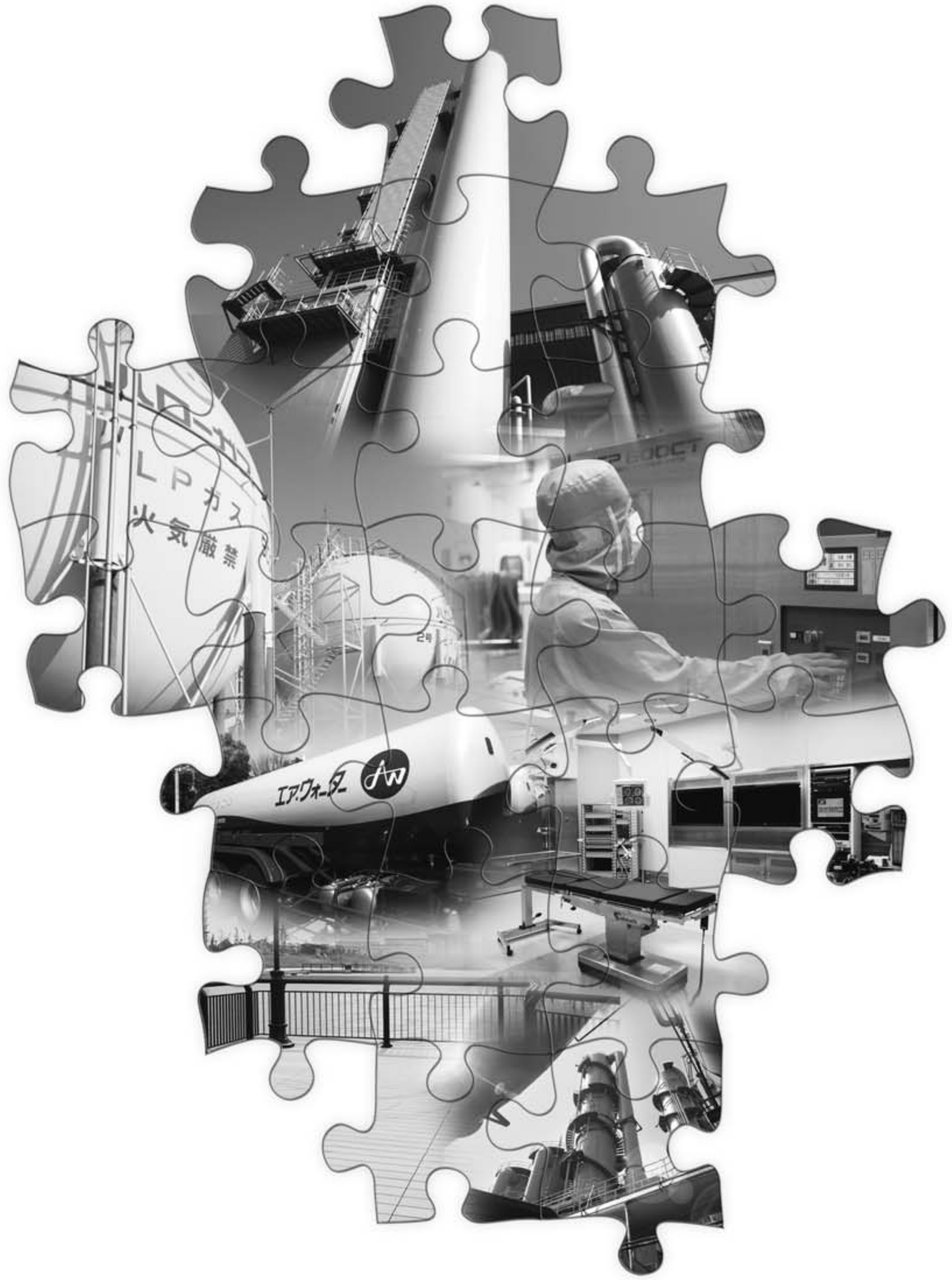
AIR WATER INC.

CHALLENGE FOR THE NEXT STAGE



ANNUAL REPORT 2010

Year Ended March 31, 2010

Financial Section

CONTENTS

(1) Business Overview

Net sales decreased by ¥22,415 million from the previous fiscal year to ¥426,357 million, primarily due to a decrease in demand for gas in industrial business amongst major users during the first half of the year and a decrease in sale price in chemical business and energy business.

Operating income totaled ¥28,202 million, an increase of ¥2,423 million from the previous fiscal year, primarily due to a tenacious pursuit of business restructuring aimed at increasing profitability which resulted in strong movement for business geared towards industry in the fields of industrial and chemical business as well as favorable movement in medical business, energy business and business geared towards consumers, such as food products business. In addition, a number of small yet highly profitable business fields, such as magnesia, aerosols, advanced medical facilities construction and salt business, helped drive up profitability.

Ordinary income was ¥29,020 million, an increase of ¥1,146 million from the previous fiscal year, primarily due to increased operating income.

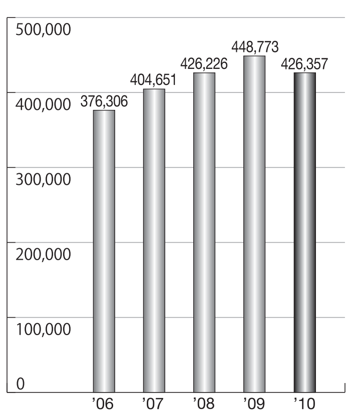
Extraordinary income totaled ¥394 million, a decrease of ¥609 million from the previous fiscal year, primarily due to decreased gains on the sale of investment securities.

Extraordinary losses totaled ¥2,971 million, a decrease of ¥3,026 million from the previous fiscal year, primarily due to such factors as decreased losses on devaluation of investment securities.

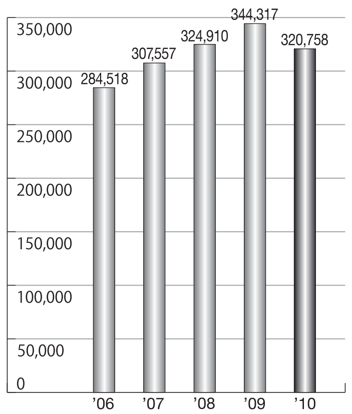
As a result, income before taxes and other adjustments, as obtained by adding extraordinary income to and deducting extraordinary losses from ordinary income, stood at ¥26,442 million, while net income minus tax expenses and minority interests totaled ¥13,916 million, a decrease of ¥1,235 million from the previous fiscal year. Net income per share moved from ¥68.56 to ¥73.64 and return on equity (ROE) went from 9.8% to 9.7% while return on assets (ROA) remained unchanged at 7.5%.

For business segment-specific performance and overviews, please refer to "1 Overview of Performance, Etc. (1) Performance".

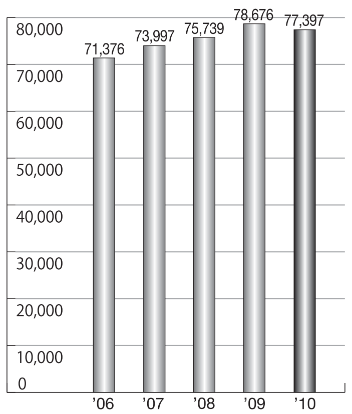
Net Sales (million JPY)



Cost of Sales (million JPY)



Selling, General and Administrative Expenses (million JPY)



Business Overview and Analysis of Financial Condition and Cash Flow

(2) Financial Condition

Assets

Current assets decreased by ¥14,469 million from the end of the previous fiscal year to ¥157,042 million, due to such factors as a decrease in inventories and short-term loans receivable.

Fixed assets totaled ¥235,715 million, an increase of ¥21,664 million from the end of the previous fiscal year. The increase was primarily attributable to such factors as an increase in investment securities due to an appreciation of shares held, an increase in property, plant and equipment due to new consolidation and an increase in long-term loans.

These results gave an increase in total assets of ¥7,195 million from the end of the previous fiscal year to ¥392,758 million.

Liabilities

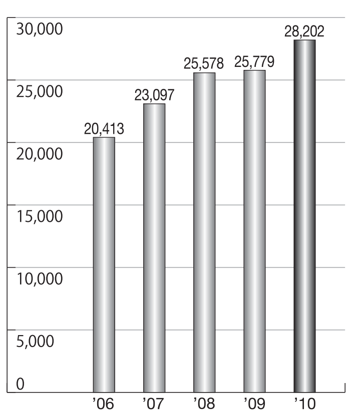
As a result of such factors as the conversion into shares of bonds with subscription rights to shares and the compression of debt, total liabilities decreased by ¥13,523 million from the end of the previous fiscal year to ¥228,809 million.

Net Assets

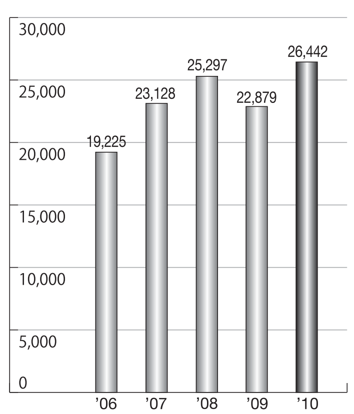
Net assets increased by ¥20,719 million from the end of the previous fiscal year to ¥163,949 million, due to such factors as the conversion into shares of bonds with subscription rights to shares, which had led to an increase in capital and capital surplus, and a buildup of net income.

Net assets per share increased to ¥789.89 from ¥715.60 for the previous fiscal year, and the equity ratio rose from 34.3% to 39.0%.

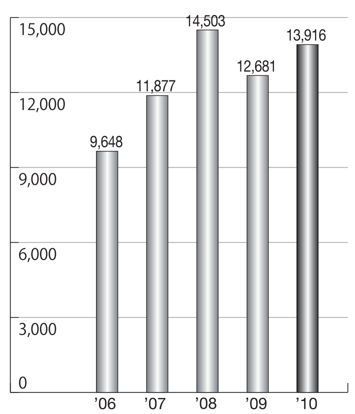
Operating Income (million JPY)



Income before Taxes and Other Adjustments (million JPY)



Net Income (million JPY)



(3) Cash Flow

Cash flow from operating activities increased by ¥16,708 million from the previous fiscal year to a net positive cash flow of ¥44,592 million, primarily due to such factors as an increase in income before taxes and other adjustments, an increase in depreciation and a decrease in operating funds.

Cash flow from investing activities decreased by ¥14,178 million from the previous fiscal year to a net negative cash flow of ¥25,820 million primarily due to such factors as a decrease in acquisitions of property, plant and equipment. As a result, free cash flow increased by ¥30,887 million from the previous fiscal year to a net positive cash flow of ¥18,772 million.

Cash flow from financing activities rose by ¥43,399 million from the previous fiscal year to a net negative cash flow of ¥20,615 million as a result of the compression of debt.

The result was that the balance of cash and cash equivalents at the end of the fiscal year was ¥21,528 million, a decrease of ¥1,656 million from the previous fiscal year.

[Risk Factors]

The primary risk factors that may affect the AWI Group in conducting its business; bring about fluctuations in the status of business, accounting, and other sectors; or have a material influence on judgments to be made by investors are described below.

Forward-looking statements in the following discussion are based on judgments at the close of the fiscal year ended March 31, 2010.

(1) Market

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

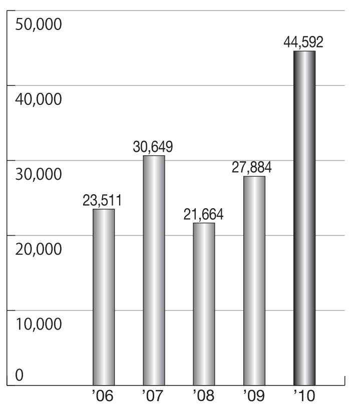
If electricity expenses rise as a result of higher crude oil prices or other factors, the production expenses for the oxygen, nitrogen and other industrial gases produced and sold by the AWI Group will increase. If the increased expenses cannot be passed on to the customer, profits from the sale of industrial gases could be affected.

The LPG and kerosene sold by the AWI Group are affected by such factors as contract prices and crude oil prices, and, if fluctuations in costs cannot be quickly reflected in sales prices, profits from the sale of LPG and kerosene could be affected.

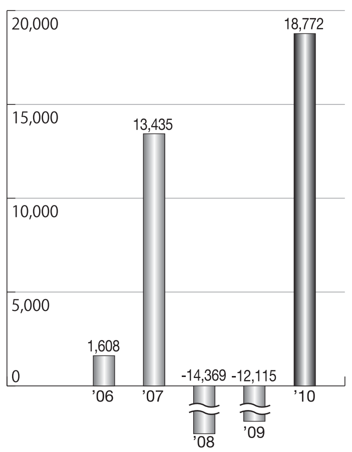
(2) Rising Fuel Expenses

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

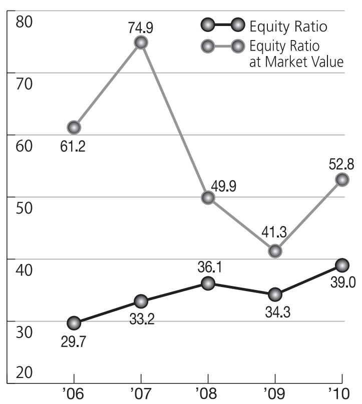
Cash Flow from Operating Activities (million JPY)



Free Cash Flow (million JPY)



Equity Ratio & Equity Ratio at Market Value (%)



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

Business Overview and Analysis of Financial Condition and Cash Flow

(3) Drug Reimbursement Prices

The AWI Group supplies medical gases and provides services to medical institutions, and sales of those products and services could be affected by a revision of the national insurance drug reimbursement prices.

(4) Safety and Quality

The AWI Group produces and sells high-pressure gases and other products in compliance with the High Pressure Gas Safety Law and the LPG Law, so the Group' s operating results and financial condition could be affected in the event of an industrial accident or similar event. The AWI Group produces, imports, and sells medical gases and medical equipment in compliance with the Pharmaceutical Affairs Law, so the Group' s operating results and financial condition could be affected in the event of a product defect resulting in a recall or liability compensation. The AWI Group produces and sells frozen foods and ham/delicatessen products in compliance with the Food Sanitation Law, the JAS (Japan Agricultural Standards) Law (labeling standards), and other relevant laws and regulations, so customer confidence and the Group' s operating results and financial condition could be affected in the event of a quality issue.

(5) Business Investment

As the AWI Group has been actively expanding its business in recent years through mergers and acquisitions, the Group' s operating results and financial condition could be affected in the event that these investments do not perform as anticipated.

(6) Competitors

The AWI Group' s business groups all compete with a variety of other companies, and there is also potential competition risk from new companies entering our fields of business. As a result, the Group' s operating results and financial condition could be affected if measures such as business expansion and cost reductions are not implemented in a timely manner in response to such competition.

(7) Environmental Regulations

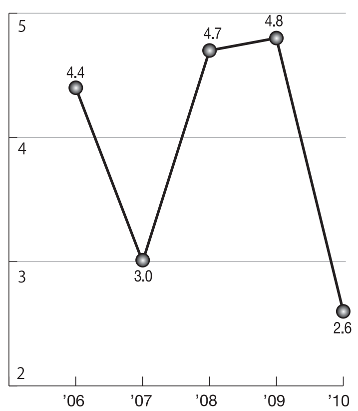
The AWI Group' s business operations are subject to environmental laws and regulations in Japan and other countries, and while all operations are conducted in full compliance with those laws and regulations, in the event that stricter requirements are enforced as a result of revised or newly implemented environmental laws and regulations, the Group' s operating results and financial condition could be affected due to the increased cost of compliance.

(8) Natural Disasters

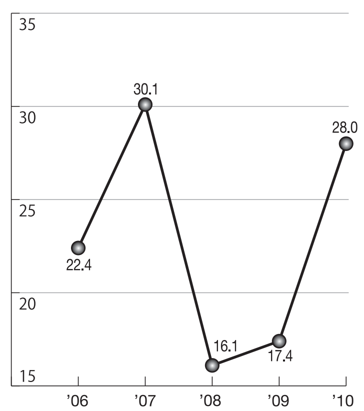
In the event that a natural disaster such as an earthquake causes serious damage to the AWI Group' s production facilities and results in a significant loss of production capacity or a delay in production operations, the Group' s operating results and financial condition could be affected.

1.All indicators are calculated using financial figures.
2.Market capitalization is calculated by multiplying the stock closing price at the end of the fiscal year by the number of shares outstanding on that date.
3.The figures for cash flows from operating activities use the figures from the Consolidated Statements of Cash Flows.
The figure for interest-bearing debt represents all debt on which interest is paid from among the liabilities recorded in the Consolidated Balance Sheets.
The figure for interest paid uses the figure for interest paid from the Consolidated Statements of Cash Flows.

Debt Repayment Period (Years)
Interest bearing loans/operating cash flow



Interest Coverage Ratio (Times)
Operating cash flow/interest payments



Consolidated Balance Sheets

AIR WATER INC.
As of March 31, 2010 and 2009

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2010
ASSETS			
Current assets:			
Cash and deposits (Notes 3)	**¥22,303**	¥21,044	**$239,714**
Short-term investment securities (Note 5)	**-**	3,001	**-**
Notes and accounts receivable - trade	**91,485**	87,913	**983,287**
Inventories (Note 4)	**29,034**	35,496	**312,059**
Short-term loans receivable	**6,069**	12,900	**65,230**
Deferred tax assets (Note 9)	**3,492**	3,301	**37,532**
Other current assets	**6,312**	9,185	**67,842**
Allowance for doubtful accounts	**(1,652)**	(1,328)	**(17,756)**
Total current assets	**157,043**	171,512	**1,687,908**
Property, plant and equipment (Note 7):			
Land (Note 6)	**44,245**	43,564	**475,548**
Buildings and structures	**86,242**	83,112	**926,935**
Machinery , equipment and vehicles	**174,591**	159,727	**1,876,515**
Lease assets	**6,887**	4,608	**74,022**
Construction in progress	**8,925**	12,562	**95,926**
Other	**32,260**	32,157	**346,733**
	353,150	335,730	**3,795,679**
Less accumulated depreciation	**188,436**	179,156	**2,025,322**
Total property, plant and equipment	**164,714**	156,574	**1,770,357**
Investments and other assets:			
Investment securities (Notes 5)	**36,253**	30,761	**389,650**
Investment in partnerships	**1,756**	1,676	**18,874**
Deferred tax assets (Note 9)	**2,867**	2,602	**30,815**
Goodwill	**12,011**	13,213	**129,095**
Other assets	**19,774**	10,406	**212,531**
Allowance for doubtful accounts	**(1,659)**	(1,181)	**(17,831)**
Total investments and other assets	**71,002**	57,477	**763,134**
Total assets	**¥392,759**	¥385,563	**$4,221,399**

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

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2010
LIABILITIES			
Current liabilities:			
Notes and accounts payable:			
Trade	**¥62,415**	¥64,386	**$670,840**
Construction	**2,809**	2,641	**30,191**
Short-term borrowings, including current portion of long-term debt (Note 7)	**45,458**	51,979	**488,586**
Lease obligations (Note 7)	**878**	534	**9,437**
Accrued expenses	**12,620**	12,547	**135,641**
Income taxes payable (Note 9)	**8,314**	4,196	**89,359**
Provision for directors' bonuses	**212**	211	**2,279**
Other current liabilities	**7,932**	5,288	**85,253**
Total current liabilities	**140,638**	141,782	**1,511,586**
Noncurrent liabilities:			
Long-term debt (Note 7)	**62,907**	78,360	**676,129**
Lease obligations (Note 7)	**5,543**	4,197	**59,577**
Deferred tax liabilities (Note 9)	**6,418**	5,418	**68,981**
Deferred tax liabilities for land revaluation (Note 6 and 9)	**1,327**	1,322	**14,263**
Provision for retirement benefits (Note 17)	**8,171**	7,353	**87,822**
Provision for directors' retirement benefits	**755**	689	**8,115**
Other noncurrent liabilities	**3,050**	3,212	**32,781**
Total noncurrent liabilities	**88,171**	100,551	**947,668**
Contingent liabilities (Note 12)			
Total liabilities	**228,809**	242,333	**2,459,254**
NET ASSETS (NOTE 10)			
Shareholders' equity:			
Capital stock			
Authorized - 480,000,000 shares			
Issued - 193,874,628 shares in 2010 and 184,918,880 shares in 2009	**30,014**	25,514	**322,592**
Capital surplus	**32,183**	27,683	**345,905**
Retained earnings (Note 21)	**96,049**	86,220	**1,032,341**
Treasury stock, at cost	**(370)**	(325)	**(3,977)**
330,429 shares in 2010 and 286,177 shares in 2009			
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	**4,234**	2,282	**45,507**
Deferred gains or losses on hedges	**(206)**	(268)	**(2,214)**
Revaluation reserve for land (Note 6)	**(8,920)**	(8,930)	**(95,872)**
Foreign currency translation adjustments	**157**	151	**1,687**
Total valuation and translation adjustments	**(4,735)**	(6,765)	**(50,892)**
Subscription rights to shares (Note 18)	**171**	102	**1,838**
Minority interests	**10,638**	10,801	**114,338**
Total net assets	**163,950**	143,230	**1,762,145**
Total liabilities and net assets	**¥392,759**	¥385,563	**$4,221,399**

Consolidated Statements of Income

AIR WATER INC.
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Net sales	**¥426,357**	¥448,773	**$4,582,513**
Cost of sales	**320,758**	344,317	**3,447,528**
Selling, general and administrative expenses	**77,397**	78,677	**831,868**
Operating income	**28,202**	25,779	**303,117**
Other income (expenses):			
Interest and dividends income	**733**	657	**7,878**
Interest expenses	**(1,765)**	(1,628)	**(18,970)**
Equity in earnings of nonconsolidated subsidiaries and affiliates	**774**	2,304	**8,319**
Gain on sales of noncurrent assets	**381**	132	**4,095**
Gain on sales of investment securities	**14**	871	**150**
Loss on sales and retirement of noncurrent assets	**(1,440)**	(1,289)	**(15,477)**
Impairment loss (Note 13)	**(463)**	(217)	**(4,976)**
Loss on valuation of investment securities	**(16)**	(2,853)	**(172)**
Loss on business of subsidiaries and affiliates (Note 14)	**(419)**	(746)	**(4,503)**
Loss on valuation of inventories	**-**	(442)	**-**
Loss on extinguishment of tie-in shares	**355**	224	**3,816**
Other - net	**87**	87	**934**
Income before income taxes and minority interests	**26,443**	22,879	**284,211**
Income taxes (Note 9):			
Current	**12,312**	9,232	**132,330**
Deferred	**(1,014)**	60	**(10,898)**
Income before minority interests	**15,145**	13,587	**162,779**
Minority interests in income	**(1,229)**	(906)	**(13,209)**
Net income	**¥13,916**	¥12,681	**$149,570**

	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income - basic	**¥73.64**	¥68.56	**$0.79**
Net income - diluted	**70.03**	68.49	**0.75**
Cash dividends applicable to the year	**22.00**	22.00	**0.24**

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

Consolidated Statements of Changes in Net Asset

AIR WATER INC.
Year ended March 31, 2009

	Millions of yen				
	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Share-holders' equity
Net assets at April 1, 2008	**¥25,514**	**¥27,694**	**¥77,808**	**¥(193)**	**¥130,823**
Changes in items during the period					
Dividends from surplus			(4,255)		(4,255)
Reversal of revaluation reserve for land			(8)		(8)
Net income			12,681		12,681
Decrease resulting from merger of consolidated subsidiaries and nonconsolidated subsidiaries			(4)		(4)
Change of scope of equity method			(2)		(2)
Purchase of treasury stock				(180)	(180)
Disposal of treasury stock		(11)		48	37
Net changes in items other than shareholders' equity					
Total changes in items during the period	**-**	**(11)**	**8,412**	**(132)**	**8,269**
Balance as of March 31, 2009	**¥25,514**	**¥27,683**	**¥86,220**	**¥(325)**	**¥139,092**

	Millions of yen							
	Valuation and translation adjustments							
	Valuation difference on available -for-sale securities	Deferred gains on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation and translation adjustments	Subscription rights to shares	Minority interests	Total net assets
Net assets at April 1, 2008	**¥5,925**	**¥(224)**	**¥(8,937)**	**¥(19)**	**¥(3,255)**	**¥42**	**¥10,382**	**¥137,992**
Changes in items during the period								
Dividends from surplus								(4,255)
Reversal of revaluation reserve for land								(8)
Net income								12,681
Decrease resulting from merger of consolidated subsidiaries and nonconsolidated subsidiaries								(4)
Change of scope of equity method								(2)
Purchase of treasury stock								(180)
Disposal of treasury stock								37
Net changes in items other than shareholders' equity	(3,643)	(44)	7	170	(3,510)	60	419	(3,031)
Total changes in items during the period	**(3,643)**	**(44)**	**7**	**170**	**(3,510)**	**60**	**419**	**5,238**
Balance as of March 31, 2009	**¥2,282**	**¥(268)**	**¥(8,930)**	**¥151**	**¥(6,765)**	**¥102**	**¥10,801**	**¥143,230**

Consolidated Statements of Changes in Net Asset

AIR WATER INC.
Year ended March 31, 2010

Millions of yen

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

Millions of yen

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

Consolidated Statements of Changes in Net Asset

Thousands of U.S. dollars (Note 1)

	Owners' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Share-holders' equity
Net assets at April 1, 2009	$274,226	$297,539	$926,698	$(3,493)	$1,494,970
Changes in items during the period					
Issuance of new shares - exercise of subscription rights to shares	**48,366**	**48,366**			**96,732**
Dividends from surplus			**(43,841)**		**(43,841)**
Reversal of revaluation reserve for land			**(86)**		**(86)**
Net income			**149,570**		**149,570**
Purchase of treasury stock				**(538)**	**(538)**
Disposal of treasury stock		(**0**)		**54**	**54**
Net changes in items other than shareholders' equity					
Total changes in items during the period	**48,366**	**48,366**	**105,643**	**(484)**	**201,891**
Balance as of March 31, 2010	$322,592	$345,905	$1,032,341	$(3,977)	$1,696,861

Thousands of U.S. dollars (Note 1)

	Valuation and translation adjustments							
	Valuation difference on available -for-sale securities	Deferred gains on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation and translation adjustments	Subscription rights to shares	Minority interests	Total net assets
Net assets at April 1, 2009	$24,527	$(2,880)	$(95,980)	$1,622	$(72,711)	$1,096	$116,090	$1,539,445
Changes in items during the period								
Issuance of new shares - exercise of subscription rights to shares								96,732
Dividends from surplus								(43,841)
Reversal of revaluation reserve for land								(86)
Net income								149,570
Purchase of treasury stock								(538)
Disposal of treasury stock								54
Net changes in items other than shareholders' equity	20,980	666	108	65	21,819	742	(1,752)	20,809
Total changes in items during the period	**20,980**	**666**	**108**	**65**	**21,819**	**742**	**(1,752)**	**222,700**
Balance as of March 31, 2010	$45,507	$(2,214)	$(95,872)	$1,687	$(50,892)	$1,838	$114,338	$1,762,145

Consolidated Statements of Cash Flows

AIR WATER INC.
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥26,443	¥22,879	$284,211
Depreciation and amortization	17,045	14,296	183,201
Impairment loss	463	217	4,976
Amortization of goodwill	1,226	1,254	13,177
Increase (decrease) in allowance for doubtful accounts	502	491	5,396
Increase (decrease) in provision for retirement benefits	107	(208)	1,150
Interest and dividends income	(733)	(657)	(7,878)
Interest expenses	1,765	1,628	18,970
Equity in earnings of nonconsolidated subsidiaries and affiliates	(774)	(2,304)	(8,319)
Loss (gain) on change in equity	3	74	32
Gain on sales of noncurrent assets	(381)	(132)	(4,095)
Loss on sales and retirement of noncurrent assets	1,440	1,289	15,477
Gain on sales of investment securities	(14)	(871)	(150)
Loss on valuation of investment securities	16	2,853	172
Decrease (increase) in notes and accounts receivable	(2,943)	4,502	(31,632)
Decrease (increase) in inventories	7,255	(5,232)	77,977
Increase (decrease) in notes and accounts payable	(2,758)	(2,524)	(29,643)
Other - net	4,081	1,047	43,863
Subtotal	52,743	38,602	566,885
Interest and dividends income received	1,770	1,655	19,024
Interest expenses paid	(1,592)	(1,605)	(17,111)
Income taxes paid	(8,328)	(10,768)	(89,510)
Net cash provided by (used in) operating activities	¥44,593	¥27,884	$479,288
Cash flows from investing activities:			
Purchase of property, plant and equipment	(21,159)	(27,725)	(227,418)
Proceeds from sales of property, plant and equipment	959	386	10,307
Purchase of intangible assets	(848)	(1,628)	(9,114)
Purchase of investment securities	(2,837)	(4,450)	(30,492)
Proceeds from sales of investment securities	148	1,989	1,591
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	250	130	2,687
Payments of loans receivable	(13,619)	(8,591)	(146,378)
Collection of loans receivable	11,137	348	119,701
Other - net	149	(458)	1,601
Net cash provided by (used in) investing activities	¥(25,820)	¥(39,999)	$(277,515)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(13,338)	2,245	(143,358)
Proceeds from long-term debt	10,368	28,922	111,436
Repayment of long-term debt	(12,192)	(18,411)	(131,040)
Proceeds from issuance of bonds	-	15,000	-
Redemption of bonds	(295)	(155)	(3,171)
Repayment of lease obligations	(810)	(173)	(8,706)
Purchase of treasury stock	(50)	(179)	(537)
Proceeds from sales of treasury stock	4	26	43
Cash dividends paid	(4,079)	(4,255)	(43,841)
Cash dividends paid to minority shareholders	(223)	(236)	(2,397)
Net cash provided by (used in) financing activities	(¥20,615)	¥22,784	$(221,571)
Effect of exchange rate changes on cash and cash equivalents	2	(27)	21
Net increase (decrease) in cash and cash equivalents	(1,840)	10,642	(19,777)
Cash and cash equivalents at beginning of year	23,185	12,524	249,194
Increase in cash and cash equivalents resulting from merger	184	19	1,978
Cash and cash equivalents at end of year (Note 3)	¥21,529	¥23,185	$231,395

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

Notes to Consolidated Financial Statements

AIR WATER INC.
Years ended March 31, 2010 and 2009

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of AIR WATER Inc. ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. Prior to the year ended March 31, 2010, the accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of residence. As discussed in Note 2(2), the accounts of consolidated overseas subsidiaries for the year ended March 31, 2010 are prepared in accordance with International Financial Reporting Standards, with the required adjustments for the six specified items as applicable.

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

The translation of the Japanese yen amounts into U.S. dollar amounts was included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(1) Consolidation

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

There were 62 consolidated subsidiaries for the year ended March 31, 2010 (66 for the year ended March 31, 2009) and 9 companies accounted for using the equity method (9 for the year ended March 31, 2009).

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

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

(2) Accounting change

<Fiscal year 2008>

(New accounting standard for inventories)

On July 5, 2006, the Accounting Standards Board of Japan issued ("ASBJ") Statement No. 9, "Accounting Standard for Measurement of Inventories." As permitted under the previous accounting standard, the Company and its consolidated domestic subsidiaries stated inventories at cost. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses. Replacement cost may be used in lieu of the net realizable value if appropriate. As a result, gross profit and operating income was ¥168 million less and income before income taxes and minority interests ¥610 million for the year ended March 31, 2009 than the amounts that would have been recorded with the previous method. The effects on segment information are described in Note 11.

(**New accounting standards for lease transactions**)

Prior to April 1, 2008, the Company and its consolidated domestic subsidiaries accounted for finance leases which do not transfer ownership of the leased property to the lessee as operating leases. On March 31, 2007, the Accounting Standards Board of Japan ("ASBJ") issued Statement No. 13, "Accounting Standard for Lease Transactions" and Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions." The new accounting standards require that all finance leasse transactions be treated as capital leases.

(For lessee)

Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted the new accounting standards for finance leases commenced after March 31, 2008 and capitalize assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information. The adoption of the new standards had no material effect on the consolidated financial statements for the year ended March 31, 2009.

(For Lessor)

For finance lease transactions, sales revenue and cost of sales are recognized at the time when the lease payment is received. For finance lease transactions which do not transfer ownership of the leased property to the lessee and which commenced prior to April 1, 2008, the investment lease asset is recognized at the book value for assets formerly recognized as fixed assets, assuming the parties entered into the lease contract at the book value as of March 31, 2008.

These new standards had no material effect on the consolidated financial statements for the year ended March 31, 2009.

(The accounts of consolidated overseas subsidiary)

On March 17, 2006, the Accounting Standards Board of Japan ("ASBJ") issued Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18"). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances be, in principle, unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the six specified items are required in the consolidation process so that the impact on net income is accounted for in accordance with Japanese GAAP, unless the impact is not material.

<Fiscal year 2009>
(New accounting standard for construction contracts)

Prior to the year ended March 31, 2010, the Company and consolidated domestic subsidiaries (the “domestic companies”) recognized revenues and costs of construction contracts using the completed contract method. Effective from the year ended March 31, 2010, the domestic companies adopted the “Accounting Standard for Construction Contracts” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 15, issued on December 27, 2007) and the “Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18, issued on December 27, 2007). Accordingly, when the outcome of individual contracts can be estimated reliably, the domestic companies apply the percentage-of-completion method to work commencing during the year ended March 31, 2010, otherwise the completed contract method is applied. The percent, or portion, of the contract completed as of the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost.

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

(3) Securities

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

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

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

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

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

(4) Inventories

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

(5) Derivatives and hedge accounting

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

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

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

(6) Property, plant and equipment

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

(7) Lease assets

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

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

(8) Amortization of goodwill

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

(9) Allowance for doubtful accounts

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

(10) Directors' and statutory auditors' bonuses

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

(11) Retirement benefits

(a)Employees

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

Effective from the fiscal year ended March 31, 2010, the Company and its consolidated domestic subsidiaries adopted the “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 19 issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined benefit plan. Previously, domestic

companies were allowed to use a discount rate determined, in part, by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. The change had no material impact on the consolidated statement of income for the year ended March 31, 2010. The difference in the projected benefit obligations at March 31, 2010, calculated pursuant to the new accounting standard and the previous accounting standard, amounted to ¥1,300 million ($13,972 thousand), which will be recognized as loss prospectively.

(b)Directors and statutory auditors

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

(12) Research and development expenses

Research and development expenses, which were ¥3,274 million ($35,189 thousand) and ¥3,363 million for the years ended March 31, 2010 and 2009, respectively, are recognized when paid and are included in general and administrative expenses.

(13) Translation of foreign currencies

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

(14) Income taxes

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

(15) Cash and cash equivalents

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

(16) Per share of common stock

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

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

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

3. Statements of cash flows

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash on hand and in banks in the consolidated balance sheets	**¥22,303**	¥21,044	**$239,714**
Time deposits with maturities exceeding 3 months	**(775)**	(860)	**(8,330)**
Short-term investment securities included in other current assets	**1**	3,001	**11**
Cash and cash equivalents on the consolidated statements of cash flows	**¥21,529**	¥23,185	**$231,395**

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current assets	**¥2,792**	¥1,759	**$30,009**
Noncurrent assets	**2,620**	279	**28,160**
Current liabilities	**(3,428)**	(2,242)	**(36,844)**
Long-term liabilities	**(1,693)**	(107)	**(18,196)**
Cost in excess of net assets of subsidiaries	**493**	319	**5,298**
Minority interests	**(143)**	-	**(1,537)**
Acquisition cost	**641**	8	**6,890**
Cash and cash equivalents of acquired companies	**(891)**	(138)	**(9,577)**
Net expenditure (revenue)	**¥(250)**	¥(130)	**$(2,687)**

There were no significant noncash transactions for the year ended March 31, 2009.

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

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Issuance of new stock by execution of stock acquisition rights:		
Credited to common stock	**¥4,500**	**$48,366**
Credited to capital surplus	**4,500**	**48,366**
Decrease of zero coupon convertible bonds due 2009	**¥9,000**	**$96,732**

4. Inventories

Inventories as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Merchandise and finished goods	¥14,860	¥16,589	$159,716
Work-in-process	8,291	12,782	89,112
Row materials and supplies	5,883	6,125	63,231
	¥29,034	¥35,496	$312,059

5. Securities

Available-for-sale securities with available fair market values at March 31, 2010 and 2009 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference gain (loss)	Book value	Acquisition cost	Difference gain (loss)	Book value	Acquisition cost	Difference gain (loss)
			2010			2009			2010
Securities with book values exceeding acquisition costs:									
Stocks	¥16,239	¥7,668	¥8,571	¥9,706	¥3,274	¥6,432	$174,538	$82,416	$92,122
Subtotal	¥16,239	¥7,668	¥8,571	¥9,706	¥3,274	¥6,432	$174,538	$82,416	$92,122
Securities with book values not exceeding acquisition costs:									
Stocks	2,987	3,605	(618)	5,624	7,433	(1,809)	32,105	38,747	(6,642)
Bonds	70	70	-	-	-	-	752	752	-
Subtotal	¥3,057	¥3,675	¥ (618)	¥5,624	¥7,433	¥ (1,809)	32,857	39,499	(6,642)
Total	¥19,296	¥11,343	¥7,953	¥15,330	¥10,707	¥4,623	$207,395	$121,915	$85,480

6. Land Revaluation

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

The difference between the book value and the fair value of the revalued land as of March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Revalued land	¥ (1,913)	¥ (2,728)	$ (20,561)

7. Short-term borrowings and long-term debt

The weighted average interest rate of short-term borrowings as of March 31, 2010 and 2009, were 0.71% and 0.97%, respectively.

Long-term debt as of March 31, 2010 and 2009 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loans from banks and insurance companies with interest rates ranging from 0.75% to 2.87% maturing through 2023	¥73,587	¥74,566	$790,918
Zero coupon unsecured convertible bonds due 2012	6,000	15,000	64,488
1.36% unsecured bonds due 2010	-	100	-
1.27% unsecured bonds due 2010	-	100	-
0.82% unsecured bonds due 2009	-	20	-
1.24% unsecured bonds due 2011	23	38	247
0.97% unsecured bonds due 2010	100	100	1,075
Lease obligations through 2028	6,421	4,731	69,014
	86,131	94,655	925,742
Less amount due within one year	17,681	12,098	190,036
	¥68,450	¥82,557	$735,706

The aggregate annual maturities of long-term debt as of March 31, 2010 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥17,680	$190,026
2012	16,731	179,826
2013	8,293	89,134
2014	15,326	164,725
2015	6,250	67,175
2016 and thereafter	21,851	234,856

As of March 31, 2010, assets were pledged as collateral for short-term bank loans of ¥3,605 million ($38,747 thousand) and long-term debt of ¥7,758 million ($83,383 thousand) as follows:

	Millions of yen	Thousands of U.S. dollars
Land	9,999	107,470
Buildings and structures	4,503	48,399
Machinery and equipment	1,617	17,380
Other (property, plant and equipment)	28	300
	¥16,147	$173,549

8. Derivative financial instruments and hedging transactions

(1)Derivatives transactions for which hedge accounting does not apply: None
(2)Derivatives transactions for which hedge accounting applies

①Currency related

Hedge accounting method	Type of transaction	Hedged items	Contract amount (Millions of yen)	Portion over 1 year (Millions of yen)	Fair value (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Portion over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferral hedge accounting	Forward exchange contracts:							
	Purchased option to sell							
	U.S. dollars	Accounts receivable −trade	**¥693**	**¥58**	**¥(32)**	**$7, 448**	**$623**	**$ (344)**
	Euro	Accounts receivable − trade	333	80	(7)	3, 579	860	(75)
	Purchased option to buy							
	U.S. dollars	Accounts Payable − trade	3,129	49	113	33,631	527	1,214
	Euro	Accounts Payable − trade	155	-	1	1,666	-	11
Gain (loss) resulting from forward foreign exchange contract is allocated over the applicable period	Forward exchange contracts:							
	Purchased option to sell							
	U.S. dollars	Accounts receivable −trade	228	-	(Note 2)	2,451	-	(Note 2)
	Euro	Accounts receivable − trade	85	-	(Note 2)	914	-	(Note 2)
	Purchased option to buy							
	U.S. dollars	Accounts Payable − trade	371	-	(Note 2)	3,987	-	(Note 2)
Total			**¥4,994**	**¥187**	**¥75**	**$53,676**	**$2,010**	**$806**

Notes:1.Fair value is based on information provided by financial institutions at the end of the fiscal year.
2.For certain accounts receivable − trade and accounts payable − trade denominated in foreign currencies and for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, the fair value of the derivative financial instrument is included in the fair value of the accounts receivable − trade and accounts payable − trade as hedged items.

② Interest rate related

Hedge accounting method	Type of transaction	Hedged items	Contract amount (Millions of yen)	Portion over 1 year (Millions of yen)	Fair value (Millions of yen)	Contract amount (Thousands of U.S. dollars)	Portion over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferral hedge accounting	Interest rate swap:							
	Receiving floating rate and paying fixed rate	Long-term loans payable	**¥17,934**	**¥10,824**	**¥ (425)**	**$192,756**	**$116,337**	**$ (4,567)**
	Interest rate option:	Long-term loans payable	800	800	10	8,598	8,598	107
Special treatment of interest rate swaps	Interest rate swap:							
	Receiving floating rate and paying fixed rate	Long-term loans payable	575	455	(Note 2)	6,180	4,891	(Note 2)
Total			**19,309**	**12,079**	**(415)**	**$207,534**	**$129,826**	**$ (4,460)**

Notes:1.Fair value is based on information provided by financial institutions at the end of the fiscal year.
2.The fair value of interest rate swaps subject to special treatment embedded in long-term loans subject to hedging is included in the fair value of the corresponding long-term loan.

9. Income taxes

The Companies are subject to a number of taxes based on income, which, in aggregate, indicate a statutory tax rate in Japan of approximately 40.6% for the years ended March 31, 2010 and 2009.

Significant items in the reconciliation of the aggregate statutory income tax rate with the effective income tax rate for the year ended March 31, 2009 are not disclosed since the difference was not material (less than 5%).

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2010:

	2010
Statutory tax rate	**40.6%**
Nondeductible expenses	**1.2**
Amortization of goodwill	**1.2**
Equity in earnings of nonconsolidated subsidiaries and affiliates	**(1.2)**
Per capita inhabitants taxes	**0.7**
Other	**0.2**
Effective tax rate	**42.7%**

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

For 2010	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Deferred tax assets:			
Retirement benefits	**¥3,703**	¥3,348	**$39,800**
Net operating losses carried forward for tax purposes	**1,833**	499	**19,701**
Excess bonuses accrued	**1,810**	1,778	**19,454**
Loss on valuation of investment securities	**831**	585	**8,932**
Loss on business of subsidiaries and affiliates	**796**	563	**8,555**
Impairment loss	**752**	972	**8,083**
Accrued enterprise taxes	**718**	580	**7,717**
Other	**4,355**	3,181	**46,808**
Total deferred tax assets	**14,798**	11,506	**159,050**
Valuation allowance	**(4,257)**	(1,657)	**(45,755)**
Net deferred tax assets	**10,541**	9,849	**113,295**
Deferred tax liabilities:			
Retained earnings appropriated for allowable tax reserves	**(4,334)**	(4,307)	**(46,582)**
Net unrealized holding gains on securities	**(3,254)**	(1,908)	**(34,974)**
Variance of the estimate with capital consolidation	**(1,589)**	(1,589)	**(17,079)**
Other	**(1,423)**	(1,560)	**(15,294)**
Total deferred tax liabilities	**(10,600)**	(9,364)	**(113,929)**
Net deferred tax assets (net deferred tax liabilities)	**¥(59)**	¥485	**$(634)**

Deferred tax assets and liabilities for land revaluation difference as of March 31, 2010 and 2009 were as follows:

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Deferred tax assets	**¥4,352**	¥4,418	**$46,775**
Valuation allowance	**(4,318)**	(4,317)	**(46,410)**
Net deferred tax assets	**¥34**	¥101	**$365**
Deferred tax liabilities	**¥(1,361)**	¥ (1,423)	**$ (14,628)**

10. Net assets

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

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

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

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

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

11. Segment information

Information by industry segment for the years ended March 31, 2010 and 2009 was as folllows:

Millions of yen

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

Millions of yen

For 2009	Industrial business	Medical business	Chemical business	Energy business	Other business	Elimination and corporate	Consolidated
Net sales:							
Customers	¥201,245	¥52,958	¥109,561	¥47,545	¥37,464	¥-	¥448,773
Inter-segment	5,619	36	431	713	14,008	(20,807)	-
Total	206,864	52,994	109,992	48,258	51,472	(20,807)	448,773
Costs and expenses	190,211	50,695	106,990	46,349	49,556	(20,807)	422,994
Operating income	¥16,653	¥2,299	¥3,002	¥1,909	¥1,916	¥-	¥25,779
Assets	¥177,195	¥35,710	¥78,968	¥29,751	¥37,953	¥25,986	¥385,563
Depreciation	¥7,913	¥762	¥2,595	¥1,771	¥1,255	¥-	¥14,296
Impairment loss	¥-	¥-	¥-	¥-	¥178	¥39	¥217
Capital expenditures	¥18,281	¥991	¥10,495	¥3,431	¥2,296	¥-	¥35,494

Thousands of U.S. dollars

For 2010	Industrial business	Medical business	Chemical business	Energy business	Other business	Elimination and corporate	Consolidated
Net sales:							
Customers	**$2,019,959**	**$621,776**	**$1,043,863**	**$464,338**	**$432,577**	**$-**	**$4,582,513**
Inter-segment	**44,701**	**2,214**	**763**	**6,159**	**156,159**	**(209,996)**	**-**
Total	**2,064,660**	**623,990**	**1,044,626**	**470,497**	**588,736**	**(209,996)**	**4,582,513**
Costs and expenses	**1,885,888**	**585,619**	**1,009,985**	**442,380**	**565,520**	**(209,996)**	**4,279,396**
Operating income	**$178,772**	**$38,371**	**$34,641**	**$28,117**	**$23,216**	**$-**	**$303,117**
Assets	**$1,929,869**	**$394,153**	**$827,182**	**$326,043**	**$407,577**	**$336,575**	**$4,221,399**
Depreciation	**$99,323**	**$8,770**	**$39,198**	**$20,088**	**$15,822**	**$-**	**$183,201**
Impairment loss	**$-**	**$-**	**$-**	**$-**	**$150**	**$4,826**	**$4,976**
Capital expenditures	**$177,386**	**$8,609**	**$47,206**	**$22,420**	**$16,918**	**$-**	**$272,539**

Corporate assets consist mainly of cash and time deposits, short-term investment securities, investment securities and assets of administrative departments. Corporate assets as of March 31, 2010 and 2009 were ¥45,243 million ($486,275 thousand) and ¥47,122 million, respectively.

〈Accounting Change〉
Fiscal year 2008
（New accounting standard for inventories）

As discussed in Note 2(2), the Company and consolidated domestic subsidiaries adopted the new accounting standard for inventories during the year ended March 31, 2009. As a result, in 2009, operating expenses in the industrial business segment increased by ¥74 million and operating income decreased by the same amount, operating expenses in medical business segment increased by ¥59 million and operating income decreased by the same amount, operating expenses in the chemical business segment increased by ¥23 million and operating income decreased by the same amount, operating expenses in the energy business segment increased by ¥3 million and operating income decreased by the same amount, and operating expenses in the other business segment increased by ¥9 million and operating income decreased by the same amount, compared to the amounts that would have been recorded with the previous standard.

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

Overseas sales were omitted as overseas sales of the Companies for the years ended March 31, 2010 and 2009 accounted for less than 10% of consolidated net sales.

12. Contingent liabilities

As of March 31, 2010, the Companies were contingently liable with respect to notes receivable discounted in the amount of ¥508 million ($5,460 thousand). As of the same date, the Companies were also contingently liable as guarantors for loans of other companies and employees in the amount of ¥794 million ($8,534 thousand).

13. Impairment loss

Impairment loss on fixed assets for the year ended March 31, 2010 and 2009 was as follows:

For the year 2010

Use	Type of assets	Place	Millions of yen	Thousands of U.S. dollars
Idle assets	Land, others	Takarazuka-city Hyogo Prefecture, etc.	¥449	$4,826
Other assets	Land	Kanazawa-ku Yokohama-city Kanagawa Prefecture	¥14	$150

For the year 2009

Use	Type of assets	Place	Millions of yen
Idle assets	Land	Kitami-city Hokkaido Prefecture,etc.	¥49
-	Goodwill	-	¥168

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

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

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

14. Loss on business of subsidiaries and affiliates

Loss on business of subsidiaries and affiliates for the year ended March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Loss on valuation of stocks of subsidiaries and affiliates	**¥102**	¥362	**$1,096**
Provision of allowance for doubtful accounts, others	**317**	384	**3,407**
	¥419	¥746	**$4,503**

Notes to Consolidated Financial Statements

15. Finance leases

Capitalized fixed assets under finance lease arrangements as lessee for the years ended March 31, 2010 comprised principally production facilities used in the industrial business segment.

Information on finance leases commenced prior to April 1, 2008, do not transfer ownership of the leased assets to the lessee and were accounted for as operating leases for the year ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
(1) Future minimum lease payments, including financing charges:			
Due within one year	¥5,707	¥5,588	$61,339
Due after one year	22,155	27,998	238,124
	¥27,862	33,586	$299,463

Allowance for impairment loss on leased property of \263 million (\$2,827 thousand) as of March 31, 2010 was not included in obligations under finance leases.

(2) Original lease obligation, payments made, accumulated impairment loss and remaining balance:			
Original lease obligation	¥46,639	¥50,419	$501,279
Payments made	23,965	22,269	257,578
Accumulated impairment loss	289	341	3,106
Remaining balance	¥22,385	¥27,809	$240,595

(3) Lease payments for the period	¥6,039	¥6,786	$64,908

If the above finance leases had been capitalized, depreciation of ¥5,184 million ($55,718 thousand), reversal of allowance for impairment loss on leased property of ¥104 million ($1,118 thousand), interest of ¥956 million ($10,275 thousand) and impairment loss of ¥26 million ($279 thousand) would have been recorded for the year ended March 31, 2010.

16. Operating leases

Obligations under non-cancelable operating leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥312	¥325	$3,353
Due after one year	1,392	1,681	14,962
	¥1,704	¥2,006	$18,315

17. Employees' severance and pension benefits

The liability for employees' severance and pension benefits included in the liability section of the consolidated balance sheets as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥29,721	¥27,856	$319,443
Prepaid pension costs	2,505	2,928	26,924
Unrecognized prior service costs	2,646	3,020	28,439
Unrecognized actuarial differences	(8,993)	(10,137)	(96,657)
Less fair value of pension assets	(17,708)	(16,314)	(190,327)
Liability for severance and pension benefits	¥8,171	¥7,353	$87,822

Included in the consolidated statements of income for the years ended March 31, 2010 and 2009 were severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service costs - benefits earned during the year	¥1,529	¥1,432	$16,434
Interest costs on projected benefit obligation	580	580	6,234
Expected return on plan assets	(363)	(415)	(3,902)
Amortization of actuarial differences	1,396	1,136	15,004
Amortization of prior service costs	(391)	(384)	(4,202)
Severance and retirement benefit expenses	¥2,751	¥2,349	$29,568

The discount rate and the rate of expected return on plan assets used by the Companies were approximately 2.0%, but 2.5% at beginning of the year (2.5% in 2009) and mainly 2.5% (2.5% in 2009), respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses were principally recognized in the income statement using the straight-line method over approximately 12 years (12 years in 2009). Prior service cost was recognized in the income statement using the straight-line method over 12 years (12 years in 2009).

18. Stock options

1 Expenses recorded in the year ended March 31, 2010 were 70 million and were included in selling, general and administrative expenses.

2 Details, number, movement and price of stock options

(1) The following table summarizes the details of stock options:

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

Company name	AIR WATER Inc.	Nihonkaisui Co., Ltd
Date of resolution	August 12, 2009	September 28, 2007
Persons granted	20 directors	5 directors and 5 employees
Number of options granted	80,100 shares of common stock	408,991 shares of common stock
Date of grant	September 1, 2009	September 29, 2007
Vesting conditions	Holder relinquishes the position as a director of the Company	-
Eligible employment period	-	-
Exercise period	September 2, 2009 to September 1, 2029	September 29, 2009 to September 28, 2017

⑵ **The following table summarize number, movement and price of stock options**

① **Number, movement and price of stock options**

Company name	AIR WATER Inc.	AIR WATER Inc.	AIR WATER Inc.	Nihonkaisui Co., Ltd
Date of resolution	August 8, 2007	July 30, 2008	August 12, 2009	September 28, 2007
Before vesting options (number of shares)				
March 31, 2008	53,300	63,000	-	-
Granted	-	-	80,100	-
Forfeited	-	-	-	-
Vested	-	-	-	-
March 31, 2009	53,300	63,000	80,100	-
After vesting options (number of shares)				
March 31, 2008	-	-	-	408,991
Vested	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	60,000
March 31, 2009		-	-	348,991

② **The following table summarize Price per shares**

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

19. Related Party Transactions

The Company directly owned 49% of Sakai Gases Center Co. Ltd's voting shares at March 31, 2009.

Significant transactions with related parties for the years ended March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Payments of short-term loans receivable	**¥10,500**	**$112,855**
Interest income	**181**	**1,945**

The balance of the Company due to related parties for the year ended March 31, 2010 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Long-term loans receivable	**¥9,625**	**$103,450**

20. Financial instruments

(Additional information)

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

(1) Qualitative information on financial instruments

① Policies for using financial instruments

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

② Financial instruments, associated risks and the risk management system

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

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

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

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

③ Supplemental information on the fair value of financial instruments

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

(2) Fair value of financial instruments

Fair value and the difference between the carrying value reported in the balance sheets as of March 31, 2010 are set forth in the table below. Financial instruments for which it is extremely difficult to measure the fair value are not included.

	Millions of yen			Thousands of U.S. dollars		
	Carrying value reported in the balance sheets (※1)	Fair value (※1)	Difference	Carrying value reported in the balance sheets (※1)	Fair value (※1)	Difference
(1) Cash and deposits	¥22,303	¥22,303	-	$239,714	$239,714	-
(2) Notes and accounts receivable — trade	91,485	91,485	-	983,287	983,287	-
(3) Short-term loans receivable	6,069	6,069	-	65,230	65,230	-
(4) Investment securities						
Other securities	19,296	19,296	-	207,395	207,395	-
(5) Long-term loans receivable (※2)	11,153			119,873		
Allowance for doubtful accounts	△560			△6,019		
	10,593	10,751	158	113,854	115,552	1,698
(6) Notes and accounts payable — trade	(62,415)	(62,415)	-	(670,840)	(670,840)	-
(7) Short-term loans payable	(28,656)	(28,656)	-	(307,997)	(307,997)	-
(8) Current portion of long-term loans payable	(16,687)	(16,687)	-	(179,353)	(179,353)	-
(9) Current portion of lease obligations	(878)	(878)	-	(9,437)	(9,437)	-
(10) Bonds with subscription rights to shares	(6,000)	(7,055)	△1,055	(64,488)	(75,828)	△11,340
(11) Long-term loans payable	(56,900)	(57,771)	△872	(611,565)	(620,926)	△9,361
(12) Lease obligations	(5,543)	(5,660)	△116	(59,577)	(60,834)	△1,257
(13) Derivatives transactions (※3)	(340)	(340)	-	(3,654)	(3,654)	-

Notes:
※1 Figures shown in parentheses are liabilities.
※2 Allowance for doubtful accounts separately recorded in long-term loans is excluded.
※3 The value of assets and liabilities arising from derivatives is shown at net value, and a net liability position is shown in parentheses.

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

(1) Cash and deposits, (2) Notes and accounts receivable — trade and (3) Short-term loans receivable
The fair value of debt maturing within one year is stated at the carrying amount, which is approximate to it.

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

(5) Long-term loans receivable
The fair value of long-term loans receivable is based on the present value of future cash flows discounted using the current borrowing rate for similar receivables of a comparable maturity. Doubtful receivables are valued with consideration for any possibility of collection based on guarantees or the existence of collateral.

(6) Notes and accounts payable-trade , (7) Short-term loans payable , (8) Current portion of long-term loans payable and
(9) Current portion of lease obligations
The fair value of debt maturing within one year is stated at the carrying amount which is approximate to it.

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

(11) Long-term loans payable
The fair value of these investments is estimated at the discounted present value of the total principal and interest using assumed interest rates for equivalent new loans. Interest rate swaps subject to special treatment are used for long-term floating-rate loans. "Derivatives transactions" provides additional explanation. Principal and interest of the loans in which these interest rate swaps are embedded are discounted using a reasonable estimate of the interest rate on the loan at the time of issue.

(12) Lease obligations
Fair value is determined by the present value of future cash flows discounted using the current interest rate for similar lease contracts of comparable maturities and contract conditions.

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

Note 2. Unlisted shares of ¥16,957 million ($182,255 thousand) are not included in "(4) Investment securities," because these securities are without market values and their future cash flows cannot be estimated, which makes it extremely difficult to assess the fair value.

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

	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and deposits	¥22,303	-	-	-	$239,714	-	-	-
Notes and accounts receivable — trade	91,485	-	-	-	983,287	-	-	-
Investment securities								
Other securities with maturity dates Bonds	-	70	-	-	-	752	-	-
Long-term loans receivable	-	10,737	374	42	-	115,402	4,020	451
Total	¥113,788	¥10,807	¥374	¥42	$1,223,001	$116,154	$4,020	$451

Notes to Consolidated Financial Statements

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

Millions of yen	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Bonds with subscription rights to shares	-	¥6,000	-	-	-	-
Long-term loans payable	-	9,826	7,391	14,541	5,875	19,267
Lease obligations	878	898	902	784	375	2,584
Total	¥878	¥16,724	¥8,293	¥15,325	¥6,250	¥21,851

Thousands of U.S. dollars	Within 1 year	From 1 year to 2 years	From 2 years to 3 years	From 3 years to 4 years	From 4 years to 5 years	Over 5 years
Bonds with subscription rights to shares	-	$64,488	-	-	-	-
Long-term loans payable	-	105,610	79,439	156,288	63,145	207,083
Lease obligations	9,437	9,653	9,695	8,426	4,030	27,773
Total	$9,437	179,751	89,134	164,714	67,175	234,856

21. Subsequent events

(1) Appropriation of retained earnings
The Company's Board of Directors' meeting, which was held on May 14, 2010, resolved the year-end appropriation of retained earnings. The appropriation had not been accrued in the consolidated financial statements as of March 31, 2010. Such appropriations are recognized in the period in which they are resolved by the Company's Board of Directors.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥11.00 = $0.11 per share)	¥2,133	$22,926

(2) Acquisition of Treasury Stock
At the Company's Board of Directors' meeting, which was held on June 29, 2010, in accordance with the Company's Articles of Incorporation applied under Article 459, Section 1 of the Law, the Company approved a purchase of up to 1,600,000 shares of treasury stock for an aggregate acquisition cost not exceeding ¥2,000 million ($21,496 thousand) during the period from July 1, 2010 through August 31, 2010.

To the Board of Directors of AIR WATER INC.:

We have audited the accompanying consolidated balance sheets of AIR WATER INC. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIR WATER INC. and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 29, 2010