AIR WATER ANNUAL REPORT 2010

Year Ended March 31, 2010

AIR WATER INC.

CHALLENGE FOR THE NEXT STAGE

ANNUAL REPORT 2010

Year Ended March 31, 2010

Industrial Gas Solutions. Innovative Business Growth.

We have been in business for over 80 years. Beginning with Industrial and Medical Gases, we have grown our business to include Electronics, Coal Chemicals, Seawater, Energy, Food Products and Logistics, and we have come to play a role as indispensable to society as the elements that make up our name: 'air' and 'water'. This business growth has been the result of a limitless passion for the earth as well as an overriding desire to be an extraordinary company for it. And in order that the business we generate continues to be environmentally high-minded and that we remain as a company essential to people and society, we will daily endeavor to maintain a freshness befitting to our name: Air Water.

Management Philosophy

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

CONTENTS

Forward-looking Statements (Business Risk Factors, etc.)

The forward-looking statements in this Annual Report regarding estimates of business performance and predictions of future developments reflect Management's judgments based on currently available information, but also involve potential risks and uncertainties. Actual business performance could be significantly different from the projections made herein due to changes in various factors. The primary potential risk factors are summarized below.

- Significant changes in demand in East Asia, an important market for our major customers
- Progress in passing on to the customer increased costs resulting from higher LPG and kerosene contract prices and rising crude oil prices
- Increased transport expenses, including the costs of light oil, fuel oil, ocean freight, and air freight due to rising crude oil prices
- Increased raw materials costs for our frozen food business
- Decreased sales or reduced profits for our medical gases and medical services resulting from revision of national insurance drug and medical examination reimbursement prices
- Risks arising from a production problem, product defects, accidents, etc.
- Risks arising from the failure of merger and acquisition activities or other investments to perform as anticipated
- Risks arising from the failure to implement adequate measures such as business expansion and cost reductions in response to competition
- Increased cost of compliance as a result of revised or newly implemented environmental laws and regulations
- Risks due to natural disasters and other potential risks

The financial statement information contained in this Annual Report is based on the accounting term for the year ended March 31, 2010, and for previous terms as indicated. All other content is based on information available on August 31, 2010, when the editing of the Annual Report was completed.

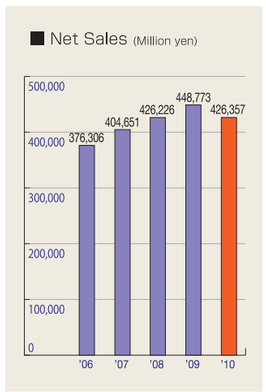
Consolidated Financial Highlights

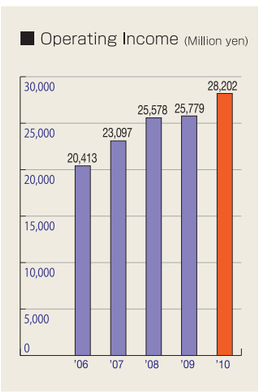
AIR WATER INC. and Consolidated Subsidiaries. Years ended March 31

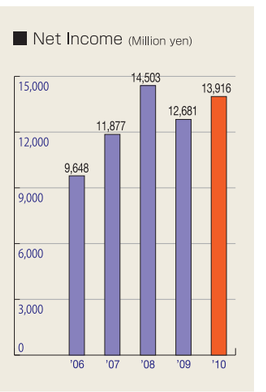
					Million of yen	Thousand of U.S. dollars (Note 1)	Increase (Decrease)
	2010	2009	2008	2007	2006	**2010**	**2010/2009**
Net sales	**¥426,357**	¥448,773	¥426,226	¥404,651	¥376,306	**$4,582,513**	**(5.0) %**
Cost of sales	**320,758**	344,317	324,910	307,557	284,517	**3,447,528**	**(6.8)**
Selling, general and administrative expenses	**77,397**	78,677	75,738	73,997	71,376	**831,868**	**(1.6)**
Operating income	**28,202**	25,779	25,578	23,097	20,413	**303,117**	**9.4**
Net income	**13,916**	12,681	14,503	11,877	9,648	**149,570**	**9.7**
Total assets	**392,759**	385,563	353,399	329,228	306,366	**4,221,399**	**1.9**
Total shareholders' equity	**-**	-	-	-	90,894	**-**	**-**
Total net assets	**163,950**	143,230	137,992	118,244	-	**1,762,146**	**14.5**
Cash flows from operating activities	**44,593**	27,884	21,664	30,648	23,511	**479,288**	**59.9**
Cash flows from investing activities	**(25,820)**	(39,999)	(36,033)	(17,213)	(21,903)	**(277,515)**	**-**
Cash flows from financing activities	**(20,615)**	22,784	9,801	(9,615)	656	**(221,571)**	**-**
Cash and cash equivalents at end of year	**21,529**	23,185	12,524	16,846	12,876	**231,395**	**(7.1)**

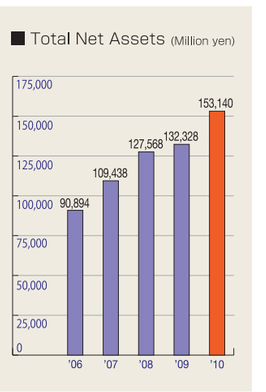
PER SHARE OF COMMON STOCK					Yen	U.S. dollars (Note 1)	
Net income - basic	**¥73.64**	¥68.56	¥79.29	¥72.59	¥61.93	**$0.79**	**7.4**
Net income - diluted	**70.03**	68.49	78.63	64.98	54.17	**0.75**	**2.2**
Cash dividends applicable to the year	**22.00**	22.00	22.00	20.00	17.00	**0.24**	**-**
Shareholders' equity	**-**	-	-	-	559.94	**-**	**-**
Net assets	**789.89**	715.60	689.41	641.95	-	**8.49**	**10.4**

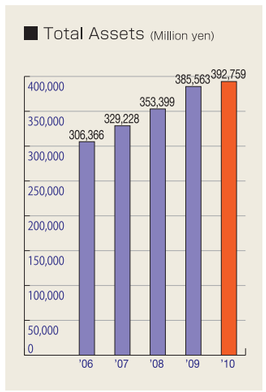
Notes 1. Translation into U.S. dollars has been made solely for the reader's convenience at the rate of ¥93.04 = U.S.$1.00, the rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2010.
2. Effective April 1, 2006, the Companies adopted the new accounting standard for presentation of net assets in the balance sheet (ASBJ Statement No. 5, issued on December 9, 2005) and the guidance for the new accounting standard for presentation of net assets in the balance sheet (ASBJ Guidance No. 8, issued on December 9, 2005).

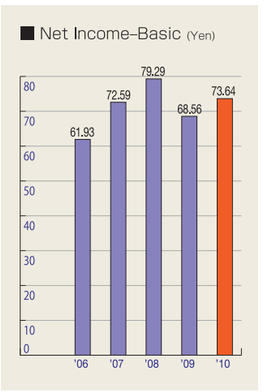


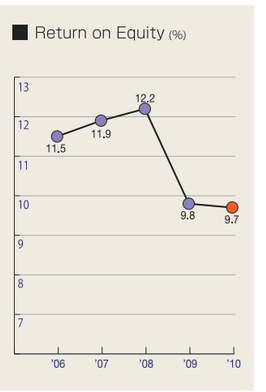


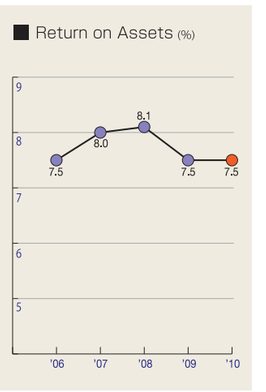












Setting our sights on the next ten years – Opening up a new way forward for Air Water.

Dear Shareholders

Reflecting on FY2009

FY2009 presented the Air Water Group with a continuation of the severe business environment encountered during the previous fiscal year. While Japan's economy was gradually moving towards recovery from the latter half of FY2009, a variety of factors, such as a significant shrink in capital investment, saw production stagnate in much of Japan's manufacturing sector. In the midst of this situation, the Air Water Group actively pursued several policies geared towards "business restructuring" and "boosting earning power", which represented fundamental strategies of the Group's "Renovation 330" medium-term business plan (FY2007 – 2009), which was now in its final year. These policies resulted in consolidated net sales of 426.4 billion yen for the fiscal year, surpassing our initial prediction of 425.0 billion yen. Moreover, with regard to ordinary income, not only earnings improvements in Medical, Energy and other consumer-oriented business, but also growth amongst Air Water Group companies characterized by what is called the "Order Rodentia Style" (please refer to pages 4 and 5 of this report) were responsible for ordinary income of 29.0 billion yen, an increase for the seventh straight year.

Achieving these sorts of results despite the fact that every other company involved in manufacturing in Japan was being constrained by difficult circumstances is all thanks to our continued implementation of the Air Water Group's management policy, specifically our "All-Weather Management System" and "Order Rodentia Style of Business".

Outlook for FY2010

It appears that economic recovery will continue apace in FY2010, driven by solid production activity in export-related industries. However, the expectation remains that the business environment will continue to be unpredictable. Despite rapid recovery in steel, chemical, automobile, electrical appliances and other manufacturing fields in Japan, factors such as soaring costs due to the EU financial crisis and capital hoarding and a rise in the yen mean that there are still more than a few causes for concern.

In the midst of this, the Air Water Group has set for itself a "Vision for 1 trillion yen company" to be achieved over the next ten years, and in March of this year we announced the "NEXT-2020 Ver.1", a new Mid-term Business Plan (FY2010-2012), which emphasizes "Foundation for further growth" over these first three years (for details on our new Mid-term Business Plan, please refer to pages 4 through 9 of this report). FY2010 represents the first year of this plan, and in addition to maintaining and pushing the growth strategies that we have employed thus far, we will work to further boost our earning power in order to achieve expected group consolidated results of 460.0 billion yen in net sales, 29.5 billion yen in operating income, 30.0 billion yen in ordinary income and 15.0 billion yen in net income.

In FY2010, for our existing business, we are promoting a more community-based approach in domestic business in order to further expand our business and thereby consolidate our revenue base. Since April we have been undertaking organizational restructuring aimed at strengthening our regional business, and towards this end we established a new Regional Business Company System. It is hoped that this restructuring will allow each of the Regional Business Companies to function at their full capacity, further increasing their regional presence and allowing them to grow to become the top companies in their regions. Also, we are continuing to flexibly expand our business by spinning off our business development divisions into independent companies in order to further strengthen our "All-Weather Management System" and "Order Rodentia Style of Business".

With regard to new business, we are pushing new initiatives in a variety of business fields, such as our new Agricultural Business (Air Water Farm) which commenced full-scale operation during the current year, in order to continue to challenge ourselves in new business fields where greater needs are anticipated.

Furthermore, from FY2010 we want to move into high gear in terms of overseas business expansion. When one considers the movement taking place in the world economy, one sees the necessity of overseas expansion to the future development of the Air Water Group. A global perspective is also essential to all of Air Water' s business fields, with some of our group companies already taking proactive steps to expand overseas. In FY2009, an Overseas Office was established to help back up the overseas expansion of Air Water Group companies, and from FY2010 onward, we will work to further expand our existing overseas business as well as develop infrastructure which will allow our Industrial Gas Business and other core business to expand overseas, particularly in China and East Asia.

To Shareholders

Finally, we expect that dividends to shareholders for FY2010 will be the same as FY2009: 11 yen per share for interim dividends and year-end dividends, that is, 22 yen for the year. Returning profits to shareholders is the overriding business priority of Air Water; our basic policy has been to provide a dividend ratio equal to "30% of consolidated net income". It is our intention to maintain this policy. We will continue to work earnestly according to our new Mid-term Business Plan to achieve steady growth for FY2010 and beyond, so that shareholders can be assured of stable dividends. These are rapidly changing times, and I believe that it is precisely in times such as these that our "All-Weather Management System" and "Order Rodentia Style of Business" will give us the strength we need. I would therefore like to ask for the continued understanding and support of all Air Water Group shareholders.

Hiroshi Aoki
Chairman of the Board, President,
Chief Executive Officer
and Chief Operating Officer
September 2010

H. Aoki

Special Column

– Building a new Air Water over the next ten years –

New Medium-Term Business Plan "NEXT-2020 Ver. 1" and "Vision for 1 Trillion Yen Company"

The Air Water Group has achieved dramatic growth in the ten years since its launch and will push to achieve even more in the next ten years, aiming to achieve a new goal of becoming a "one trillion yen company". What sort of growth has Air Water undergone thus far? And how will it grow in the coming years? Chairman of the Board, President and Chief Executive Officer, Hiroshi Aoki talks about all of this in light of Air Water's new medium-term business plan that has gone into effect from this fiscal year.

Question 1

Q1

How has the Air Water Group gone about achieving its growth amidst the difficult business environment that has prevailed in the decade since its launch in 2000?

Trajectory of Growth Thus Far

Answer

The establishment of distinctive business models – the "All-Weather Management System" and "Order Rodentia Style of Business" – lies behind our growth.

Since our founding, we have sought to put in place an "All-Weather Management System" to keep us from being at the mercy of fluctuations in the business environment; we have worked to transform our corporate structure as well as diversify and boost the earning power of our business through such approaches as actively promoting M&A, strengthening regional business, expanding steel on-site business and promoting growth as a "technology-driven company".

Furthermore, as a result of promoting an "All-Weather Management System" over the past ten years, we have steadily developed a new business portfolio of small-yet-highly-profitable business: a strategy that we have come to call the "Order Rodentia Style of Business", which has produced tremendous results.

The past three years have seen the appearance of an abrupt recession which has impacted the industrial gas and chemical fields; however, thanks to business restructuring in the medical and energy fields as well as to revenue contributions from a diverse group of business sectors, including magnesia, salt, aerosol and advanced medical facilities construction at hospitals, FY2009 became our seventh straight year of earnings growth.

Also, regardless of the fact that the past ten years have presented Japan with extremely trying economic conditions, with a roughly 1% rate of growth for GDP, the Air Water Group has experienced dramatic growth, with net sales improving 230% and ordinary income improving 350%.

Question 2

Q2

Can you tell us more about the origin of the name "Order Rodentia Style of Business"?

Answer

The collection of medium-sized companies that comprise the Air Water Group are like mice in that they are small, agile and flexible.

At present, the Air Water Group's core business is primarily comprised of a variety of business sectors, including companies, regional business companies, and independent business companies as well as business development sectors. All of these are medium-sized in terms of their operating scale; however, agility and flexibility are distinct features of medium-sized companies, just like they are with rodents. Hence, we have come to call the Air Water Group's style of business the "Order Rodentia Style".

Rodents are said to be the oldest mammals, going all the way back to the time of the dinosaurs; they have tremendous environmental adaptability, predatory capability and fecundity. Rodents can be said to be the model for our medium-sized companies as they seek to develop.

In other words, the "Order Rodentia Style of Business" is a strategy for achieving sustainable growth as a corporate group by continually cultivating and producing medium-sized companies that – like rodents – are agile enough to adapt to environmental changes and that have the drive to flexibly develop new fields and new business; above all else, this will be the most important business strategy for growing Air Water over the next ten years.

Structure of "Order Rodentia Style of Business"

Companies	
Industrial	On-site
Electronics	Engineering
Chemical	Medical
Hokkaido	

New Business Development	
ECOROCA Business	AW-Water Business
Agricultural Business (Air Water Farm)	

Regional Business Companies	
Hokkaido Air Water	Tohoku Air Water
Kanto Air Water	Tokyo Air Water
Shinano Air Water	Niigata Air Water
Chubu Air Water	Kinki Air Water
Kishu Air Water	Chugoku Air Water
Shikoku Air Water	Kyushu Air Water

Independent Business Companies	
Tateho Chemical Industries Co., Ltd.	Nihonkaisui Co., Ltd.
Saveur SS Inc. / Sagami Ham	Air Water Specialized Transportation Inc
Air Water Sol Inc.	Air Water Mach Inc.
Air Water Safety Service Inc.	Air Water NV Inc.
Air Water Bellpearl	Inoueki Co., Ltd. / Printech Corporation
Daiho Sangyo	Daio Co., Ltd.

Question 3

Q3

What is your specific operational vision for the Air Water Group as you grow over the next ten years?

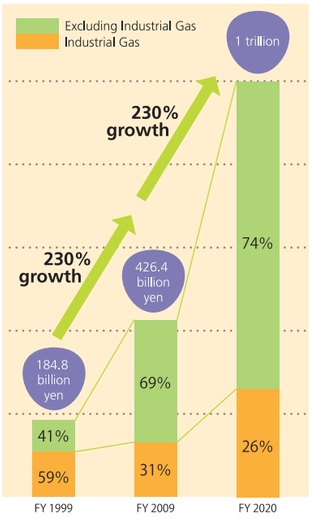
Answer

Our goal is to use the further promotion of the "Order Rodentia Style of Business" to become a "1 trillion yen company in net sales" by FY2020.

As we consider where we are and look towards where we will be in ten years, our vision is to become a "1 trillion yen company in net sales by FY2020" in order that we achieve even greater business development.

Net sales for the Air Water Group in FY2009 were 426.4 billion yen, and low growth is projected for Japan's economy over the next decade; however, when we reflect on what we have achieved over the past decade, we realize that this is in no way an impossible goal. By keeping our business objectives set high, undertaking further personal transformations suited to the situation, building up an appropriate business portfolio and continuing to push the "Order Rodentia Style of Business", we will be fully capable of becoming a 1 trillion yen company in ten years' time even if one assumes zero growth in the market.

Aiming to be a "One Trillion Yen Company" in net sales by FY2020



New Medium-Term Business Plan: "NEXT-2020 Ver.1"

●Business Targets

(hundred million yen)

	FY2012	Growth rate (compared with FY2009)
Net Sales	5,000	117.3%
Operating Income	350	124.1%
Ordinary Income	350	120.6%
Net Income	185	132.9%

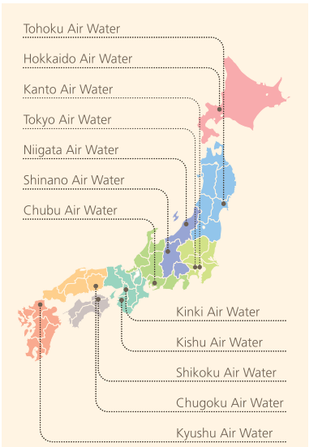
●Business Indicators

Ordinary Income Ratio	7%
ROE	10% or higher
Equity Ratio	40%
D/E Ratio	60%

●Three Fundamental Policies

1. Restructure revenue base
2. Construct new growth strategy
3. Tackle challenges facing NEXT-2020/1 trillion yen vision

Regional Business Company Restructuring



●Hokkaido

Composite entity handling Industrial, Medical and Energy Business

Enhancement of local business tailored to area characteristics

●Honshu

Integration of branch offices and sales companies in each block

Expansion of downstream business through strengthened community-based approach

Question 4

Please give us an overview of the freshly implemented, new medium-term business plan geared towards helping the Air Water Group achieve its "Vision for 1 trillion yen company".

Answer

This plan is set for three years and, operating under the theme of "foundation for further growth", is intended to give us a running start towards achieving our ten year goal.

The name of the new, three-year medium-term business plan that started in FY2010 is "NEXT-2020 Ver. 1 – Foundation for Further Growth", because it represents the first milestone in our journey towards becoming a "1 trillion yen company in net sales by FY2020".

The three basic policies of this new medium-term business plan are "restructuring the revenue base to accommodate changes in the business environment", "building a new growth strategy enabling sustainable growth" and "undertaking challenges needed for achieving NEXT-2020 / 1 trillion yen Vision".

As for numerical targets, our goal by the end of FY2012 is to be at 500 billion yen in net sales, 35 billion yen in operating income, 35 billion yen in ordinary income and 18.5 billion yen in net income.

Question 5

What will the first basic policy, "restructuring the revenue base", entail?

Answer

It will entail building a stronger profit-making structure than we have now in terms of both "business restructuring" and "cost structure restructuring".

With regard to business restructuring, the first element is "strengthening regional business", which we began in April 2010 with the launch of a new Regional Business Company system. Our branch offices and sales companies in Hokkaido as well as everywhere else in Japan were reorganized into twelve companies in nine blocks, and with the birth of regional companies which are established as manufacturers, i.e., "mini-Air Waters", we are aiming to make our community-based business stronger than ever and to expand our business/improve our earnings downstream as we aim to become the top company in each region. The second element is "improving independent business company revenues", which involves each of our independent business companies – as the prime examples of the "Order Rodentia Style of Business" – fully utilizing their own unique features, while at the same time capitalizing on increased group synergy stemming from mutual, intra-group exchange, thereby further improving earning power.

With regard to cost structure restructuring, we are working to thoroughly cut procurement costs as well as streamline logistical costs by handling distribution within the Air Water Group, using VSU to make tank truck delivery more efficient, carrying out joint shipping with other companies, etc., to rebuild the earning power lost as a result of the recession.

Question 6

What is the primary business growth strategy involved in the second basic policy, "building a new growth strategy", and what direction will it take?

Answer

It involves a globalization strategy targeting the Asian region as well as a shift towards growing business fields and a search for new business fields.

For our **Industrial Gas Business**, we are deepening our presence in the domestic market by, in addition to restructuring our regional business companies, actively engaging in regional strengthening using such approaches as enhancing VSU, filling stations and other local infrastructure, promoting acceptance of outsourcing and expanding sales of gas applications. Also, by systematically replacing aging on-site units with state-of-the-art machinery, we are seeking to further stabilize our profit structure for our On-site Business. Furthermore, in our engineering sector, we are working to strengthen our global competitiveness as a plant manufacturer.

In our **Electronics Business**, we are working with reliable partners to establish overseas business hubs, centered in China for expansion into East Asian region, which will allow us to build up our market presence as a manufacturer in the fields of specialty gases and specialty chemicals. We are also using our distinctive products to expand our business, such as commercializing our BELLFINE® electrode material for use with next-generation lithium-ion capacitors and expanding sales of highly thermostable substrate materials and adhesives for LED packaging.

For our **Chemical Business**, in the field of coal chemicals we will augment our gas refinement facilities as well as pour energy into developing new carbon material products and applications. In the field of fine chemicals, we are developing original products which will help set us apart from our competitors amidst the increasingly fierce competition brought on by Asia's strong entry into the market, and we are boosting our cost competitiveness by, among other things, augmenting our overseas production centers.

In our **Medical Business**, we are working to steadily expand business by addressing the key government policies of "improving and maintaining emergency and perinatal care" and "facilitating a move towards home care" through expanded sales of perinatal and respiratory medical equipment and our nitric oxide preparation INOflow® as well as expanding downstream business development in our Home Care Business by strengthening our presence in the field of respiratory care.

In our **Energy Business**, we are expanding the number of direct clients whom we serve in order to boost revenues, and we are also expanding sales of our hybrid hot water and heating system in order to create new demand for LP gas. Moreover, we are using the synergy between our Industrial and Medical Business, which has accompanied our regional restructuring, to augment our Life Solutions Business; thereby pouring energy into generating new business.

As for our **Other Business**, we are working to grow each segment of the strong "Order Rodentia Style of Business" independent companies in the fields of seawater, logistics, food products, aerosols, etc. with the utilization of their respective specialty fields and/or their distinctive products.

Our plan is to invest 90 billion yen over three years towards the above business growth strategies, 70 billion of which will go into capital investment and 20 billion into M&A.

Segment-specific Key Objectives

●Industrial Gas Business

Enhance the domestic network through thorough application of a downstream strategy

Boost earning power of on-site plants

●Electronics Business

Strengthen and expand base within the field of unique materials in order to promote Bulk Gas Business and balanced business development

●Chemical Business

Stabilize Coal Chemical revenues

Strengthen competitiveness and expand operations of fine chemicals

●Medical Business

Strengthen business in the growing fields of home medical and advanced medical care (operating rooms, NICU, ICU, etc.)

●Energy Business

Pursue synergy between Industrial and Medical Business in order to generate new fields of business

●Other Business

Expand business via fields of expertise and distinctive products

Segment-specific Business Targets for FY2012

(in hundred million yen)

	Net Sales	Ordinary Income
Industrial Gas Business	1,350	145
Electronics Business	530	34
Chemical Business	750	33
Medical Business	690	44
Energy Business	480	28
Other Business	1,200	66
Total	5,000	350

*With the creation of a new medium-term business plan, AWI segment divisions have been changed to what is shown in the table above.

Investment total of three years

90 billion yen

Capital investment	M&A investment
70 billion yen	20 billion yen

Question 7

What does the third basic policy, "undertaking challenges needed for achieving NEXT-2020 / 1 trillion Vision", involve specifically?

Answer

It will require business sector expansion into "growth industries", "overseas markets" as well as strengthening of the infrastructure undergirding the Air Water Group as a whole.

We do not think that our vision to become a "1 trillion yen company" in ten years' time is feasible with the business sectors that we have now. Therefore, to help drive the growth that is necessary to achieve our vision, we are making "expansion into agriculture" and "overseas expansion of Industrial Gas Business" our two main growth pillars.

These pillars are in turn rooted in "promoting a technology-driven company" and "cultivating new managers and strengthening our managerial layer", which will be our top priorities as we focus on our vision for the Air Water Group in ten years' time.

① Expansion into Agriculture

The field of agriculture is one of the few growth industries remaining in Japan, and we aim to generate new business in this field by creating our own "Air Water-style agriculture" which will utilize new technologies in food production. This "Air Water-style agriculture" is the development of "agriculture as a new industry", one which is ultimately in harmony with nature even as it uses technology to control it; it would thereby revolutionize conventional agriculture in Japan, which has always been constrained by weather and soil conditions.

For the time being, we are looking to establish our business through "sunlight-based, large-scale facility agriculture", and we have started operation of our "Air Water Farm" in Hokkaido, which is known as an area well-suited to the cultivation of agricultural products. Our first aim is to grow vegetables to foster "local production for local consumption" in Hokkaido while, for the future, we are looking at resort farming, overseas exports and other ways to expand our new buyer base, and, furthermore, seeking to increase added value through agricultural product processing.

Relying on technical cooperation with the Research and Development Institute, we will actively invest the Air Water Group's accumulated operating resources into this field, nurturing it as a crucial sector of a 1 trillion yen company that we aspire to become.

② Overseas Expansion of Industrial Gas Business

Until now, Air Water's business development has been centered on the Japanese domestic market; however, the Air Water Group's companies in various business sectors have already established offices in China and other East Asian countries and are actively developing their business overseas. From now on, we will augment and expand these overseas offices in order to strengthen our business network in East Asia.

In particular, what we regard as important in terms of "undertaking challenges needed for achieving the 1 trillion Vision" is to engage in overseas expansion in our core Industrial Gas Business. In order to carry out this expansion, I believe Air Water already has sufficient technology and capital.

For the future, we are actively pushing infrastructure building for overseas development, with China being our top priority. This push is grounded in results obtained from in-depth research and study, which have allowed us to boost our global competitiveness in terms of engineering as well as to secure reliable partners.

③ Promoting a Technology-Driven Company

We seek to develop technologies that will lead directly to new business as well as to cultivate core technologies that undergird Industrial Gas and other core business, and we are pouring energy into making this technological development process even faster.

Specifically, together with shifting the focus of research and development to cutting-edge technologies and fields, such as environment and energy, where there is expectation of future growth, we are prioritizing lifestyle-related and personal consumption-related sectors, such as medical, agricultural, food and water sectors.

"Technology" is the driving force behind all of our business growth strategies, including the aforementioned agricultural and overseas expansions, and we recognize that technology will determine whether our strategies succeed or fail. We will continue to examine new business possibilities with an eye towards establishing new core business for the future.

④ Cultivating New Managers and Strengthening our Managerial Layer

In order for our "Order Rodentia Style of Business" to truly function, each of our "Order Rodentia" leaders, as well as the managerial layer within each business field, need to have a good understanding of the essence of group management; they need the passion, drive and initiative that will enable them to create new business.

In order to increase the quality of each manager and substantively deepen our managerial layer, our new medium-term business plan boldly addresses the issue of human resources development, seeking to secure and grow the administrative layer that represents the nucleus of Air Water Group management through such approaches as ambitiously recruiting personnel and promoting inter-company personnel exchanges within the group. We believe that by continuing to focus on various ways to expand our business while at the same time cultivating the managers who are instrumental to its success, we will finally be able to realize our "Vision for 1 trillion yen company".

◆ ◆ ◆

The recently settled "NEXT-2020 Ver.1" new medium-term business plan is the Air Water Group's fourth medium-term business plan. Over the next three years, we will boost the total strength of the Air Water Group and build infrastructure which will enable further growth. And with our fifth and sixth medium-term business plans, we will increase our growth curve as we make a vigorous push to achieve our "Vision for 1 trillion yen company".

It is our hope that you will provide the Air Water Group with your continued understanding and unwavering support.

Creation of Distinctive Air Water Agricultural Business

Air Water Farm (Chitose, Hokkaido)

Implementation of Air Water-style Agriculture

- Establish production technology, know-how at produce factory
- Implement year-round produce cultivation

Establishment of Agricultural Division

Development of Air Water-style Agriculture

- Consider expansion into the Shinshu region and other areas suited to agriculture
- Take initiative in new technological development and in collaborations with other companies
- Enhance and strengthen agricultural and food product business, including collaborations with food product manufacturers
- Pursue, plan and develop high quality and high added value products

Current Overseas Expansion Centered on East Asia

Future Overseas Expansion

Expansion and enhancement of existing overseas Air Water Group business

Expansion into China of Industrial Gas Business

Expansion of sales of Air Water Group products through the utilization of East Asian offices (Inoueki Co., Ltd.)

R&D Key Focus Fields

Stable/mature industries

Shift in research focus

Growing/transforming industries
Lifestyle- and personal consumption-related fields

Field	Focus
Pioneering, Materials	Capacitor electrode materials
	Electronics materials
Environment	Gas and materials Recovery and recycling technology
Medical	Gas pharmaceutical products
Agriculture, Food Product, Water	Gas application technology for agricultural and food product fields

Human Resources Development and Utilization

1. Cultivate human resources with an entrepreneurial spirit and appoint them to key positions
2. Conduct human resources exchanges within the group and establish a rotation system
3. Establish a professional consultancy firm and establish a consultation system

Review of Fiscal Year 2009

Industry Business

Industrial Business saw a steady recovery in the volume of large-scale, on-site gas supply for blast furnaces due to a gradual increase in operations for steel from the second quarter stemming from growing demand in emerging economies such as China and a resurgence in the Japanese manufacturing sector (automobiles, electronics, etc.) as well as a return to the 100 million ton level in the supply-demand balance for crude steel production. Business geared towards the electronics industry also saw a steady recovery centered on flat-screen television- and semiconductor-related business, due to such factors as increased exports of electrical household appliances to emerging economies, particularly in Asia, and the eco-point policy effect in Japan. At the same time, however, the stagnation of public projects, capital investment and housing construction continued to prolong the difficult situation faced by local business centered on construction (electrical furnaces, construction equipment, etc.) and gas cylinders.

Chemical Business

Coal chemical products faced an increasingly harsh market, with sales of crude benzene falling as a result of a decrease in raw materials production accompanying a drop off in activity for steel during the first half of the fiscal year and a drop in prices stemming from a worsening of the petroleum product market, while a drop in electrical furnace operation accompanying the delayed recovery of construction-related business resulted in a sudden drop in demand for needle coke used in electrical furnace electrodes. Fine chemical products also saw an overall decline in demand resulting from the global economic downturn, with inventory adjustments of fine chemicals for use in agrichemicals and functional chemicals for use in electronics materials contributing to sluggish demand.

Medical Business

We have seen a steady expansion in the volume of medical gas we supply thanks to such factors as an increase in the number of hospitals to which we supply medical oxygen and a streamlining of production and shipping costs due to the use of VSU. With regard to medical equipment, there has been a steady increase in sales volume within our specialty fields of newborn and infant ventilators and cardiovascular equipment. SPD has undergone operational streamlining and, thanks to an increase in the number of hospitals placing orders for contract sterilization, has also experienced increased profitability. Furthermore, Air Water Safety Service Inc. has strengthened its partnership with Miwa Electric Medical Co., Ltd. in the field of hospital facility construction, producing a more integrated and uniform ordering system for equipment and construction, thereby expanding business and generating other positive effects which have grown our overall Medical Business upward.

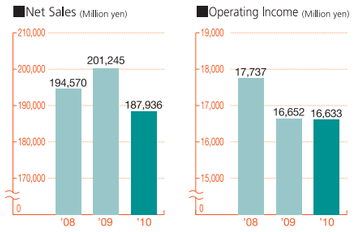
Energy Business

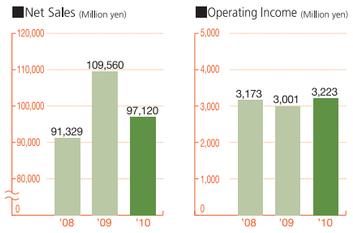
Air Water's Energy Business was affected by the operational decline of core companies, factories and others to which we supply LP gas and by declining sale prices due to falling CP; however, we were able to increase our ratio of direct sales through, among other things, the purchase of commercial rights for retail outlets and the cultivation of new customers, thereby solidifying the sales figures for the Household Retail Division and contributing to the continued strength of our Energy Business overall. In addition, we brought to market a hybrid hot water and heating system which was developed in-house as an environmentally-friendly energy product and which contributed to the cultivation of new customers and new demand for LP gas. In our Water Business, we generally pursued a product policy which differentiates us from our competitors by bringing to market our own servers which were developed in-house as well as by producing and procuring, etc. the minerals for our mineral water from within the Air Water Group.

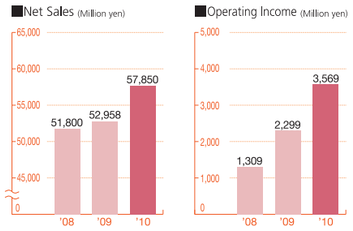
Other Business

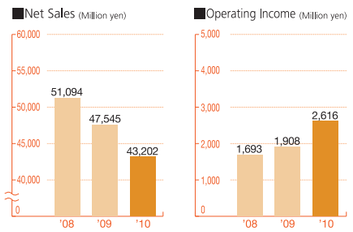
Seawater Business saw an increase in sales of magnesia for electromagnetic steel sheets due to an expansion in development of overseas power infrastructure, while Salt Manufacturing Business also experienced a favorable shift in performance due to recovering market share as well as other factors such as logistical streamlining stemming from collaboration with other Air Water Group sales offices. Food Products Business struggled with sales geared towards the restaurant industry as a result of sluggish consumer spending; however, solid movement was seen in overall performance as a result of the new consolidation of Sagami Ham and increased product strength stemming from the market introduction of sweets and other new products. In Aerosol Business, new products, such as a UV protection spray and antiperspirant, were brought to market in the field of body care products, and furthermore, various factors, such as a significant increase in demand for antimicrobial products, contributed to steady growth in the field of household products.

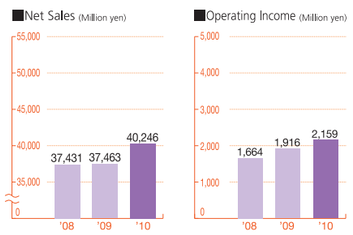
Change of Sales by Segment (Year ended March 31)











Transition to new business segment system in FY2010*

New Business Segments

Industrial Gas Business

Electronics Business

Chemical Business

Medical Business

Energy Business

Other Business

Primary Business

■Industry Company
- Air Gas Business / Specialty Gas Business
- CO_2 Gas Business
- Hydrogen Gas Business
- Plant Gas Business
- Welding Business

■On-site Company
- On-site Business
- Maintenance Business

■Engineering Company
- Engineering Business

■Electronics Company
- Electronics Business

■Air Water Bellpearl Inc.

■Inoueki Co., Ltd.

■Printec Corporation

■Chemical Company
- Coal Chemical Business
- Fine Chemical Business

■Medical Company
- Medical Gas Business
- Medical Equipment Business
- Home Medical Business
- SPD/Sterilization Services Business
- Nursing Care Business

■Air Water Safety Service Inc.

■Hokkaido Company (Energy Division)
- LP Gas Business
- Natural Gas Business
- Life Solution Business

■Seawater Business

■Food Products Business

■Logistics Business

■Aerosol Business

■NV Business

■Mach Business

■ECOROCA Business

■Water Business, etc.

*With the creation of our new medium-term business plan, we have changed over to six business segments which include Electronics Business.

Industrial Gas Business

We handle at one go everything from gas production technology, like cryogenic air separation, PSA and membrane separation technology, to container and storage technology, like CE, portable containers and gas cylinders, as well as the means of transportation, like tank trucks. And as a total gas systems company, we supply a variety of industrial gases for a wide range of fields, particularly manufacturing (steel, electronics, chemical, etc.).

Prospects for Fiscal Year 2010

Against a backdrop of domestic economic recovery led by the export industry, demand for industrial gas, especially amongst major customers, appears to be steadily recovering, and solid growth is expected to continue throughout fiscal year 2010. In particular, the steel industry is anticipating a continued high level of production, meaning that large-scale, on-site gas supply for blast furnaces is expected to see steady growth. In addition, other industries, like the special glass and chemical industries, are expected to see a steady rise in demand for industrial gas.

In light of the market environment, Air Water's Industrial Gas Business is undertaking proactive initiatives to actively invest to achieve further development of the domestic market and to aim for full-scale expansion into the overseas market.

Business Segment Initiatives

Industry Company

In addition to achieving our goal of expanding the number of long-term, stable customers we supply by strengthening our total gas system service (combining gas generators with a liquefied gas supply backup), we are working to expand sales of our "CO-JET™" oxygen burner system for electric furnaces as well as develop and market new gas applications in conjunction with the Research and Development Institute.

Also, we will aim to secure a greater share of local markets by pushing for greater operational strength and community-based business through the new Regional Business Company system (i.e., twelve companies distributed amongst nine blocks nationwide) which went into effect in April 2010 as well as through further infrastructure enhancement stemming from the introduction of the "VSU No. 9".

On-site Company

In addition to the May 2010 start for commercial operation of the large-scale on-site Wakayama Plant No. 13 Unit, plant replacement work at the Kobe and Wanishi plants is scheduled to finish within the fiscal year with the aim of significantly increasing revenues thanks to on-site upgrades to the latest energy saving plant technology.

Furthermore, streamlining of the xenon gas supply system is being promoted in order to meet the expected increase in demand from electronics, medical, space and other business fields.

Engineering Company

In our Industrial Gas Business, we are aiming to finish construction of the Kobe Plant No. 4 Unit, Wanishi Plant No. 5 Unit and VSU No. 9 as well as to boost the competitiveness of our existing gas application equipment. In our Energy Business we will take steps, such as securing certification for our new LNG container products, in order to win an even greater share of the LNG equipment and facilities market.

And in addition to further cultivating our proprietary technologies, we are strengthening the application of engineering geared towards overseas business development in order to establish our reputation as an air separation systems manufacturer.

Business Profiles

Industry Company

Air Gas Business / Specialty Gas Business

We provide on-site support for every sort of manufacturing in the form of air separation gases, i.e., oxygen, nitrogen and argon separated from air. Our integrated manufacturing and sales system produces these gases using our own proprietary gas processes, such as the "V-series", "VSU" and "large-scale on-site" processes, and uses Air Water infrastructure to transport gas nationwide, allowing us to safely and stably supply gas to every part of Japan.

In addition, we handle specialty gas, such as helium and rare gases.

Liquefied gas tank truck

CO_2 Gas Business

Air Water Group company Air Water Carbonic Inc. is a company specialized in CO_2 Business, manufacturing and selling liquefied CO_2, dry ice and related equipment. In particular, the company has an overwhelming share of the dry ice market in Japan, approaching 50%, and its dry ice is used by a wide spectrum of customers nationwide, including major retailers and couriers.

Hydrogen Gas Business

We supply hydrogen gas, which is attracting attention as a clean energy, from our manufacturing bases nationwide to a wide array of industries, such as the electronics industry. In addition, we are able to meet our customers' need for a long-term, stable supply of gas thanks to the "VH" (Hydrogen Production Using Thermo-Neutral Reforming) system developed by Air Water which enables customers to be supplied on-site.

"VH" (Hydrogen Production Using Thermo-Neutral Reforming) system

●Types of Industrial Gas and Their Uses

Gas Type	Uses
Oxygen	Steel, chemicals, glass, shipbuilding, automobiles, paper and pulp, nonferrous metals, medical
Nitrogen	Electronics, chemicals, food
Argon	Electronics, shipbuilding, automobiles
CO_2	Shipbuilding, automobiles, food
Hydrogen	Electronics, chemicals, shipbuilding, automobiles, space industry
Helium	Electronics, space industry, medical
Specialty Gas	Electronics, space industry

*Electronics = semiconductors, liquid crystal, PDP, solar cells, silicon wafers, compound semiconductors, electrical products, etc.

Plant-related Business

We develop our business around the "V-series" of small and medium-scale air separation systems which provides a small-scale, on-site supply of highly pure nitrogen and oxygen, which are essential to the electronics, glass and other industries. Furthermore, we offer a variety of gas process solutions, including PSA-type oxygen generators and separation membrane-type nitrogen generators.

In addition, as of fiscal year 2009, our high-efficiency, compact "VSU" liquid nitrogen/oxygen co-production plant, which represents Air Water's distinctive business model and which provides a stable, local gas supply, reduced transportation costs, reduced CO_2 emissions and other benefits, is in operation at eight locations nationwide – Niigata, Kumamoto, Fukui, Aichi, Fukushima, Kanagawa, Ehime and Shizuoka.

"V1" high-purity nitrogen generator

Welding Business

We manufacture and sell welding and cutting gases as well as related equipment, all of which are developed by Air Water, including "ELNACKS" argon welding gas, which boasts the largest share of the Japanese market for shielding gas for steel plate welding, and the "Aqua Gas Generator" oxyhydrogen gas generator for cutting. Furthermore, in May 2010 we began sales of "AW Shielding Gas" for stainless steel and aluminum welding, utilizing a similar argon-based welding gas as "ELNACKS".

Some recent examples of the "Aqua Gas Generator" being put to use for cutting high-strength steel include the Tokyo Sky Tree and Tokyo Port Seaside Bridge (both currently under construction). Compared with conventional gas cutting methods, the "Aqua Gas Generator" not only provides an excellent cutting plane but also saves energy, and it is expected that there will be an even greater demand for it in the future as high-rise buildings, bridges and other construction projects increasingly make use of high-strength steel.

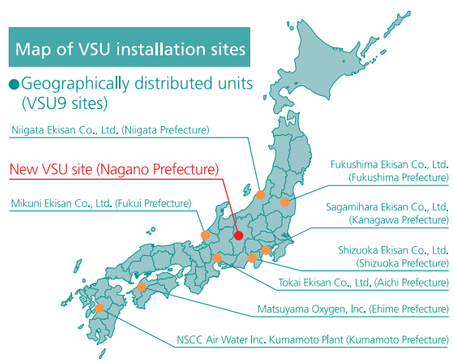
Example of manufacturing using aqua gas

2010: Birth of the VSU No. 9 Unit in Matsumoto City, Nagano Prefecture

Construction of the "Shinano Ekisan Compact Liquid Nitrogen/Oxygen Co-production Unit (VSU No. 9)" began in April 2010 in a location adjacent to the Research and Development Institute in Matsumoto City, Nagano Prefecture, and it is scheduled to be completed within the fiscal year. With the start of this new VSU, we seek to promote greater local demand in the Koshinetsu area, centering on Nagano Prefecture, as well as to further reduce transport costs and ensure a more stable supply by replacing the need for shipments from units in adjacent regions, such as the on-site unit in Utsunomiya.

Map of VSU installation sites

●Geographically distributed units (VSU9 sites)



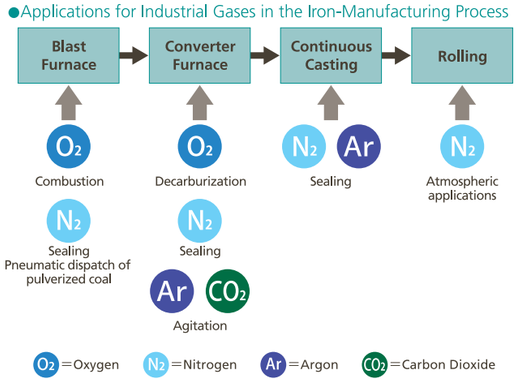
On-site Company

On-site Business

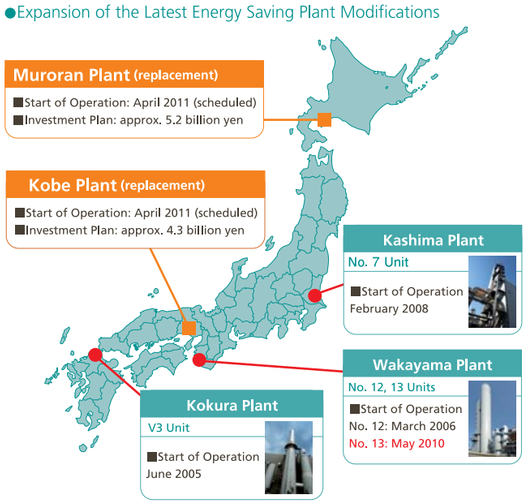
We build large-scale gas plants inside or near the factories of steelmakers, chemical manufacturers, electronics manufacturers and other customers, who regularly require large amounts of industrial gas, and supply piping for various air-separated gases and hydrogen gas. Currently, we have plants being operated by On-site Company at six locations in Wanishi, Kashima, Utsunomiya, Wakayama, Kobe and Kokura. We rely on the operational know-how that we have cultivated over our long history in plant operation to efficiently provide customers with a steady, long-term supply of gas tailored to their operational needs. Furthermore, we are daily incorporating operational innovations, such as the latest in energy saving plant modifications which will promote significant reductions in energy consumption.

In addition, at our Kashima Plant, which is one of Japan's leading production centers for xenon, we are stepping up our production in response to increasing demand in growth industries geared towards high quality electronics materials needed for advanced etching processing, engine propellant for planetary probe rockets, anesthetic application and xenon light therapy in the medical field and other needs.

●Applications for Industrial Gases in the Iron-Manufacturing Process



●Expansion of the Latest Energy Saving Plant Modifications



Maintenance Business (Air Water Maintenance Inc.)

Air Water Maintenance Inc. is an AW Group company that specializes in gas process maintenance, providing comprehensive management to the entire Air Water Group to ensure the safety and stability of our plant supply.

With a solid core of technology and expertise in the field of industrial gas plant maintenance, Air Water Maintenance puts to use the advanced gas process technological capacity and diverse know-how they have cultivated over many years to develop business focused on everything from maintenance of plant-related equipment, like compressors and turbines, to applied technologies for operation and maintenance management of semiconductor and LCD peripheral equipment, such as PFC recovery and refinement equipment and CMP slurry supply systems.

Wakayama Plant No. 13 Unit

In May 2010, work was completed on the cutting-edge No. 13 Large-scale Air Separation Unit, capable of producing 25,000m³ of oxygen per hour, in the Wakayama Steel Works of Sumitomo Metal Industries, Ltd. This energy-saving, on-site unit boasts advanced operational maintenance technology which was cultivated over many years and the latest in equipment and facilities to achieve high energy efficiency and superior maintainability.

In addition, thanks to this, the Wakayama Plant now has two state-of-the-art units – No. 12 and No. 13 – which form a regular supply system of 50,000m³ of oxygen every hour, and with the inclusion of a backup unit and increased liquefied gas storage tank capacity for use in the event of contingencies, the Wakayama Plant's gas supply system is more efficient and stable than ever.

Wakayama Plant No. 13 Unit

State-of-the-art technology in the No. 13 Unit

- ■ Filling rectifier with little pressure loss
- ■ New, highly energy-efficient, geared oxygen compressor
- ■ High performance MS apparatus (molecular adsorption apparatus)
- ■ Optimal operation via automated operational management

Engineering Company

Engineering Business

Our Engineering Business is centered on our Engineering Company, which controls and manages production projects and plans and designs new gas processes, and together with Air Water Plant Engineering Inc. and Shinko Air Water Cryoplant, Ltd., which are Group engineering companies that handle actual operation, forms a tripartite organization of Air Water Group engineering companies, which, by themselves, seamlessly provides everything from development to design, manufacture, construction and quality and safety control of general processes for industrial gas-related facilities and equipment.

(Shinko Air Water Cryoplant, Ltd.)

Shinko Air Water Cryoplant, Ltd. is an engineering organization specialized in the cryogenic air separation technology, which was born from the inheritance/fusion of the cryogenic air separation technology of Kobe Steel, Ltd. and the vacuum technology and non-turbine technology of Air Water. In particular, Shinko Air Water Cryoplant offers a high level of expertise in the field of ultra large-scale cryogenic air separation systems and plays a fundamental role in supporting the six plants which Air Water On-site Company operates around Japan and which constitute the core production centers of our Gas Business. In addition, Shinko Air Water Cryoplant is able to provide small- to medium-scale cryogenic air separation systems tailored to whatever needs customers may have, from large to small and high-purity to low-purity.

(Air Water Plant Engineering Inc.)

Air Water Plant Engineering Inc. is involved in all of the AW Group's core gas-related technology fields, focusing specifically on small- and medium-scale cryogenic air separation systems like the V Series and VSU but also including liquefied gas storage tanks, adsorption/separation systems, various gas applications and even medical- and energy-related facilities. Their strength lies in their ability to provide comprehensive engineering, which enables them to seamlessly provide everything from facilities design to manufacture, construction and quality and safety control, and in their capacity for advanced technological development capable of allowing them to unerringly meet on-site needs. Thanks to this, they have built the foundation which allows Air Water to continually provide the industry with innovative industrial gas supply solutions.

V1 facility construction

●Business Fields for Engineering Business

Engineering Company

Carries out umbrella administration of manufacturing projects undertaken by Air Water Plant & Engineering Inc. and Shinko Air Water Cryoplant Ltd. and plans and designs various gas processes.

Shinko Air Water Cryoplant, Ltd.

Utilizes a fusion of technology with Kobe Steel, Ltd. to specialize in cryogenic air separation system technology and offers expertise in large-scale plant development and production.

■Industrial Gas Business
- Large-scale cryogenic air separation systems
- V-series small and medium-scale cryogenic air separation systems
- VSU small-scale liquid nitrogen/oxygen generators

Kashima Plant No. 7 Unit

Air Water Plant Engineering Inc.

Responsible for the technical foundations of all gas processes in Air Water's primary business, including Industrial Gas, Electronics, Medical and Energy.

■Industrial Gas Business
- V-series small and medium-scale cryogenic air separation systems
- VSU small-scale liquid nitrogen/oxygen generators
- VH Hydrogen Production Using Thermo-Neutral Reforming system
- PSA-type oxygen generators
- Liquefied gas tank trucks
- CE (cold evaporators)

VSU at Shizuoka Ekisan Co., Ltd.

■Electronics Business
- Large-scale gas supply facilities
- Ultra high-purity gas refining systems
- Cylinder cabinets
- Valve manifold boxes

Cylinder cabinets

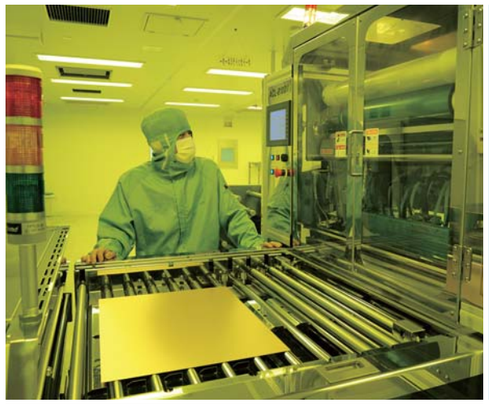
■Medical Business
- Artificial air generating systems
- Emissions processing of medical sterilization gas

Artificial air generating systems

■Energy Business
- LNG monocoque tank trucks
- LNG tank containers
- LNG satellite facilities

LNG tank containers

Electronics Business

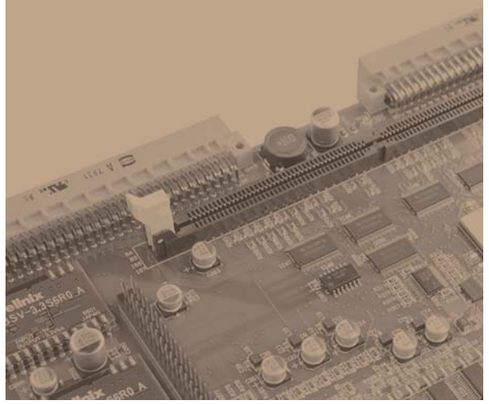


We supply a variety of electronics-related materials, centering on industrial gases, to those companies in the electronics industry connected with flat-screen televisions, semiconductors, solar cells, etc. In addition, we widely supply unique products of our own, such as electrode materials and semiconductor substrates, and are deepening our collaboration with other AWI departments and divisions to respond to growing markets as a new segment focused on the electronics industry.

Prospects for Fiscal Year 2010

It is expected that the hearty domestic demand in the business related to flat-screen television, semiconductor, etc. will be accompanied by a steady, continued upward trend in demand for industrial gases. At the same time, however, the pace of plant relocations overseas by the electronics industry in Japan is picking up speed and overseas manufacturers continue to show astounding growth.

In light of the market environment, our Electronics Business is working to establish Air Water's position as a manufacturer in the field of specialized materials and to improve infrastructure that will allow us to engage in full-scale expansion overseas, so that we can create Electronics-related Materials Business with an eye towards global markets.



Business Segment Initiatives

Electronics Company

In addition to doing what they do best in providing bulk gas supply and on-site gas supply, our Electronics Company works with both domestic and overseas partners to establish itself as a manufacturer of specialty material gases and specialty chemicals, and to parlay this reputation into new overseas business, focusing on the East Asia region.

And in the domestic market, the company will aim to increase the amount of hydrogen selenide it supplies as a solar cell material, highly pure ammonia and organic metals as LED materials. The company will also bring to market new process chemicals aimed at the next-generation DRAM and flash memory market.

Air Water Bellpearl Inc.

For its business geared towards electrical storage devices, the Bellpearl Department will increase the performance of its various BELLFINE® electrode materials in response to the expected rapid growth in the capacitor market, and at AT Electrode Co., Ltd., they will expand production with newly-built electrode sheet production lines in order to boost their responsiveness to customer needs.

In addition, they will expand both domestic and overseas sales of a new, energy-saving PSA (pressure swing absorption) type nitrogen generator and the NSP series in order to meet customers' needs for cost reduction.

Inoueki Co., Ltd.

Inoueki Co., Ltd. will capitalize on overseas business networks to expand sales of the Group's distinctive products, primarily in the fields of Industrial Gas Business and Electronics Business, via local offices rooted in Taiwan, China and other Asian countries.

Printec Corporation

With regard to Printec Corporation products, the pace of overseas development in the field of electronics materials, such as highly heat-resistant substrate materials, will be accelerated through collaboration with overseas firms and through the use of Air Water chemical technology.

Business Profiles

Electronics Company

Electronics Business

As an organization within the AW Industrial Gas Division which is specialized in Gas Business geared towards the electronics industry, it provides a diversity of electronics-related materials, centered on various industrial gases, aimed at the production of flat-screen television, semiconductor, solar cell, silicon wafer, electronic component, etc.

(Daido Air Products Electronics, Inc.)

Daido Air Products Electronics, Inc. is a joint venture with the U.S. firm Air Products and Chemicals, Inc. In addition to supplying various industrial gases in bulk and/or on-site to customers, depending upon their operational set-up, the company covers a broad range of business in the same field, such as diverse specialized materials gases and specialized chemicals as well as various supply systems and PFC recovery, refinement and reuse systems, in order to support the core of the AW Group's Gas and Chemical Business geared towards the electronics industry.

Nitrogen trifluoride supply module

●Business fields of Daido Air Products Electronics, Inc.

Business	Main Products Handled
Bulk gas/ On-site services	Oxygen gas, nitrogen gas, argon gas, hydrogen gas, helium gas
Specialized materials gases/ Supply-related systems	Nitrogen trifluoride, silane, hydrogen selenide, High-purity ammonia, bulk specialized gas systems (BSGS)
Specialized chemicals/ Supply-related equipment	High-purity chemicals (silane series, etc.), compound semiconductors (organic metals) Chemical automated supply systems, temperature control systems
Environmental-related systems	PFC recovery, refinement and reuse systems

Air Water Bellpearl Inc.

Bellpearl Business is centered on its two core materials: BELLPEARL®, a high-performance granular phenolic resin, and the functional carbon material BELLFINE® made from BELLPEARL® through a unique process involving carbide sintering. BELLPEARL® is offered as a basic material for composite materials, carbon materials, refractory materials, adhesives and other materials that utilize its resin properties, while BELLFINE® is offered as an electrode material for use in capacitors and other electrical storage devices which utilize its electrical characteristics. In addition, series development is underway for the BELLSWING® PSA-type nitrogen generator, which is a unique product that uses BELLFINE® as a "carbon molecular sieve".

AT Electrode Co., Ltd., a joint venture company with TOMOEGAWA Co., Ltd., supplies the different capacitor markets with slurried BELLFINE® electrode materials and high output and high capacity electrode sheets coated with copper foil, aluminum foil or other materials.

Also, Air Water will be launching Air Water Bellpearl in October 2010 as a new company specialized in Bellpearl Business in order to facilitate more agile business development with the aim of greater business expansion and the creation of a global production and sales system. In addition to actively cultivating business focused on electrode materials, Air Water Bellpearl will pour its energy into such efforts as expanding applications of nitrogen PSA systems as well as increasing their sales overseas and making headway into the field of composite materials utilizing resin processing technology.

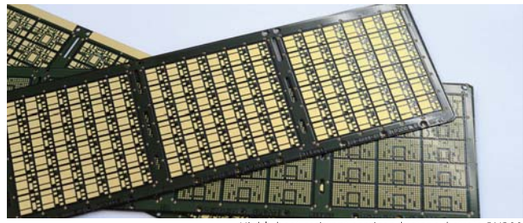
Energy-saving PSA (pressure swing absorption) type nitrogen generator and the NSP series

Inoueki Co., Ltd.

Inoueki Co., Ltd. is a specialty chemical trading company, which focuses primarily on electronics and chemical products. They have built up an extremely solid operating base over many years within the overlapping semiconductor industries of the Kyushu region, and are able to offer cutting-edge electronics products and to provide customer service via efficient operating and logistics centers. They also have a wealth of business locations in Asian countries, which not only supply the company's traditional chemical products but will also be a support for the overseas expansion of Air Water's business products, and we anticipate that full use will be made of this overseas network.

Printec Corporation

Printec Corporation focuses on electric circuit materials and semiconductor substrate manufacturing, and offers distinctive products of their own, such as highly heat-resistant substrate materials and adhesives for LED packaging. Through the distribution network of Inoueki Co., Ltd., Printec Corporation is developing its sales geared towards the domestic and the East Asian markets.

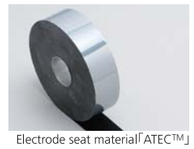


Highly heat-resistant semiconductor substrate BN300

Entering the Medium and Large-scale Capacitor Market with High Performance Electrode Materials

In the more than ten years since the BELLFINE® functional carbon material was brought to market, it has garnered good results as an electrode material for use with small, electric double-layer capacitors. At the Research and Development Institute, work on improving the performance of our electrode materials to enable them to respond to higher capacity and higher output of electric double-layer capacitors and lithium-ion capacitors is being undertaken as part of Air Water's efforts to strengthen its environment-related business. Ultimately, the aim for our processed AT electrode sheets is to enable them to have a diverse range of applications, in everything from coin-sized, small capacitors for mobile phone, personal computer, etc., memory backup to large capacitors geared towards solar cells, construction machinery and automobiles; with broad CO_2 reduction goals firmly in mind, we seek to expand the energy-related uses of our electrode materials and are therefore pouring energy into boosting their performance even higher.

Electrode Materials「BELLFINE®」



Electrode seat material「ATEC™」

Chemical Business

We work to meet our customers' needs through the active pursuit of materials development, separating and refining the active ingredients found in coke oven gas and coal tar produced as by-products in the steel-manufacturing process to manufacture refined gas and crude benzene, BTX, carbon-based products, tar distillation products and other coal chemicals as well as pharmaceutical and agricultural intermediates, electronics materials and other fine chemicals.

Prospects for Fiscal Year 2010

For this fiscal year, Coal Chemical Business is expected to improve thanks to an anticipated recovery in blast furnace operations which will lead to a broad recovery in gas refinement, tar distillation and other production levels, while the ongoing economic downturn is expected to continue to negatively affect Fine Chemical Business.

In light of the market environment for our Chemical Business, for our Coal Chemical Business we are promoting development of new products and product uses in the field of carbon materials, and for our Fine Chemical Business we are working to develop original products and to expand our business overseas with an eye towards future growth in the scale of our business.

Business Segment Initiatives

Coal Chemical Business

In our Gas Purification Business we are working to build up our purification facilities so that they can accommodate a recovery in blast furnace operations. Furthermore, in our Basic Chemicals Business we are working to increase production and sales for crude benzene accompanying an increase in gas treatment volume, stabilizing operating revenues and building up FR (rubber additive) facilities aimed at meeting the robust demand for tires which exists, particularly in China.

Also, export demand for needle coke, particularly to countries like China and Russia, is steadily increasing, and sales volume for C-Chem is expected to surpass that of the previous fiscal year.

Fine Chemical Business

For functional chemicals, which are experiencing a recovery in the field of electronics material-related business, increased demand is forecast for this field starting in fiscal year 2011, and we are working with the Research and Development Institute to upgrade our operating base via the development of original products and the cultivation of new customers. Also, we are expanding production in China, promoting more local procurement of materials and taking other steps to thoroughly streamline costs.

With regard to fine chemicals, the tight market situation for agrichemicals is predicted to continue for the duration of this financial period; however, we are actively pursuing materials procurement and capital investment in China, exports to Europe and North and South America and generally taking steps to expand our business overseas and thereby bolster our cost competitiveness.

Business Profiles

Chemical Company

Coal Chemical Business

Coke is a substance used to fuel the blast furnaces of steel works, and we extract and refine the active ingredients generated from the coke-making process in order to manufacture and supply purified gas, gas by-products (crude benzene, ammonium sulfate, sulfuric acid, liquid ammonia and sodium bisulfite), BTX* and tar distillation products. We also offer carbon materials, such as thermally expandable graphite and FR (rubber additive). *Benzene, toluene, xylen

Wakayama Plant, gas purification plant

(C-Chem)

C-Chem is a business company jointly owned and operated with Nippon Steel Chemical Co., Ltd. which specializes in tar distillation and which has a tar distillation capacity ranking amongst the largest in Japan. C-Chem develops and produces a range of products which are derived from tar, such as needle coke (derived from coal tar for use in the electrodes of electric furnaces), naphthalene and phthalic anhydride.

Fine Chemical Business

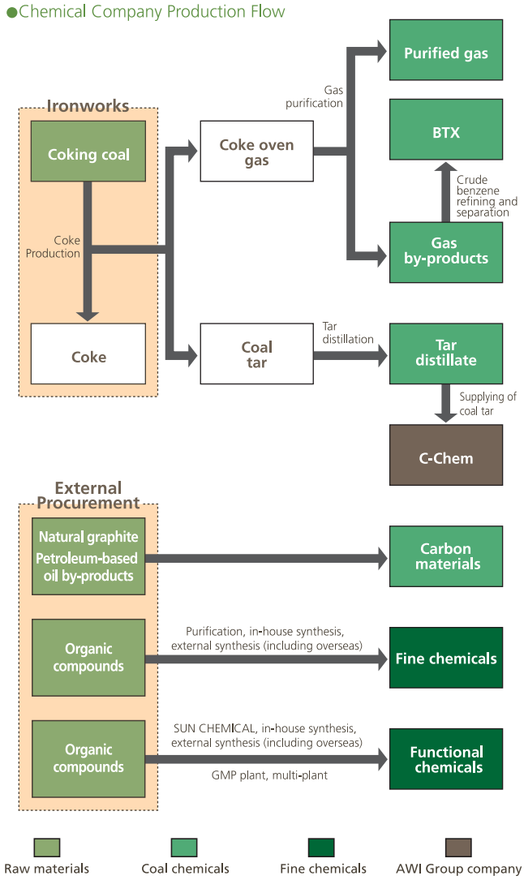
We supply the world with high quality and high added value chemicals, such as fine chemicals (agrochemical raw materials and agricultural chemical intermediates) and functional chemicals (pharmaceutical intermediates and electronics materials), which we derive from the active ingredients in chemical feedstocks, like tar-derived feedstock, using separation and purification technologies and organic synthesis technologies which we have cultivated over many years.

Fine chemical manufacturing equipment (centrifuge)

(SUN CHEMICAL)

SUN CHEMICAL is a group company which specializes in Fine Chemical Business relating to pharmaceutical raw materials and intermediates and in functional chemical business involving the production and supply of electronics materials. Utilizing their advanced technological capability in the field of organic synthesis together with their well-equipped facilities, SUN CHEMICAL provides stable and efficient production of high quality fine chemical products.

●Chemical Company Production Flow



Doubling of production capacity for "SK Resin" semiconductor sealing material

"SK Resin" is a thermosetting, high-grade phenolic resin used as a semiconductor sealing material. It has superior environmental characteristics as a sealing material, being "flame-retardant-free" and "halogen-free" and is supplied primarily to the high-end sealing material market in Japan and overseas under the Air and Water brand.

And in order to respond to the major demand which has accompanied the tremendous growth in the electronics industry centering on the Asian market, we are working on boosting production capacity at our manufacturing plants to around 600 tons, roughly double their current levels, by February 2011. This is a key focus field for our Fine Chemical Business, and we will work to augment our sales and R&D personnel as well as engage in further capital investment.

"SK Resin" thermosetting phenolic resin

Medical Business

As Japan's top supplier of medical gas, Air Water not only provides a steady supply of medical oxygen and other gases to medical institutions nationwide, we also provide leading-edge total solution services at the individual level up to the regional medical level in such areas as medical equipment, hospital facility construction, hospital services, and even home and nursing care.

Prospects for Fiscal Year 2010

Factors such as Japan's rapidly aging society, medical service reforms and the decline in hospital numbers nationwide are expected to further exacerbate the already difficult environment surrounding our medical business; however, factors such as the increasing need for advanced medical services, the demand for more improved emergency and perinatal medical services, and the promotion of home care for the elderly contribute to new and growing medical business markets.

In response to these trends, our Medical Business is working to expand our medical business transactions overall with hospitals, relying on expanded sales of medical oxygen as a foundation, and to increase our orders for advanced hospital facilities construction.

Business Segment Initiatives

Medical Company

We are focusing on expanding our sales of medical oxygen further through operational enhancements brought about by the introduction of a new regional business company system and the utilization of VSU. Also, in response to the Ministry of Health, Labour and Welfare's key policy focus on more and greater emergency and perinatal medical services, we are aiming to expand our business by increasing sales of pediatric ventilators, incubators and INOflow® and INOvent® and also by expanding our cardiovascular equipment sector business in the Kansai region, and establishing new bases of operation. Also, we are working to strengthen our direct sales in the home care field, focusing on the sale of Home Oxygen Concentrator PVM5000 OXY as a core product. In addition, we will work to further increase our profitability in the field of contract sterilization as a central part of our hospital service business.

Air Water Safety Service Inc.

In the key business field of hospital facilities construction, we will work together with Miwa Electric Medical Co., Ltd. to boost orders for medical gas piping, advanced medical facilities construction and other installations in order to further solidify our share of the hospital facilities construction market and elevate our position as a comprehensive hospital facilities and equipment manufacturer.

Also, in fiscal year 2010 we began exporting CE mark-designated (i.e. approved for production and sale in Europe) medical gas terminals (hospital bed outlets) to the German company MAQUET GmbH & Co. KG and are looking to expand our business into the American and European markets.

Business Profiles

Medical Company

Medical Gas Business

For more than half a century we have manufactured and sold a variety of medical gases indispensible to healthcare facilities, such as the three essentials of oxygen, nitrous oxide (laughing gas) and nitrogen as well as sterilization gas and other mixed gases. We also operate gas production and supply facilities throughout Japan, such as eight VSU facility centers, and as part of our commitment to fulfill our responsibilities as a top supplier of medical gas, we have put in place a system to ensure a stable supply of gas to everyone from major medical institutions all the way down to local clinics.

●Main Types of Medical Gases and Their Uses

Japanese Pharmacopoeia: Oxygen	Respiratory therapy, inhalation for respiratory disease, hyperbaric oxygen therapy, resuscitation, etc.
Japanese Pharmacopoeia: Nitrogen	Artificial air (mixed with oxygen)
Japanese Pharmacopoeia: Nitrous oxide	Anesthesia, analgesia
Sterilization gas (ethylene oxide gas)	Disinfection and sterilization of medical equipment, materials, etc.
Mixed gas	Carbon dioxide laser, bacteriological culturing, pulmonary function testing, cornea treatment, etc.

Medical Equipment Business

We work together with global medical equipment manufacturers, such as the U.S. companies Sechrist Industries Inc., CareFusion Corporation, and GE Healthcare, to provide medical institutions throughout Japan with hyperbaric oxygen chambers, newborn and infant ventilators, incubators and other equipment. Furthermore, together with the U.S. firm Ikaria Inc., we make available the nitric oxide inhalation preparation INOflow® and its delivery system INOvent® which are used in the treatment of newborn pulmonary hypertension.

In addition, we are expanding our business in the fields of cardiovascular and dialysis-related equipment through efforts being spearheaded by the Air Water Group company, Nishimura Kikai Co., Ltd., which has a wealth of experience and a solid operating base in the Kansai region.

"INOvent®" NO gas delivery equipment

Home Medical Business

Centering on our "OXY" series of home oxygen concentrators, we provide consumers with fixed oxygen concentrators, portable oxygen tanks, home artificial respirators and other respiratory equipment essential to home therapy. We also have in place a rapid response system that operates within a nationwide medical network for responding immediately in emergency situations and ensures the safety and security of home care management.

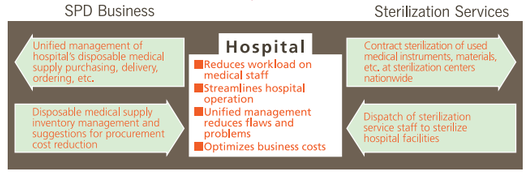
Home Oxygen Concentrator PVM5000 OXY

SPD/Sterilization Services Business

Our SPD (supply processing and distribution within hospitals) Business provides healthcare facilities and institutions with unified management of their inventories, orders and deliveries of hypodermic needles, gauze and other disposable medical supplies.

Our Sterilization Services Business dispatches service staff to hospitals to perform hospital sterilization as well as to collect surgical implements and other instruments from medical institutions to bring back for contract sterilization at one of our ten sterilization centers nationwide. We put to use our expertise in the realm of supplying sterilization gases to provide top quality sterilization services.

●Solution services offered to hospitals



Nursing Care Business

We put to use our many years of experience and expertise in the medical business to offer diverse services for seniors, such as the production and sale of the "Viami®" series of shower equipment for nursing care use, the provision of home nursing care and other home care services, and the operation of Ai-Land assistive equipment sale and rental shops.

"Viami®" shower equipment for nursing care use

Air Water Safety Service Inc.

Our Hospital Facility Construction Business undertakes medical gas piping installation, operating room interior construction and other facilities construction at public and private hospitals throughout Japan and also works together with Miwa Electric Medical Co., Ltd. to offer total solutions regarding operating room and ICU design and construction.

Our Fire Extinguishing Installation Business installs fire-fighting systems and fixtures in buildings, factories and other structures as well as boats, and manufactures and sells fire-fighting equipment.

Our Respiratory Equipment Business manufactures and sells a variety of respiratory products, centering on our "LIFE GEM" series, to fire departments, the Ministry of Defense, private factories and others.

In each of these business areas, Air Water Safety Service performs maintenance and inspections, and as a pioneering company that offers many years of experience as well as the latest technologies, we have secured the resolute trust of medical institutions throughout Japan.

Air respirator "LIFE GEM" series

Opening of the Advanced Medical Facilities Simulation Center

In March 2010, Air Water Safety Service Inc. and Miwa Electric Medical Co., Ltd. opened the Advanced Medical Facilities Simulation Center in Aichi Prefecture, undertaking a joint venture which takes advantage of each company's specialty area in the field of advanced medical care. This center incorporates cutting edge medical equipment as simulated operating room and ICU facilities, and it is capable of flexibly adapting to the individual needs of different medical institutions, even to the point of allowing doctors to perform actual experiments.

This enables us to offer efficient and advanced medical facilities solutions which are perfectly matched to the individual needs of each customer, and through this we aim to further expand the volume of orders we receive for operating room and ICU construction and renovation.

Advanced Medical Facilities Simulation Center

Energy Business

We are developing a variety of business, particularly such community-based lifestyle solution businesses as the supplying of natural gas pipeline, the manufacture and sale of LNG transport equipment/LNG satellite storage tank facilities, the delivery of mineral water, and the development of housing renovation business, all built around our core business of LP gas and kerosene sales, which commands a large share of the market in Hokkaido.

Prospects for Fiscal Year 2010

It is expected that the business environment will become even less conducive to LP gas business as a result of such factors as a reduction in the volume of demand due to an aging population, dwindling birthrate and greater energy conservation-mindedness and the increasingly fierce competition between electricity and gas as the push for a total switchover to electricity continues.

In light of the market environment, our Energy Business is putting to use the solid brand strength and sales network that we enjoy in Hokkaido to cultivate new demand for LP gas and expand Life Solution Business utilizing a community-based business infrastructure.

Business Segment Initiatives

Hokkaido Company (Energy Division)

LP Gas Business

One of the ways in which Air Water is contributing to the competition for consumers taking place between electricity and gas is with our increased focus on expanding sales of the hybrid hot water and heating system which we developed in-house, which helps drive up demand for LP gas. Furthermore, with the launch of the nascent Hokkaido Air Water Inc. we have introduced an "area company system" for creating spin-off companies in order to strengthen our community-based sales capability. In addition, we will continue to elevate our direct sales ratio through M&A of retail outlets and to streamline our delivery costs through the use of joint delivery and filling.

Natural Gas Business

We are aiming to further grow Air Water's market share by pouring effort into expanding the sale of LNG-related products, centering on the 14.0 ton LNG tank truck which we brought to market in FY2009. Furthermore, we are working to strengthen and expand our LNG Satellite Business in response to the increasing demand within Japan for natural gas.

Life Solution Business

Air Water is using the LP gas business infrastructure it has developed over the years in Hokkaido to cultivate distinctively consumer-focused Life Solution Business, such as sales development of the nursing care products handled by the Medical Division and putting forward of home renovation proposals geared towards elderly consumers.

Business Profiles

Hokkaido Company (Energy Division)]

LP Gas Business

Our LP Gas Business, familiar to many through the "Hello Gas" brand name, utilizes our 86 sales offices spread throughout Hokkaido to secure significant market share for Air Water. Furthermore, we sell kerosene, which is indispensable to the lives of people in Hokkaido, and also work in the field of new energy development. From household to commercial and industrial use, our aim is to offer an "optimum balance of energy" in the meticulous service we provide in a wide range of fields.

Also, in fiscal year 2009 we brought to market a hybrid hot water and heating system which combines a heat pump-type heater utilizing hot air and a high-efficiency gas hot water heater (Eco-Jozu) in a unique design developed by Air Water. The goal is to expand sales of this system, which achieves both excellent thermal efficiency and high economic efficiency and is suitable to cold weather regions – including Hokkaido in midwinter.

Hybrid hot water and heating system

Natural Gas Business

Air Water's natural gas pipeline supply business provides a steady supply of domestic natural gas from the Natural Gas Supply Center at the Yufutsu gas field in Tomakomai, Hokkaido, to the Chitose Rinku Industrial Complex.

Our LNG (liquefied natural gas)-related business manufactures and sells a variety of tank trucks, containers, and LNG satellite storage facilities, including our centerpiece product: a 14.0 ton LNG tank truck which boasts a shipping capacity among the largest in Japan. In addition, we are making full use of our unique cryogenic technology to develop business geared towards the domestic LNG market and its growing demand nationwide for more and better receiving and supplying facilities.

14.0 ton LNG tank truck

Life Solution Business

The "FUREAI SHOWROOM MIX" is our hands-on showroom which offers consumers a variety of home improvement ideas, which is being expanded to ten locations within major cities throughout Hokkaido.

The showroom features a wealth of the latest gas and water appliances and aims to show customers firsthand the sort of comfortable, easy lifestyle that LP gas can provide. The showroom is also a multipurpose space which hosts cooking classes and other events where the Air Water Group and local residents can meet and interact.

Another part of our Life Solution Business that we are continuing to develop is geared towards offering customers solutions for more comfortable and convenient living spaces, which involves making use of existing linkages with our Medical Division to sell nursing care products and housing renovations for the elderly.

"FUREAI SHOWROOM MIX"

●Fields covered by our Life Support Business

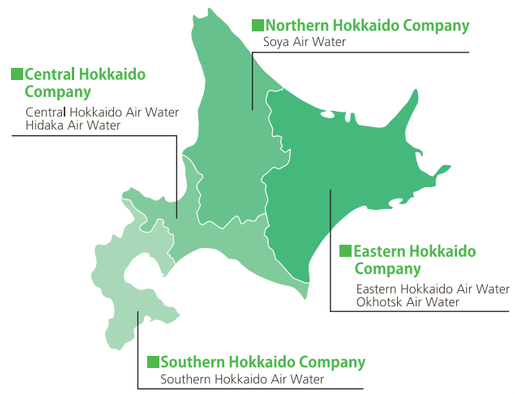
Business Reorganization in the Hokkaido Region

As part of the reorganization of our regional business companies, in April 2010 we reorganized and integrated our business and functional companies in Hokkaido, which had been split between the three separate categories of industry, medicine and energy, into a new composite entity under the name of Hokkaido Air Water Inc. At the same time, we divided Hokkaido into four areas (Central, Northern, Eastern and Southern Hokkaido) and established four new area companies and six area regional business companies, thereby enabling Hokkaido Air Water to connect more closely than ever with customers in each region as well as to better meet their needs through the creation of business which is unconstrained by the conventional framework and more meticulous service proposal in the core business fields of industry, medicine and energy as well as going beyond these to agriculture and life solution-related business.

●Aims of Introducing the Area Company System

①Maximize total capacity of the group
②Have a community-based operational structure
③Foster capacity for comprehensive business solutions
④Generate new business

●New Area Organizational Structure



Other Business

The Air Water Group is a combined business entity composed of a variety of highly profitable and high market share businesses, such as our Seawater Business, Food Products Business and Logistics Business. Utilizing the unparalleled technological capability we possess in each of these business fields, we produce unique products and services that undergird and support the growth of Air Water.

Prospects for Fiscal Year 2010

Thanks to a unique management technique and strategy known as the "Order Rodentia Style of Business", we have achieved solid, steady growth thus far. And in order to "generate leading business in the industry and an even greater market share and higher profit business" which will foster further growth for the next decade, each of our business divisions will pour their energy into strengthening and expanding the unique products that they offer and will venture out into new business fields to achieve further growth.

Business Segment Initiatives

Seawater Business

Tateho Chemical Industries Co., Ltd. is working to meet the increasing demand for magnesia for electromagnetic steel sheets, which is the result of an expansion in the overseas electric power infrastructure, by strengthening production systems; they are also actively working to accommodate demand for high quality magnesia. In addition, they are strengthening their presence in the Chinese market for electrofused magnesia for medium to high temperature heaters.

Nihonkaisui Co., Ltd. will make use of the group sales offices to expand sales of commercial salt and to build up the Nihonkaisui brand of household salt. In addition, they will venture into new business by beginning full-scale production of potassium chloride geared towards agricultural use.

Food Products Business

Saveur SS Inc. (Syunsetsu Saveur) will strengthen its core lineup of uncured ham varieties, introduce new products and expand sales of frozen broccoli geared towards prepared meal products so as to further solidify the company's No.1 market share, and it will expand sales of "Hokkaido-made" sauces and sweets.

Sagami Ham will expand sales in its core field of sausages and will use the enhanced product lineup of Saveur SS Inc. (Syunsetsu Saveur) to expand its own product range. In addition, Sagami Ham will expand its sales to local clients, like butchers and mass retailers, so as to expand its market share in the Kanagawa area.

Logistics Business

Air Water Specialized Transportation Inc. will promote its strength in the area of constant temperature control transportation technology to expand its food product distribution into the Honshu area and to bolster the scope of its medical and environmental distribution services. Also, in the field of 3PL Business, Air Water Specialized Transportation will offer increasingly sophisticated distribution services and will pour its energy into cultivating stronger relationships with existing customers.

Aerosol Business

We are working to further expand our share of the market in our specialty fields of paint and coating materials, automotive supplies and industrial products. We are also using collaborations with major manufacturers in the growing field of body care and home care products to promote joint development initiatives and, furthermore, are cultivating new markets through the in-house development of prescription products.

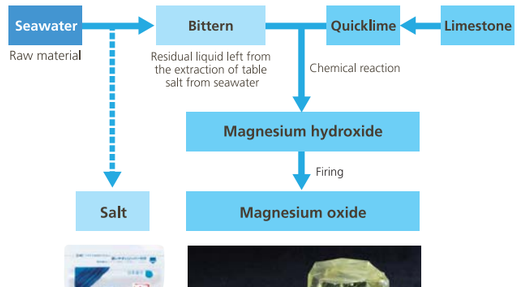
Business Profiles

Seawater Business

Tateho Chemical Industries Co., Ltd.

Tateho Chemical Industries Co., Ltd. produces a variety of magnesia products via the application of a unique crystal control technology which utilizes "bittern" extracted from seawater as its primary raw material. In particular, Tateho Chemical Industries Co., Ltd. boasts a roughly 90% share of the global market for high-end applications of magnesia for electromagnetic steel sheets, which are indispensible to the electrical power infrastructure. Furthermore, they supply the global market with high performance products, such as electrofused magnesia utilized in insulating filler for heaters built into electric home appliances and other devices, single crystal magnesia which is widely used in the field of advanced technology, and other ceramic products.

●Production Chart for Salt and Magnesium Oxide



Household salt:
"Wa-no-Teshio
– Real Baked Salt"

"MIRACRYSTAR®" single crystal magnesia

Nihonkaisui Co., Ltd.

Nihonkaisui is broadly developing its Seawater Business around its core Salt Business, which has the top market share in Japan. Nihonkaisui's Salt Business manufactures commercial and household salt at its three plants in Japan (Onahama, Ako and Sanuki), providing a stable supply throughout Japan. In the area of household salt, Nihonkaisui is cementing its place in the market as a comprehensive manufacturer and retailer through its "Wa-no-Teshio" brand of salt manufactured wholly in Japan. Furthermore, in the field of Environment-related Business, Nihonkaisui supplies magnesium hydroxide for use in flue-gas treatment as well as sells "READ-F" high-performance absorbent and remover for environmental pollutants which are found in drinking water, waste water and soil.

Nihonkaisui also promotes group synergy in a variety of ways, such as by supplying Tateho Chemical Industries Co., Ltd. with bittern and the AW-Water Division with minerals extracted during the salt manufacturing process.

Nihonkaisui Co., Ltd., Sanuki Plant, Salt Manufacturing Plant

Food Products Business

Saveur SS Inc. (Syunsetsu Saveur)

Saveur SS Inc. (Syunsetsu Saveur) is developing its range of products under the commercial "Saveur" and retail "Syunsetsu" brands and is looking to expand into new culinary markets using new offerings such as highly distinctive sauces and sweets made with ingredients from Hokkaido, all while maintaining a central focus on the company's frozen foods, made from high-quality, fresh and delicious ingredients, and ham and delicatessen products made from carefully-selected, fresh ingredients and subjected to rigorous quality control. The company's ham and delicatessen product line, best known for its uncured ham, boasts a 30% share of the domestic production market; produced at two plants in Hayakita and Otaru, these products are found in every commercial food environment, from retail shops to pre-made meals and restaurants, and are renowned the world over for the technological competence that goes into making them, as evidenced by its acquisition of at least five gold medals over four successive years at the DLG (German Agricultural Society) Quality Test* competition. In addition, the company's frozen foods, which are made using advanced technology to control freshness, offer a wealth of different vegetable and seafood products made from carefully selected ingredients and are found in a variety of commercial environments thanks to their high quality, safety and reliability.

*The world's largest processed food technology competition

Saveur (commercial)
[Frozen foods]

Provides high-quality frozen foodstuffs centered on vegetables and fishery products which are highly regarded by famous restaurants and high class hotels throughout Japan.

+

Syunsetsu (retail)
[Ham and delicatessen products]

Offers ham and sausage products, such as uncured ham, dry-cured salted bacon and wieners, made from carefully selected, good-quality, extremely fresh, safe and reliable ingredient.

Sagami Ham

For 86 years the Sagami Ham brand has meant high quality ham and sausage products, and today they continue their sales in the Kanto market, centered on the Kanagawa region, with paste products and authentic recipe products, such as pork sausages and Honrei pork loin. Sagami Ham uses its strength in local sales to butchers and mass retailers, utilizing its own delivery infrastructure, to build strong relationships with customers; in particular, it has secured a large share of the market for bologna sausage in the Kanagawa region. The company also actively contributes to group synergy, such as by offering its meticulous delivery infrastructure for use in developing the market presence in the Kanto region of Saveur SS Inc. (Syunsetsu Saveur) products.

Sagami Ham Products

Logistics Business

Air Water Specialized Transportation Inc.

Air Water Specialized Transportation Inc. uses its advanced constant temperature control transportation technology and unique know-how, cultivated from the years of experience AWI has in transporting high pressure gas and liquefied gas, as well as its overwhelmingly extensive logistical network in the Hokkaido area as a base for its three regional business company system (Hokkaido, Eastern Japan and Western Japan) which covers all of Japan and provides diverse and sophisticated logistical services tailored to the characteristics of each region. In particular, Air Water Specialized Transportation's strength lies in the field of strict temperature control, which is crucial to such businesses as food product, medical and environmental delivery, and in April 2010, they established a company specialized in food product logistics with the intent of strengthening and expanding Food Product Logistics Business, first in the Tohoku region and then to all of Honshu.

In addition, Air Water Specialized Transportation is pouring its energy into developing distinctive products which greatly increase the value of its services, such as a new initiative to develop refrigerated containers utilizing constant temperature technology for liquefied gas.

Container transport method

●Business Fields and Business Expansion Measures for Logistics Business

Business Field	Product Sector
General Transportation	High-pressure gas: Liquefied gas tank truck transport High-pressure gas cylinder delivery General cargo: Truck and container transport
Food Products	Food product handling, storage and distribution centered on Hokkaido
Medical and Environment	Blood-related logistics for the Japanese Red Cross Society (source plasma and NAT samples) Industrial waste transport
Storage and Convenience Goods Processing	Cargo handling, storage and shipping services by distribution warehouses Overall convenience goods processing

Aerosol Business

Air Water Sol Inc.

We make use of advanced gas technology to manufacture a variety of aerosol products. We are the third largest producer in the Japanese aerosol market; in particular, we provide the market (mainly the OEM* market) with a variety of products, from cosmetics, quasi drugs and home care products to industrial products, centering our focus on paints and coating materials and automotive supplies – fields where we command a large market share. We capitalize on the unique expertise contained in the production systems of each of our four plants in Japan, as well as our research and development capacity which excels technologically at developing new formulations and mechanisms, to produce a variety of highly distinctive and original products.

Also, for the future we are pouring energy into expanding sales of products under our own brand, such as our "UV CUT SPRAY", "Super Fresh ECO_2" CO_2 gas blower, and "Tepure" disinfectant and cleaning solution.

*OEM (=Original Equipment Manufacture: contracted manufacturing of products under other companies' brands)

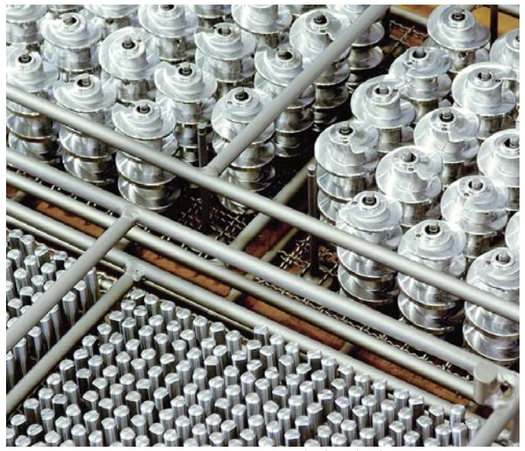
Dust cleaner super fresh

NV Business

Air Water NV Inc.

Air Water NV Inc. uses the sophisticated gas technology possessed by the AW Group as a base from which it builds its distinctive, high quality Metal Surface Hardening Treatment Business. The company possesses three widely employed treatment technologies, especially with metal parts such as bearings in automobiles and industrial machinery which are subjected to particularly severe abrasive environments. These three technologies are "NV NITRIDING", which combines AWI's unique surface activation treatment and gas nitriding treatment to achieve a high quality metal surfacing treatment; "NV PIONITE", which employs low-temperature solute diffusion treatment of stainless steel; and "MYZOOL", which increases wear and erosion resistance via chromium nitride layer formation. At present, Air Water NV carries out contract treatment business at its plants in Hyogo Prefecture and Gunma Prefecture and on-site at user plants (with the installation of specialized equipment) to provide customers with the solution process optimally suited to their needs.

And for the future, the company will aim to increase orders for business, such as exterior treatment of home electronics which emphasize design and style, centering on "PIONITE", which is specialized for stainless steel treatment, as well as pour its energy into the development of new products in conjunction with the Research and Development Institute in order to expand orders in new business fields.



Example of metal surface NV nitriding treatment

Mach Business

Air Water Mach Inc.

We are a specialty manufacturer of high precision industrial rubber and JIS specification O-rings, undertaking a variety of business, such as construction material and antibacterial and deodorant product business, centering on our own uniquely developed ultrahigh-performance rubber O-rings which offer superior durability when put to use in semiconductor and LCD manufacturing equipment as well as other sealant and rubber-related business, such as made-to-order rubber mold/composite products geared towards pneumatic home appliances, automotive parts and medical supplies.

Our current focus is on expanding sales of rubber products in the Chinese market, and towards this end we are bolstering our sales offices in the major cities of China to first of all strengthen sales of O-rings. At the same time, we are striving to build up group synergy in Japan through such initiatives as building materials (ECOROCA) and steel strut sales expansion in collaboration with the ECOROCA Division. We are also pouring energy into the development and sale of new antibacterial and deodorant products made from our own uniquely developed materials.

Rubber O-ring

ECOROCA Business

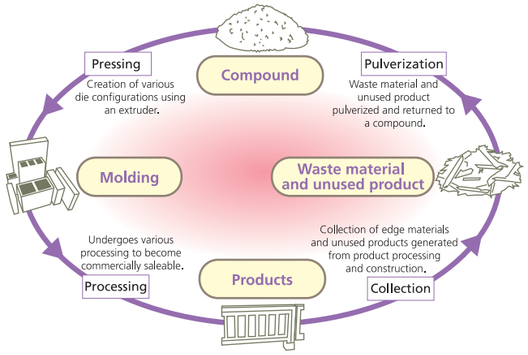
ECOROCA Division

ECOROCA® is a new, eco-friendly wood-plastic construction material made from composite wood and plastic discards. It is EcoMark, JIS A5471 certified and offers the natural feel of wood together with superior weather resistance and durability, which has led to its widespread adoption as a material for use in deck and wall construction at public facilities, like airports and parks, as well as schools, social welfare facilities, residential homes and more.

For the future, in addition to developing ECOROCA® as a new thermal barrier decking material and hybrid louver material, we are pouring our energy into cultivating new fields of expansion for ECOROCA®, such as interior construction applications.

Example of ECOROCA® construction at Koshigaya Lake-Town

●Manufacturing process utilizing recycled materials



AW-Water Business

AW-Water Division

We offer customers HOD (Home and Office Delivery) of our safe and delicious "AW-Water", which undergoes reverse osmosis treatment and an original mineral blending method, as well as our water server, which has been designed in-house with our uniquely developed and easy-to-maintain air filter and a nighttime energy-saving "ECO switch".

And in July 2010, we established the new AW-Water Division as a business development division which aims to further strengthen and expand the scope of our water business. For the future, this division will examine ways to further expand the supply area of our water business beyond the current supply areas of Hokkaido and Kanto as well as help Air Water newly enter the field of water treatment business.

AW-Water Cooler

Expansion into the Field of Agriculture

As the Japanese economy enters a major period of transition, there has been a sharp increase in recent years in expectation of the role agriculture will play in terms of developing the economy and maintaining employment levels. And for its part, AWI established the "Air Water Farm" agricultural production corporation in November 2009, acquiring roughly 200,000m² of farmland in the city of Chitose in Hokkaido. For the first phase of the Air Water Farm, we have set aside approximately 70,000m² for a large-scale, glass greenhouse which will serve as one of the largest vegetable production plants in Hokkaido and are currently starting trial cultivation of fresh tomatoes, leafy greens and other vegetables with major food manufacturers providing assistance with cultivation technology. As for sales, we have contracted with major food manufacturers, local wholesale markets and others to provide consumers as well as those who demand a safe, steady supply of vegetables.

The first aim of our Agricultural Business is to promote "local production for local consumption" by enabling Hokkaido to locally produce its own vegetables instead of relying on shipments from Japan's main island of Honshu. And for the future, we will broaden our scope by expanding into new business such as resort farming. In April 2010, we established the Agricultural Strategy Division, and they have promptly drawn up a business model for the Chitose Farm and are working with the Research and Development Institute to develop "Air Water-style agriculture", which employs hydroponics, environmental control technology and other latest agricultural technologies to grow vegetables.

Air Water Farm: Chitose Farm

Research and Development

Centered on the Research and Development Institute, where world-class, cutting-edge technology and intellectual property come together, Air Water's R&D initiatives daily transcend the frameworks of individual business fields to integrate technologies in a cross-cutting manner in order to produce new, highly innovative technologies and products which will help to develop Air Water's business in a broad range of business fields, including Industrial Gas, Electronics, Fine Chemicals, Medical and Food Products.

Research and Development Institute: An Integral Part of Our "Technology-driven Company"

The primary role of the Research and Development Institute is to bring together under one roof all of the accumulated technologies and intellectual properties of the Air Water Group's various business fields, to not only further those technologies but also to produce a technological synergy which results from active technological communication between disparate fields; thereby producing a unified technology which allows for previously unfeasible, innovative and advanced technologies and products to be developed. The Research and Development Institute maintains a sophisticated R&D environment, including the latest in equipment and facilities, which is essential for a "technology-driven company", and has built a knowledge and information network based on close and careful communication with the Air Water Group's other laboratories throughout Japan, in order to keep the Research and Development Institute continually appraised of the latest customer needs as it makes numerous contributions to further business development as well as the development of new business.

Major R&D Accomplishments of FY2009

Gas Production, Recovery and Recycling-related Fields

- Development of an "oxo gas co-production process" through technological improvement of standard hydrogen gas generators
- Energy and cost-saving improvement of "cryogenic air separation process"
- Development of "methane recovery and refining system" which refines and reuses methane in vaporized natural gas
- Cost-saving and performance improvement of "PFC recovery, refining and reutilization system"

Fine Chemical and New Materials-related Fields

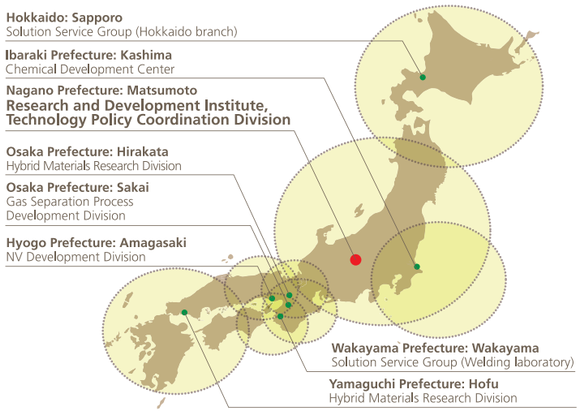
- Development of new usage for BELLFINE® electrode material for use with lithium-ion capacitors
- Strengthening of the "electronics materials" field thanks to an enhanced development assessment system for semiconductor materials
- Strengthening of variations of "pharmaceutical intermediates"

Gas Application-related Fields

- Development of new "CO_2 precision cleaning system (dry ice snow)" geared towards the field of semiconductors
- Development of a "small-scale indoor liquid nitrogen generation system" via the use of pulse tube refrigerators
- Development of an "atmospheric pressure plasma generator" for the 8th generation LCD processing electrode mounting
- Efficiency and cost-saving improvement of NV nitriding treatment through the development of an "NV-treatment continuous furnace"

Medical-related Fields

- Sales development of actual flow volume display-type "Home Oxygen Concentrator PVM5000 OXY"
- Sales development of "INOflow®" as a nitric oxide inhalation preparation for infant pulmonary hypertension and "INOvent®" as the apparatus for its delivery



Development of TNR (Thermo-Neutral Reforming)*1-type Carbon Dioxide Reforming Hydrogen and Carbon Monoxide Co-generation Process

Mixed gases (synthetic gases), for which the main components are hydrogen and carbon monoxide, can be used as raw materials for C1-Chemistry*2, GTL*3, DME*4, etc. Recently, the Research and Development Institute's Gas Separation Process Development Division has developed a new "TNR (Thermo-Neutral Reforming)-type CO_2 Reforming Process" which is highly efficient at generating mixed hydrogen and carbon monoxide gas from natural gas, carbon dioxide and oxygen by applying the "TNR-type Water Vapor Reforming Process" established from the development of the "VH" hydrogen gas generator. Furthermore, a unique, high recovery rate-type PSA generator optimally suited to this new reforming process was developed, and a high performance hydrogen and carbon monoxide co-generation process was achieved.

H_2/CO co-generation demonstration equipment

●Features of the Hydrogen and Carbon Monoxide Co-generation Process

For the TNR reaction, no external furnace is needed to generate the heat required for the reforming reaction via catalytic combustion.Because the required catalytic amount is small, facility and cost size can be reduced significantly.

Traditionally, carbon dioxide reforming has to overcome such challenges as carbon deposition; however, with the high performance TNR catalyst developed by Air Water, there is no carbon deposition and synthetic gas can be produced stably.

The carbon dioxide generated from the process is recovered by a PSA generator with a high recovery rate and is reused as a raw material; thus, the amount of carbon dioxide used and emitted is reduced significantly.

Because an external furnace is unnecessary, no SOx or NOx is generated.

The ratio of hydrogen to carbon monoxide within the synthetic gas can be set to between 1:1 and 4:1, and the process can even be used to generate solely carbon monoxide.

*1: TNR reaction: Reaction involving an exothermic combustion reaction and an endothermic reforming reaction with the same catalyst
*2: C1-Chemistry: A field of industrial organic chemistry involving chemical synthesis using synthetic gas, methane and methanol as basic materials
*3: GTL: Petroleum products, such as naphtha, kerosene and light oil, made from natural gas via a chemical reaction
*4: DME: Considered an LPG alternative energy for use as a spray propellant, diesel fuel, etc.

Development of a New Continuous NV Treatment Furnace

NV nitriding treatment is used as a metal-surface treatment technology for automobile parts and semiconductor-related precision parts. At present, NV nitriding treatments primarily make use of a "batch-type treatment furnace (intermittent furnace)". The furnace is charged at room temperature and time is required for the furnace temperature to raise and lower; while a single treatment can require several hours or more, it is a flexible, effective treatment method when there are differing treatment conditions. On the other hand, when treating large volumes of engine valves and other materials with similar conditions, a "continuous furnace" not accompanied by rising and falling furnace temperatures is considered to be a highly productive system which stabilizes quality, improves productivity and furthermore maintains a set furnace temperature; thus, it is an effective treatment method from the standpoint of saving energy as well.

Now, we have developed a "continuous NV treatment furnace", which is designed with an interlinking series of processing chambers allowing for continuous processing to occur, from the antechamber where the oxygen in the air is first removed on through to the processes of activation, nitriding, cooling, etc. With the installation of this new continuous furnace, it is possible to cut off oxygen and remove adsorbed moisture through preheating, thereby making the nitriding process more efficient than usual for materials which are difficult to put through the nitriding process (such as high-nickel steel) due to the fact that they require relatively high temperatures for activation treatment. Also, it is effective for nitriding treatments aimed at increasing fatigue strength which require control of various hardness profiles for near-metal surfaces. In the future, this "new continuous NV treatment furnace" will become the standard machine used in mass production.

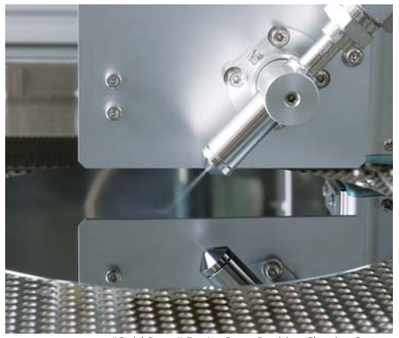
New continuous NV treatment furnace

"QuickSnow" Dry Ice Snow Precision Cleaning System

"QuickSnow" is a dry ice snow precision cleaning system which cleans surfaces, etc., by bombarding them at high speed with snow-like dry ice particles made from liquid CO_2 (hence "dry ice snow").

"QuickSnow" dry ice snow cleaning differs from traditional wet cleaning in that it is a dry process; it is characterized by no need for a drying process, no need for wastewater and waste liquid disposal and little damage to the item being cleaned. Also, because the cleaning strength can be adjusted via control of the flow rate and particle diameter of the dry ice, and because condensation on the spray surface can be controlled via adjustment of the temperature of the spray gas, "QuickSnow" offers an ideal cleaning method that can be tailored to user needs.

The "QuickSnow" cleaning system developed by Air Water is starting to find widespread use in cleaning hard disk drives and semiconductor-mounted components, and we look forward to even greater market penetration.



"QuickSnow" Dry Ice Snow Precision Cleaning System

Intellectual Property Strategies

To Enhance Business Competitiveness

Unified coordination of the AWI Group's diverse intellectual properties by the Intellectual Property Division

The aim of our Intellectual Property Division is to "enhance business competitiveness" by promoting intellectual property activities which bring together our research and development and business strategies.

Through our intellectual properties, we actively support the creation of new business and greater profitability for existing business while establishing intellectual property managers for each research and development field and a system for patent application and rights registration in conjunction with the Research and Development Division as well as developing a solid body of patents through strategic patent acquisition. We also carry out an annual review of patents held, focusing on the status of research and development and their application to business, optimizing our intellectual property portfolio to match our research and development strategies and business strategies in an effort to maximize corporate profits and value.

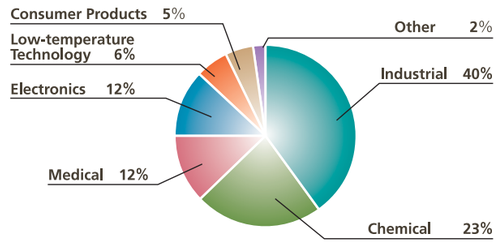
Number of Patents Held(stand-alone)

(No.)

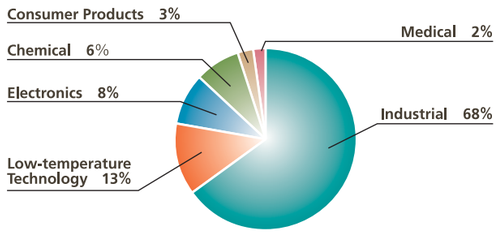
	FY2007	FY2008	FY2009
Domestic	324	327	331
Overseas	374	316	263

Ratio of Patents Held, by Category (Fiscal 2009)(stand-alone)

Domestic



Overseas



Primary Products Covered by Our Patent Groups

Industrial Gas Business	●Air separation systems ●Gas nitriding treatment ●Fusing and welding techniques
Electronics Business	●Vacuum chemical epitaxy for silicon equipment
Chemical Business	●Information and electronics materials (phenol resin, epoxy resin) ●Functional materials (thermally expandable graphite) ●Pharmaceutical and agricultural intermediates
Medical Business	●Artificial air generating system (for medical use) ●Sterilization equipment ●Hyperbaric oxygen chamber ●Shower equipment
Lifestyle Business	●Household equipment ●Collagen manufacturing method
Low-temperature Technology	●Tank truck ●Pulse tube refrigerator ●CE (Cold evaporator)

Intellectual Property Strategy Initiatives in the New Medium-Term Business Plan

We are working to develop ourselves as a "technology-driven company" as part of our efforts towards realizing the "NEXT-2020 / One Trillion Yen Vision" – a key component of our "NEXT-2020 Ver. 1" new medium-term business plan. Specifically, we are actively promoting a strategy established on the three pillars of "new business creation in growth fields", "short-term business creation and expansion" and "cultivation of essential technologies", and an essential part of this strategy to grow as a "technology-driven company" is the strengthening of the Group' s development and control of intellectual properties. We aim to "enhance business competitiveness through intellectual properties", and towards this end are enacting the following three policies and are promoting awareness and knowledge of them within the company.

① Promoting Consistent, Stage-Gate-Coupled Action on Intellectual Properties

Our research and development process is coupled with a phased management-type stage-gate evaluation, and "Intellectual Property Strategy Guidelines" are drawn up for what needs to happen in terms of intellectual property at each progress stage. The Intellectual Properties Division and the Research and Development Division work together in line with these guidelines to take action on intellectual properties in a consistent and timely fashion.

② Acquisition of Flagship and Offensive Patents

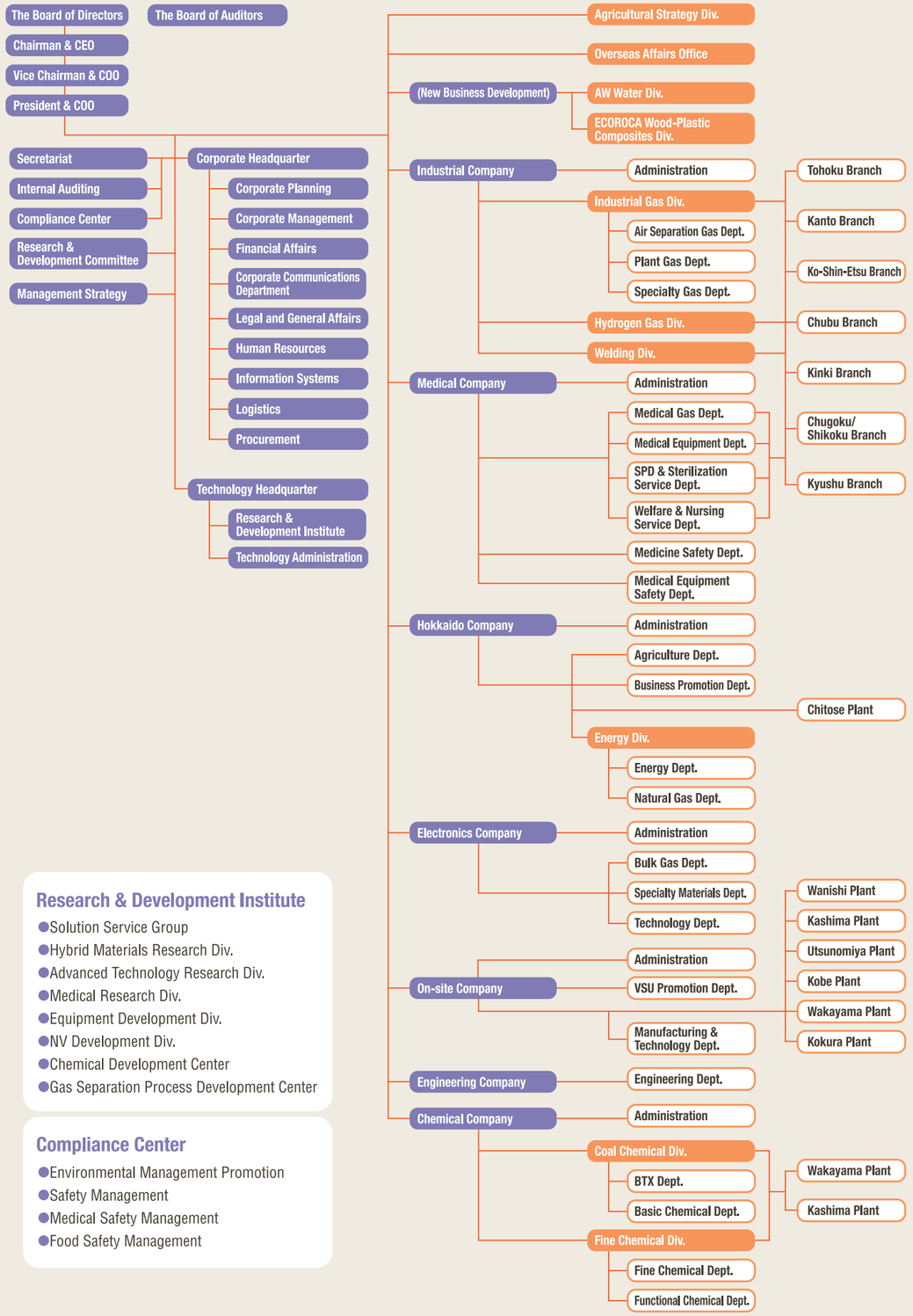
In accordance with the roadmap for research and development, we help enhance our business competitiveness by steadily building our patent portfolio as well as engaging in focused acquisition of "offensive patents" that can be used to compete with rival companies.

③ Strengthening of Foundation for Action on Intellectual Properties

The following three initiatives are used to strengthen our foundation for taking action on intellectual properties in support of growing as a "technology-driven company".

① Enhancing Intellectual Property Training	We will endeavor to improve employees' awareness and knowledge of intellectual property.
② Strengthening Management of Know-How	Confidential technical know-how is treated as an important intellectual property, and we will aim to secure technological superiority.
③ Operation of Compensation System for Inventions	AWI will offer incentives to inventors in an effort to stimulate first-rate inventions which contribute to corporate profit.

Organization Chart (as of October 1, 2010)



Research & Development Institute

- Solution Service Group
- Hybrid Materials Research Div.
- Advanced Technology Research Div.
- Medical Research Div.
- Equipment Development Div.
- NV Development Div.
- Chemical Development Center
- Gas Separation Process Development Center

Compliance Center

- Environmental Management Promotion
- Safety Management
- Medical Safety Management
- Food Safety Management

HOXAN Corporation

- Sep. 1929 "Hokkai Sanso Co., Ltd." is established in Sapporo.
- Dec. 1955 Sales of LPG begin.
- Sep. 1963 Sales and production of a bath room unit named "Bath-All" begin.
- Aug. 1966 Company name changed to HOXAN Corporation.
- Sep. 1979 The Company's stock is listed on the First Section of the Tokyo Stock Exchange.
- Mar. 1981 Manufactured and sales of frozen food begin.

Daido Sanso K.K.

- Mar. 1933 "Daido Sanso K.K." is established in Osaka.
- Sep. 1961 The Company's stock is listed on the First Section of the Tokyo Stock Exchange.
- Apr. 1970 "Senboku Oxygen Co., Ltd." begins operation. The Kansai district's first on-site operation with the capability of generating gas and liquid gas begins.
- Oct. 1983 Capital alliance with U.S.-based Air Products and Chemicals, Inc. is formed.
- Jan. 1984 High-purity nitrogen generator "V1" is developed.Mini on-site operation for semiconductor equipment manufacture begins.
- Jan. 1992 Cryo-Air Co., Ltd., which has an energy-saving cryogenic air separation system utilizing LNG's cold energy, begins operation.

Kyodo Oxygen Co., Ltd.

- Feb. 1962 Kyodo Oxygen Co., Ltd. is established in Wakayama.
- Sep. 1979 Manufacture and sales of welding argon gas ELNACKS® begin.
- Jan. 1996 The Company's stock is listed on the Second Section of the Osaka Securities Exchange.

- Apr. 1993 "Daido Hoxan Inc." is established.
- May. 1996 Business alliance between Daido Hoxan and Kyodo Oxygen is formed.
- Jan. 1997 "Daido Air Products Electronics Inc." is established.
- Apr. 2000 "Air Water Inc." is established.
- Oct. 2002 "Sumikin Air Water Chemical Inc." is established.
  Chemical Business is established around coal chemical
- Apr. 2004 Development of compact liquefied gas plant (VSU).No. 1 Unit begins operation in Niigata.(upgrades and expands stable local supply system)
- Sep. 2007 Nihonkaisui Co., Ltd. is made a subsidiary of the Air Water Group.
  Seawater Business is established; including Tateho Chemical Industries Co., Ltd..
- Oct. 2007 "Research and Development Institute" is established (Matsumoto, Nagano). Consolidates the cutting-edge technologies and intellectual properties of the Air Water Group
- Mar. 2010 "NEXT-2020 Ver. 1", a new medium-term business plan is instituted. Seeks to become a 1 trillion yen company in net sales in FY2020 and puts in place a "Foundation for Further Growth".
- Apr. 2010 Regional businesses are restructured (branch office functions partitioned). Twelve Regional Business Companies are launched as established manufacturers in nine blocks nationwide.

Corporate Outline

(As of March 31, 2010)

Company Name	: AIR WATER INC.
Head Office	: 20-16, Higashi-Shinsaibashi 1-chome, Chuo-ku, Osaka, 542-0083, Japan
	: Tel (81) 6-6252-5411 Fax (81) 6-6252-3965
(Registered Address of Head Office)	: 2, Kita-Sanjo-Nishi 1-chome, Chuo-ku, Sapporo, 060-0003, Japan
(Tokyo Office)	: 18-19, Toranomon 3-chome, Minato-ku, Tokyo
Established	: September 24, 1929
Paid-in Capital	: ¥30,013 Million
Number of Employees	: 7,925 (Consolidated)
URL	: http://www.awi.co.jp/

Board of Directors

(As of June 29, 2010)

Chairman of the Board, President, Chief Executive Officer and Chief Operating Officer	Hiroshi Aoki
Vice Chairman and Chief Operating Officer	Masahiro Toyoda
Corporate Executive Vice Presidents	Akira Yoshino / Tadatsugu Mino
Corporate Senior Managing Directors	Hirohisa Hiramatsu / Yoshio Fujiwara / Akira Fujita / Noboru Sumiya
Managing Directors	Yuu Karato / Takashi Izumida
Corporate Directors	Fusae Ota / Noriyasu Saeki / Yukio Matsubara / Yoshikazu Umeda / Eiji Arita / Tadahiko Handa / Hideo Tsutsumi / Masato Machida / Ryohei Minami
Standing Auditors	Tomohiro Katano / Koichi Nakagawa / Masaki Matsumoto
Corporate Auditor	Taro Ishibashi / Morihiro Sekiyama

Principal Shareholders

(As of March 31, 2010)

Company	Number of shares held (thousands)	Voting shares owned (%)
The Master Trust Bank of Japan, Ltd. (trust accounts)	10,512	5.42
Sumitomo Metal Industries, Ltd.	10,000	5.16
The Sumitomo Trust & Banking Co., Ltd.	7,937	4.09
Japan Trustee Services Bank, Ltd. (trust accounts)	7,593	3.92
Sumitomo Mitsui Banking Corporation	6,196	3.20
Air Water Customers' Stockholding	4,796	2.47
North Pacific Bank, Ltd.	3,874	2.00
The Hokkaido Banking, Ltd.	3,800	1.96
Liquid Gas Co., Ltd.	3,786	1.95
THE CHASE MANHATTAN BANK N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	3,717	1.92

Information on Shares

(As of March 31, 2010)

Fiscal Year	From April 1 to March 31	
Annual General Meeting of Shareholders	June	
Record Dates	Annual meeting	March 31
	Year-end dividends	March 31
	Interim dividend	September 30
Number of Shares per Unit	1,000 shares	
Manager of the Register of Shareholders	The Sumitomo Trust & Banking Co., Ltd. 5-33, Kitahama 4-chome, Chuo-ku, Osaka	
Telephone Number for Inquiries	TEL 0120-176-417 (toll-free in Japan)	
URL	http://www.sumitomotrust.co.jp/STA/retail/service/daiko/index.html	
Means of Advertising	Electronic advertising	
	URL depicting advertising	
	http://www.awi.co.jp/ir/koukoku.html	
Stock listing	Tokyo, Osaka, Sapporo	