, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011.

(Employee stock ownership incentive plan)

The Company and consolidated domestic subsidiaries have introduced a “Employee Stock Ownership Incentive Plan.” The purpose of this plan is to increase incentives for the companies’ employees to accumulate ownership in the company as a part of the companies’ benefit plans and to enhance the companies’ corporate value.

Therefore, the Employee Stock Ownership Trust (the “ESOP Trust”) was established. The number of the Company’s shares that the ESOP Trust acquired was 1,723,000.

Focusing on economic substance, the accounting treatment for the acquisition and sale of the Company’s shares is based on the assumption that the Company and the ESOP Trust form substantially a single entity because the Company guarantees the ESOP Trust’s liabilities. Therefore, the Company’s shares owned by the ESOP Trust and the assets and liabilities and income and expenses of the ESOP Trust are included in the Company’s consolidated balance sheets, consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows. The number of the Company’s shares owned by the ESOP Trust as of March 31, 2011 was 1,483,000.

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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Cash on hand and in banks in the consolidated balance sheets	**¥18,659**	¥22,303	**$224,402**
Time deposits with maturities exceeding 3 months	**(529)**	(775)	**(6,362)**
Short-term investment securities included in other current assets	**1**	1	**12**
Cash and cash equivalents on the consolidated statements of cash flows	**¥18,131**	¥21,529	**$218,052**

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Current assets	**¥7,025**	¥2,792	**$84,486**
Noncurrent assets	**2,222**	2,620	**26,723**
Current liabilities	**(7,391)**	(3,428)	**(88,888)**
Noncurrent liabilities	**(1,443)**	(1,693)	**(17,354)**
Goodwill	**1,914**	493	**23,019**
Minority interests	**(304)**	(143)	**(3,656)**
Acquisition cost	**2,023**	641	**24,330**
Carrying value under the equity method	**(586)**	-	**(7,048)**
Additional acquisition cost	**1,437**	641	**17,282**
Cash and cash equivalents of acquired companies	**(639)**	(891)	**(7,685)**
Net expenditure (revenue)	**¥798**	¥(250)	**$9,597**

Significant noncash transactions for the year ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2010**	**2011**
Issuance of new stock by execution of stock acquisition rights:			
Credited to common stock	**¥1,000**	**¥4,500**	**$12,026**
Credited to capital surplus	**1,000**	**4,500**	**12,026**
Decrease of zero coupon convertible bonds due 2012	**¥2,000**	**¥9,000**	**$24,052**

4. Inventories

Inventories as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Merchandise and finished goods	**¥15,065**	¥14,860	**$181,178**
Work-in-process	**4,120**	8,291	**49,549**
Raw materials and supplies	**6,603**	5,883	**79,411**
	¥25,788	¥29,034	**$310,138**

5. Securities

Available-for-sale securities with available fair market values at March 31, 2011 and 2010 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)
			2011			2010			**2011**
Securities with book values exceeding acquisition costs:									
Stocks	**¥15,874**	**¥9,010**	**¥6,864**	¥16,239	¥7,668	¥8,571	**$190,908**	**$108,358**	**$82,550**
Subtotal	**15,874**	**9,010**	**6,864**	16,239	7,668	8,571	**190,908**	**108,358**	**82,550**
Securities with book values not exceeding acquisition costs:									
Stocks	**2,623**	**3,481**	**(858)**	2,987	3,605	(618)	**31,545**	**41,864**	**(10,319)**
Bonds	**70**	**70**	**-**	70	70	-	**842**	**842**	**-**
Subtotal	**2,693**	**3,551**	**(858)**	3,057	3,675	(618)	**32,387**	**42,706**	**(10,319)**
Total	**¥18,567**	**¥12,561**	**¥6,006**	¥19,296	¥11,343	¥7,953	**$223,295**	**$151,064**	**$72,231**

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, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Revalued land	**¥(2,384)**	¥(1,913)	**$(28,671)**

7. Short-term borrowings and long-term debt

The weighted average interest rate of short-term borrowings as of March 31, 2011 and 2010, was 0.75% and 0.71%, respectively.

Long-term debt as of March 31, 2011 and 2010 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Loans from banks and insurance companies with interest rates ranging from 1.00% to 3.36% maturing through 2021	**¥65,835**	¥73,587	**$791,762**
0.54% unsecured bonds due 2015	**10,000**	-	**120,265**
Zero coupon unsecured convertible bonds due 2012	**4,000**	6,000	**48,106**
1.24% unsecured bonds due 2011	**7**	23	**84**
0.97% unsecured bonds due 2010	**-**	100	**-**
0.64% unsecured bonds due 2015	**171**	-	**2,057**
Lease obligations through 2028	**18,027**	6,421	**216,800**
	98,040	86,131	**1,179,074**
Less amount due within one year	**16,993**	17,681	**204,366**
	¥81,047	¥68,450	**$974,708**

The aggregate annual maturities of short-term debt and long-term debt as of March 31, 2011 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2012	**¥16,993**	**$204,366**
2013	**10,581**	**127,252**
2014	**17,287**	**207,901**
2015	**8,054**	**96,861**
2016	**20,637**	**248,190**
2017 and thereafter	**24,488**	**294,504**

As of March 31, 2011, assets were pledged as collateral for short-term bank loans of ¥3,398 million ($40,866 thousand), long-term debt of ¥9,348 million ($112,423 thousand) and others of ¥1,240 million ($14,913 thousand) as follows:

	Millions of yen	Thousands of U.S. dollars
Land	**¥11,018**	**$132,508**
Buildings and structures	**4,277**	**51,437**
Machinery and equipment	**1,747**	**21,010**
Property, plant and equipment	**33**	**397**
Investments and other assets	**325**	**3,908**
	¥17,400	**$209,260**

8. Derivative financial instruments and hedging transactions

Derivative financial instruments and hedging transactions at March 31, 2011 and 2010 were as follows:

(1)Derivatives transactions for which hedge accounting does not apply For the years 2011 and 2010
None

(2)Derivatives transactions for which hedge accounting applies

①Currency related

For the year 2011			(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	**¥457**	**¥-**	**¥(0)**	**$5,496**	**$-**	**$ (0)**
	Euro	Accounts receivable – trade	207	-	(6)	2,490	-	(72)
	Purchased option to buy							
	U.S. dollars	Accounts Payable – trade	4,176	-	46	50,222	-	553
	Euro	Accounts Payable – trade	347	-	15	4,173	-	180
Gain (loss) resulting from forward foreign exchange contract is allocated over the applicable period	Forward exchange contracts:							
	Purchased option to sell							
	U.S. dollars	Accounts receivable – trade	161	-	(Note 2)	1,936	-	(Note 2)
	Euro	Accounts receivable – trade	108	-	(Note 2)	1,299	-	(Note 2)
	Purchased option to buy							
	U.S. dollars	Accounts Payable – trade	942	-	(Note 2)	11,329	-	(Note 2)
Total			**¥6,398**	**¥-**	**¥55**	**$76,945**	**$-**	**$661**

For the year 2010					(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	**¥693**	**¥58**	**¥(32)**
	Euro	Accounts receivable − trade	333	80	(7)
	Purchased option to buy				
	U.S. dollars	Accounts Payable − trade	3,129	49	113
	Euro	Accounts Payable − trade	155	-	1
Gain (loss) resulting from forward foreign exchange contract is allocated over the applicable period	Forward exchange contracts:				
	Purchased option to sell				
	U.S. dollars	Accounts receivable − trade	228	-	(Note 2)
	Euro	Accounts receivable − trade	85	-	(Note 2)
	Purchased option to buy				
	U.S. dollars	Accounts Payable − trade	371	-	(Note 2)
Total			**¥4,994**	**¥187**	**¥75**

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 2011					(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	**¥13,419**	**¥13,169**	**¥ (476)**	**$161,383**	**$158,377**	**$ (5,724)**
	Interest rate option:	Long-term loans payable	800	800	8	9,621	9,621	96
Special treatment of interest rate swaps	Interest rate swap:							
	Receiving floating rate and paying fixed rate	Long-term loans payable	545	85	(Note 2)	6,554	1,022	(Note 2)
	Paying floating rate and receiving fixed rate	Long-term loans payable	1,428	833	(Note 2)	17,174	10,018	(Note 2)
Total			**¥16,192**	**¥14,887**	**¥ (468)**	**$194,732**	**$179,038**	**$ (5,628)**

For the year 2010					(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	**¥17,934**	**¥10,824**	**¥ (425)**
	Interest rate option:	Long-term loans payable	800	800	10
Special treatment of interest rate swaps	Interest rate swap:				
	Receiving floating rate and paying fixed rate	Long-term loans payable	575	455	(Note 2)
Total			**¥19,309**	**¥12,079**	**¥(415)**

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, 2011 and 2010.

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, 2011 and 2010.

	2011	2010
Statutory tax rate	40.6%	40.6%
Nondeductible expenses	1.7	1.2
Amortization of goodwill	1.4	1.2
Equity in earnings of nonconsolidated subsidiaries and affiliates	(2.2)	(1.2)
Per capita inhabitants taxes	0.8	0.7
Provision for surcharge	6.1	-
Other	0.1	0.2
Effective tax rate	48.5%	42.7%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
For 2011	2011	2010	2011
Deferred tax assets:			
Retirement benefits	¥3,802	¥3,703	$45,725
Net operating losses carried forward for tax purposes	2,092	1,833	25,159
Excess bonuses accrued	1,889	1,810	22,718
Impairment loss	1,803	752	21,684
Loss on valuation of investment securities	951	831	11,437
Loss on business of subsidiaries and affiliates	641	796	7,709
Accrued enterprise taxes	612	718	7,360
Other	4,654	4,355	55,971
Total deferred tax assets	16,444	14,798	197,763
Valuation allowance	(4,620)	(4,257)	(55,562)
Net deferred tax assets	11,824	10,541	142,201
Deferred tax liabilities:			
Retained earnings appropriated for allowable tax reserves	(4,305)	(4,334)	(51,774)
Net unrealized holding gains on securities	(2,481)	(3,254)	(29,838)
Variance of estimate of capital consolidation	(1,593)	(1,589)	(19,158)
Other	(1,272)	(1,423)	(15,298)
Total deferred tax liabilities	(9,651)	(10,600)	(116,068)
Net deferred tax assets (net deferred tax liabilities)	¥2,173	¥(59)	$26,133

Deferred tax assets and liabilities for land revaluation difference as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets	¥4,284	¥4,352	$51,521
Valuation allowance	(4,250)	(4,318)	(51,112)
Net deferred tax assets	¥34	¥34	$409
Deferred tax liabilities	¥(1,362)	¥(1,361)	$ (16,380)

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
(Corporate separation of branch office)

a. Name of targeted business and description of business
Name of the business
Branch office function of industrial gas business and medical business
Description of the business
Sales of industrial gas and medical gas

b. The date of business combination
April 1, 2010

c. Legal form of business combination
Absorption-type company split in which Tohoku Air Water INC., Kanto Air Water INC., Tokyo Air Water INC., Niigata Air Water INC., Chubu Air Water INC., Kinki Air Water INC., Chugoku Air Water INC., Shikoku Air Water INC. and Kyusyu Air Water INC. became the successor companies, while absorbing parts of the business of the company.

d. Name of company after business combination
Consolidated subsidiaries:
Tohoku Air Water INC., Kanto Air Water INC., Tokyo Air Water INC., Niigata Air Water INC., Chubu Air Water INC., Kinki Air Water INC., Chugoku Air Water INC., Shikoku Air Water INC. and Kyusyu Air Water INC.

e. Other details of the transaction
Our branch offices were separated on April 1, 2010, and succeeded by 9 regional companies to make our community-based business stronger than ever.

f. Summary of accounting standards implemented
The transfer has been accounted for as a transaction under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ statement No.21, issued on December 26, 2008) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, issued on December 26, 2008).

(Corporate separation of metal-surface treatment business)

a. Name of targeted business and description of business
Name of the business
Metal-surface treatment business
Description of the business
Metal-surface treatment business, and sales of its technology and knowhow

b. The date of business combination
April 1, 2010

c. Legal form of business combination
Absorption-type company split in which Air Water NV INC. became the successor company, while absorbing parts of the business of the company.

d. Name of company after business combination
Consolidated subsidiary:
Air Water NV INC.

e. Other details of the transaction
The business of metal-surface treatment was separated on April 1, 2010, and succeeded by Air Water NV INC. to achieve further development of this business.

f. Summary of accounting standards implemented
The transfer has been accounted for as a transaction under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ statement No.21, issued on December 26, 2008) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, issued on December 26, 2008).

12. Segment information

(Additional Information)
Effective April 1, 2010, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008).

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, 2011 is as follow:

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)	-
Total	137,388	49,205	78,487	67,443	48,448	114,752	495,723	(23,913)	471,810
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
Investment profit on equity method	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

For 2011	Reportable Segment								Thousands of U.S. dollars
	Industrial gas	Electronics	Chemical	Medical	Energy	Other	Total	Adjustment (Note 2)	Amounts reported on consolidated financial statements (Note 1)
Net sales:									
Customers	$1,573,915	$587,649	$943,680	$804,317	$571,906	$1,192,736	$5,674,203	$-	$5,674,203
Intersegment	78,376	4,113	241	6,783	10,752	187,324	287,589	(287,589)	-
Total	1,652,291	591,762	943,921	811,100	582,658	1,380,060	5,961,792	(287,589)	5,674,203
Segment profit	161,383	43,067	40,866	52,712	32,868	64,486	395,382	998	396,380
Segment assets	1,611,918	531,618	502,093	523,656	363,584	984,245	4,517,114	385,339	4,902,453
Other items：									
Depreciation and amortization	95,911	24,738	21,167	12,495	23,993	55,298	233,602	-	233,602
Amortization of goodwill	6,326	2,321	433	1,275	5,785	240	16,380	-	16,380
Interest income	84	24	12	132	24	169	445	2,922	3,367
Interest expenses	1,624	3,909	72	830	601	3,247	10,283	9,320	19,603
Investment profit on equity method	1,720	-	14,444	-	-	(121)	16,043	-	16,043
Investment amounts to equity method companies	8,599	1,768	9,116	-	-	4,666	24,149	-	24,149
Increase in amounts of fixed assets and intangible fixed assets	205,773	39,134	20,854	11,341	23,873	58,075	359,050	47,685	406,735

Notes : 1. Segment profit is adjusted to be consistent with ordinary income reported on the consolidated statements of income.
2. Adjustments to segment profits are as follows:
(1) The adjustment to inter-segment of -¥23,913 million (-$287,589 thousand) is the elimination of intersegment transactions.
(2) The adjustment to segment profit of ¥83 million ($998 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 ¥32,041 million ($385,339 thousand) is the sum of eliminated intersegment assets of -¥11,887 million (-$142,959 thousand) and corporate assets of ¥43,928 million ($528,298 thousand) that cannot be assigned to any particular segment.
(4) The adjustment to interest income of ¥243 million ($2,922 thousand) is interest income that cannot be assigned to any particular segment.
(5) The adjustment to interest expenses of ¥775 million ($9,320 thousand) is interest expenses that cannot be assigned to any particular segment.
(6) The adjustment to increase amounts of fixed assets and intangible fixed assets of ¥3,965 million ($47,685 thousand) is mostly corporate assets that cannot be assigned to any particular segment.

Information by industry segment for the years ended March 31, 2010 was as folllows:

For 2010	Industrial Business	Medical Business	Chemical Business	Energy Business	Other Business	Elimination and Corporate	Consolidated (Millions of yen)
Net sales:							
Customers	¥187,937	¥57,850	¥97,121	¥43,202	¥40,247	¥-	¥426,357
Inter-segment	4,159	206	71	573	14,529	(19,538)	-
Total	192,096	58,056	97,192	43,775	54,776	(19,538)	426,357
Costs and expenses	175,463	54,486	93,969	41,159	52,616	(19,538)	398,155
Operating income	¥16,633	¥3,570	¥3,223	¥2,616	¥2,160	¥-	¥28,202
Assets	¥179,555	¥36,672	¥76,961	¥30,335	¥37,921	¥31,315	¥392,759
Depreciation	¥9,241	¥816	¥3,647	¥1,869	¥1,472	¥-	¥17,045
Impairment loss	¥-	¥-	¥-	¥-	¥14	¥449	¥463
Capital expenditures	¥16,504	¥801	¥4,392	¥2,086	¥1,574	¥-	¥25,357

Information by geographic area was omitted as sales and assets in Japan accounted for more than 90% of consolidated net sales and net assets.

Overseas sales were omitted as overseas sales of the Companies for the years ended March 31, 2010 accounted for less than 10% of consolidated net sales.

(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.	¥72,780	$875,286	Industrial Gas, Chemical, Other

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

Millions of yen

	Reportable Segment								
	Industrial Gas	Electronics	Chemical	Medical	Energy	Other	Total	Eliminations and Corporate	Total
Impairment loss	-	-	-	¥1	¥30	¥540	¥571	¥40	¥611

Thousands of U.S. dollars

	Reportable Segment								
	Industrial Gas	Electronics	Chemical	Medical	Energy	Other	Total	Eliminations and Corporate	Total
Impairment loss	-	-	-	$12	$361	$6,494	$6,867	$481	$7,348

Note:Impairment loss of ¥1,990 million ($23,933 thousand) was recorded as loss on disaster on the consolidated statements of income.

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

Millions of yen

	Reportable Segment								
	Industrial Gas	Electronics	Chemical	Medical	Energy	Other	Total	Eliminations and Corporate	Total
Amortization of goodwill	¥526	¥193	¥36	¥106	¥481	¥20	¥1,362	¥-	¥1,362
Balance at end of period	¥6,307	¥958	¥75	¥1,088	¥2,394	¥1,665	¥12,487	¥-	¥12,487

Thousands of U.S. dollars

	Reportable Segment								
	Industrial Gas	Electronics	Chemical	Medical	Energy	Other	Total	Eliminations and Corporate	Total
Amortization of goodwill	$6,326	$2,321	$433	$1,275	$5,785	$240	$16,380	$-	$16,380
Balance at end of period	$75,851	$11,521	$902	$13,085	$28,791	$20,024	$150,174	$-	$150,174

5. Information on gain on negative goodwill for reported segment

The Companies newly acquired a subsidiary in the Chemical Business segment. Therefore, gain on negative goodwill of ¥104 million ($1,251 thousand) was recorded.

13. Contingent liabilities

As of March 31, 2011, the Companies were contingently liable with respect to notes receivable discounted in the amount of ¥650 million ($7,817 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 ¥675 million ($8,118 thousand).

14. Impairment loss

Impairment loss on noncurrent assets for the year ended March 31, 2011 and 2010 was as follows:

For the year 2011

Use	Type of assets	Place	Millions of yen	Thousands of U.S. dollars
Other assets	Land, others	Tamana-city Kumamoto Prefecture	¥540	$6,494
Idle assets, Others	Land, others	Mine-city Yamaguchi Prefecture	¥71	$854

For the year 2010

Use	Type of assets	Place	Millions of yen
Idle assets	Land, others	Takarazuka-city Hyogo Prefecture, etc.	¥449
Other assets	Buildings	Kanazawa-ku Yokohama-city Kanagawa Prefecture	¥14

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

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 the 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.

Goodwill was not able to generate the profit the Companies first estimated. Therefore, the Companies reduced the book value of goodwill to the recoverable amount.

15. Loss on disaster

Loss on disaster 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
Impairment loss	¥1,990	$23,933
Restoration expenses for the damaged assets	543	6,530
Loss on destruction of inventories and damaged assets	236	2,838
Fixed cost during the suspension of operations	211	2,538
Other	89	1,070
	¥3,069	$36,909

Impairment loss was as follows:

Use	Type of assets	Place	Millions of yen	Thousands of U.S. dollars
Other assets	Buildings, machinery and equipment, others	Iwaki-city Fukushima Prefecture	¥1,990	$23,933

16. Loss on business of subsidiaries and affiliates

Loss on business of subsidiaries and affiliates for the year ended March 31, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Loss on valuation of stocks of subsidiaries and affiliates	**¥-**	¥102	**$-**
Provision of allowance for doubtful accounts, others	-	317	-
	¥-	¥419	**$-**

17. Comprehensive income for the fiscal year ended March 31, 2010 was as follows:

	Millions of yen
Comprehensive income attributable to owners of the parent	¥15,936
Comprehensive income attributable to minority interests	1,277
Total comprehensive income	¥17,213

18. Other comprehensive income for the fiscal year ended March 31, 2010 was as follows:

	Millions of yen
Valuation difference on available for sale securities	¥1,966
Deffered gains or losses on hedges	2
Foreign currency translation adjustments	6
Share of other comprehensive income of associates accounted for using equity method	93
Total other comprehensive income	¥2,067

19. Finance leases

Capitalized fixed assets under finance lease arrangements as lessee for the year ended March 31, 2011 comprised principally production facilities used in the Industrial Business segment.

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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
(1) Future minimum lease payments, including financing charges:			
Due within one year	**¥5,230**	¥5,707	**$62,898**
Due after one year	**16,731**	22,155	**201,215**
	¥21,961	¥27,862	**$264,113**

Allowance for impairment loss on leased property of ¥253 million ($3,043 thousand) as of March 31, 2011 was not included in obligations under finance leases.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
(2) Original lease obligation, payments made, accumulated impairment loss and remaining balance:			
Original lease obligation	**¥42,280**	¥46,639	**$508,479**
Payments made	**25,105**	23,965	**301,924**
Accumulated impairment loss	**272**	289	**3,271**
Remaining balance	**¥16,903**	¥22,385	**$203,284**
(3) Lease payments for the period	**¥5,419**	¥6,039	**$65,171**

If the above finance leases had been capitalized, depreciation of ¥4,639 million ($55,791 thousand), reversal of allowance for impairment loss on leased property of ¥50 million ($601 thousand), interest of ¥764 million ($9,188 thousand) and impairment loss of ¥41 million ($493 thousand) would have been recorded for the year ended March 31, 2011.

20. Operating leases

Obligations under non-cancelable operating leases as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Due within one year	**¥218**	¥312	**$2,622**
Due after one year	**1,247**	1,392	**14,997**
	¥1,465	¥1,704	**$17,619**

21. 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, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Projected benefit obligation	**¥30,189**	¥29,721	**$363,067**
Prepaid pension costs	**2,119**	2,505	**25,484**
Unrecognized prior service costs	**2,254**	2,646	**27,108**
Unrecognized actuarial differences	**(7,939)**	(8,993)	**(95,478)**
Less fair value of pension assets	**(17,908)**	(17,708)	**(215,370)**
Liability for severance and pension benefits	**¥8,715**	¥8,171	**$104,811**

Included in the consolidated statements of income for the years ended March 31, 2011 and 2010 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Service costs - benefits earned during the year	**¥1,633**	¥1,529	**$19,639**
Interest costs on projected benefit obligation	**509**	580	**6,121**
Expected return on plan assets	**(237)**	(363)	**(2,850)**
Amortization of actuarial differences	**1,444**	1,396	**17,366**
Amortization of prior service costs	**(392)**	(391)	**(4,714)**
Severance and retirement benefit expenses	**¥2,957**	¥2,751	**$35,562**

The discount rate and the rate of expected return on plan assets used by the Companies were approximately 2.0% (2.0% in 2010) and mainly 1.5% (2.5% in 2010), 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 2010). Prior service cost was recognized in the income statement using the straight-line method over 12 years (12 years in 2010).

22. Stock options

(1) Expenses recorded in the year ended March 31, 2011 were ¥67 million ($806 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	Nihonkaisui Co., Ltd.
Date of resolution	September 28, 2007
Persons granted	5 directors and 5 employees
Number of options granted	408,991 shares of common stock
Date of grant	September 29, 2007
Vesting conditions	-
Eligible employment period	-
Exercise period	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.	AIR WATER Inc.	Nihonkaisui Co., Ltd.
Date of resolution	August 8, 2007	July 30, 2008	August 12, 2009	August 13, 2010	September 28, 2007
Before vesting options (number of shares)					
March 31, 2010	53,300	63,000	80,100	-	-
Granted	-	-	-	88,700	-
Forfeited	-	-	-	-	-
Vested	7,500	8,900	2,600	-	-
March 31, 2011	45,800	54,100	77,500	88,700	-
After vesting options (number of shares)					
March 31, 2010	-	-	-	-	348,991
Vested	7,500	8,900	2,600	-	-
Exercised	7,500	8,900	2,600	-	-
Forfeited	-	-	-	-	81,800
March 31, 2011	-	-	-	-	267,191

The following table summarize price per shares

Company name	AIR WATER Inc.	AIR WATER Inc.	AIR WATER Inc.	AIR WATER Inc.	Nihonkaisui Co., Ltd.
Date of resolution	August 8, 2007	July 30, 2008	August 12, 2009	August 13, 2010	September 28, 2007
Exercise price (yen)	1	1	1	1	540
Average stock price at exercise(yen)	1,056	1,056	975	-	-
Fair value price at grant date (yen)	1,001	1,104	868	746	-

23. 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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Payments of short-term loans receivable	**¥3,075**	¥-	**$36,981**
Payments of long-term loans receivable	**1,700**	10,500	**20,445**
Interest income	**206**	181	**2,477**

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
	2011	2010	**2011**
Short-term loans receivable	**¥1,462**	¥-	**$17,583**
Long-term loans receivable	**10,167**	9,625	**122,273**

24. Financial instruments

Financial instruments for the years ended March 31, 2011 and 2010 were as follows:

(Additional information)
"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and its "Implemenation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued on March 10, 2008) were applied for the year ended March 31, 2010.

(1) Qualitative information on financial instruments

①Policies for using financial instruments
For the years 2011 and 2010
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.

②Financial instruments, associated risks and the risk management system
For the years 2011 and 2010
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.

③Supplemental information on the fair value of financial instruments
For the years 2011 and 2010
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 2011
Fair value, the carrying value reported in the balance sheets and any difference as of March 31, 2010 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	¥18,659	¥18,659	¥-	$224,402	$224,402	$-
(2) Notes and accounts receivable — trade	99,292	99,292	-	1,194,131	1,194,131	-
(3) Short-term loans receivable	6,006	6,006	-	72,231	72,231	-
(4) Investment securities						
Other securities	18,567	18,567	-	223,295	223,295	-
(5) Long-term loans receivable (※2)	11,585	-	-	139,326	-	-
Allowance for doubtful accounts	(467)	-	-	(5,616)	-	-
	11,118	11,308	190	133,710	135,995	2,285
(6) Notes and accounts payable — trade	(64,073)	(64,073)	-	(770,571)	(770,571)	-
(7) Short-term loans payable	(24,277)	(24,277)	-	(291,966)	(291,966)	-
(8) Current portion of long-term loans payable	(10,995)	(10,995)	-	(132,231)	(132,231)	-
(9) Current portion of lease obligations	(1,953)	(1,953)	-	(23,488)	(23,488)	-
(10) Current portion of bonds	(46)	(46)	-	(553)	(553)	-
(11) Bonds with subscription rights to shares	(4,000)	(4,000)	-	(48,106)	(48,106)	-
(12) Bonds	(10,133)	(10,120)	13	(121,864)	(121,708)	156
(13) Long-term loans payable	(54,840)	(55,785)	(945)	(659,531)	(670,896)	(11,365)
(14) Lease obligations	(16,074)	(16,168)	(94)	(193,313)	(194,444)	(1,131)
(15) Derivative transactions (※3)	(414)	(414)	-	(4,979)	(4,979)	-

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. Unlisted shares of ¥18,421 million（$221,539 thousand）are not included in “(4) Investment 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

	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	¥18,659	¥-	¥-	¥-	$224,402	$-	$-	$-
Notes and accounts receivable — trade	99,292	-	-	-	1,194,131	-	-	-
Investment securities								
Other securities with maturity dates Bonds	-	70	-	-	-	842	-	-
Long-term loans receivable	-	11,269	277	39	-	135,526	3,331	469
Total	¥117,951	¥11,339	¥277	¥39	$1,418,533	$136,368	$3,331	$469

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

(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
Total	¥1,953	¥10,581	¥17,287	¥8,054	¥20,637	¥24,488

(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	$-	$457	$457	$457	$120,493	$-
Long-term loans payable	-	104,811	186,771	80,553	109,296	178,100
Lease obligations	23,488	21,984	20,673	15,851	18,401	116,404
Total	$23,488	$127,252	$207,901	$96,861	$248,190	$294,504

(For the year 2010)

Fair value and the carrying value reported in the balance sheets and any difference as of March 31, 2010 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	¥22,303	¥22,303	¥-
(2) Notes and accounts receivable — trade	91,485	91,485	-
(3) Short-term loans receivable	6,069	6,069	-
(4) Investment securities			
Other securities	19,296	19,296	-
(5) Long-term loans receivable (※2)	11,153	-	-
Allowance for doubtful accounts	(560)	-	-
	10,593	10,751	158
(6) Notes and accounts payable — trade	(62,415)	(62,415)	-
(7) Short-term loans payable	(28,656)	(28,656)	-
(8) Current portion of long-term loans payable	(16,687)	(16,687)	-
(9) Current portion of lease obligations	(878)	(878)	-
(10) Bonds with subscription rights to shares	(6,000)	(7,055)	(1,055)
(11) Long-term loans payable	(56,900)	(57,771)	(871)
(12) Lease obligations	(5,543)	(5,660)	(117)
(13) Derivatives transactions (※3)	(340)	(340)	-

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 and (9) Current portion of lease obligations

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

(10) Bonds with subscription rights to shares

Bonds with subscription rights to shares are valued at the prices quoted by financial institutions.

(11) 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.

(12) 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.

(13) Derivative transactions

Hedge accounting was applied to derivative transactions. The fair value of derivative 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. Unlisted shares of ¥16,957 million are not included in “(4) Investment 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

	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
				Millions of yen
Cash and deposits	¥22,303	¥-	¥-	¥-
Notes and accounts receivable — trade	91,485	-	-	-
Investment securities				
Other securities with maturity dates Bonds	-	70	-	-
Long-term loans receivable	-	10,737	374	42
Total	¥113,788	¥10,807	¥374	¥42

Note 4. The redemption schedule for bonds with subscription rights to shares, long-term loans payable and lease obligations

	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
						(Millions of yen)
Bonds with subscription rights to shares	¥-	¥6,000	¥-	¥-	¥-	¥-
Long-term loans payable	-	9,826	7,391	14,541	5,875	19,267
Lease obligations	878	898	902	784	375	2,584
Total	¥878	¥16,724	¥8,293	¥15,325	¥6,250	¥21,851

25. Subsequent events

On May 31, 2011, the Company and some consolidated subsidiaries contributed certain available-for-sale securities to the employee retirement benefit trust for the Company's non-contributory funded benefit pension plans in accordance with the approval of the Company's Board of Directors held on May 13, 2011.

The Company and some consolidated subsidiaries, as a result, will recognize a gain of ¥2,743 million ($32,989 thousand) for the year ended March 31, 2012.

To the Board of Directors of AIR WATER INC.:

We have audited the accompanying consolidated balance sheets of AIR WATER INC. and consolidated subsidiaries as of March 31, 2011 and 2010, the related consolidated statements of income and comprehensive income for the year ended March 31, 2011, statements of income for the year ended March 2010, and statements of changes in net assets and cash flows for each of the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIR WATER INC. and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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

Osaka, Japan
June 29, 2011

AIR WATER INC.